

Loughborough University
Institutional Repository

*The usefulness of quarterly
financial reports to Kuwaiti
financial users in the Kuwait
Stock Exchange*

This item was submitted to Loughborough University's Institutional Repository
by the/an author.

Additional Information:


- A Doctoral Thesis. Submitted in partial fulfillment of the requirements
for the award of Doctor of Philosophy of Loughborough University.

Metadata Record: <https://dspace.lboro.ac.uk/2134/7799>

Publisher: © Abdullah A. Al-Yaqout

Please cite the published version.

This item is held in Loughborough University's Institutional Repository (<https://dspace.lboro.ac.uk/>) and was harvested from the British Library's EThOS service (<http://www.ethos.bl.uk/>). It is made available under the following Creative Commons Licence conditions.



creative
commons


C O M M O N S D E E D


Attribution-NonCommercial-NoDerivs 2.5

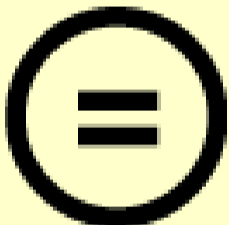
You are free:

- to copy, distribute, display, and perform the work

Under the following conditions:

 **BY:** **Attribution.** You must attribute the work in the manner specified by the author or licensor.


 **Noncommercial.** You may not use this work for commercial purposes.

 **No Derivative Works.** You may not alter, transform, or build upon this work.

- For any reuse or distribution, you must make clear to others the license terms of this work.
- Any of these conditions can be waived if you get permission from the copyright holder.

Your fair use and other rights are in no way affected by the above.

This is a human-readable summary of the [Legal Code \(the full license\)](#).

[Disclaimer](#) 

For the full text of this licence, please go to:
<http://creativecommons.org/licenses/by-nc-nd/2.5/>

The Usefulness of Quarterly Financial Reports to Kuwaiti Financial Users in the Kuwait Stock Exchange

By

Abdullah A. Al-Yaqout

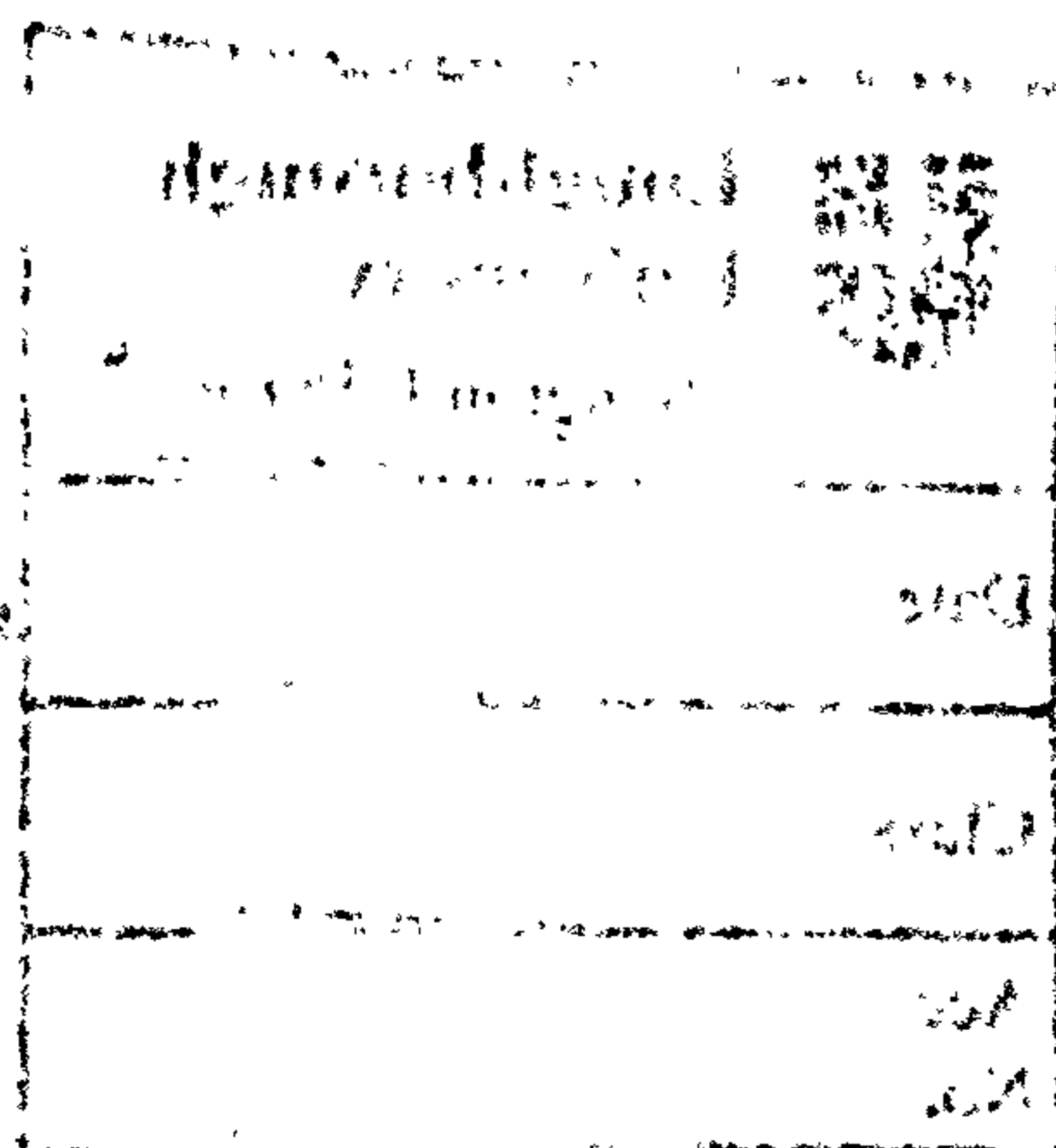
A Doctoral thesis

Submitted in partial fulfillment of the requirement for the award
Doctor of Philosophy of Loughborough University

February 2006

Supervisor: Professor Barry Howcroft

**Business School
Loughborough University**



Dedication

**To the whole beloved Family
To the soul of my Father,
To my lovely Mother for her continuous support,
And my wonderful wife for her patience and encouragement
To my sweet children Latifah and Khaled**

Acknowledgments

First of all I would like to thank the research sponsor the College of Business Studies in Kuwait for offering me this opportunity to complete this project. I would like also, to thank my supervisors Barry Howcroft and John Presley for their continuous guidance, advice, encouragement and supervision. I would like to thank all the staff at Loughborough University, especially Dr. Dave Coates for his advice in the statistical analysis prosiest and Professor Malcolm Hill, my Director of Research. I would also like to thank all the respondents who participated in the fieldwork, the interviewees, the Kuwait Stock Exchange for providing me with information and the statistics unit of Kuwait University. My deepest thanks go to my family, my mother, the soul of my father, and my wife, for their support and encouragements in my research.

Abstract of the study

This thesis contributes to the literature on financial reporting in less developed countries, with special reference to the Kuwait Stock Exchange (KSE) and the Gulf Co-Operated Countries GCC area in particular. The study aims to examine the usefulness of quarterly financial reports (QFRs) to investors in Kuwait. It draws attention to the importance of quarterly accounting information and emphasises the critical theoretical and practical roles that quarterly accounting statements can play in helping financial users make financial decisions.

The main findings indicate that quarterly financial reports in the Kuwait Stock Exchange are useful to Kuwaiti investors; however, such reports need further refinement and closer regulation in order to increase their usefulness, especially in relation to companies' expected performance and the future expectations of companies. In addition, the study shows that QFRs increase investor confidence when making and subsequently monitoring investments, evaluating management performance, making predictions about the future performance of companies, and predicting the future values of dividends and share prices.

The findings also revealed that respondents believed that the prices and volumes of shares traded on the KSE are sensitive to financial information contained in QFRs. Specifically, the results indicate that company earnings, dividends payments, annual reports, quarterly reports and management experience were the most influential factors affecting purchasing attitudes and share prices.

With regard to QFRs the majority of respondents believed that auditor involvement in QFRs improved their reliability; however, most of the users expressed dissatisfaction with the current reporting lag of 45 days and would ideally like to see this reduced to less than 30 days. Respondents were also generally dissatisfied with current disclosures and wanted more information relating to the financial position of companies incorporated into QFRs.

Finally, the results indicate that information on the financial and capital leverage (or gearing) of the company, the risk exposure of the firm and an information on the type of industry in which the business operates, were the most likely factors to increase the demand for QFRs.

TABLE OF CONTENTS

Acknowledgements	iii
Abstract	iv
List of Tables	xiii
List of Figures	xv
Abbreviations	xvi

CHAPTER 1

INTRODUCTION

1.1	INTRODUCTION	1
1.2	BACKGROUND TO THE STUDY	3
1.3	THE SIGNIFICANCE OF THE RESEARCH.....	4
1.4	AIM AND OBJECTIVES OF THE STUDY	5
1.5	THE RESEARCH QUESTIONS.....	7
1.6	THE RESEARCH HYPOTHESES	9
1.7	THE RESEARCH METHODOLOGY	12
1.8	LIMITATIONS OF THE STUDY	13
1.9	AN OVERVIEW OF THE STRUCTURE OF THE THESIS.....	14

CHAPTER 2

AN OVERVIEW OF THE KUWAIT ECONOMY

2.1	INTRODUCTION	18
2.2	A HISTORICAL BACKGROUND	20
2.3	SOCIAL AND POLITICAL FRAMEWORK OF KUWAIT	21
2.4	ECONOMIC DEVELOPMENTS	23
2.4.1	THE FIRST ECONOMIC STAGE (THE OLD ECONOMY).....	23
2.4.2	THE IMPACT OF OIL ON THE ECONOMY	25
2.4.3	THE SECOND ECONOMIC STAGE (THE NEW ECONOMY)....	28

2.5	DEVELOPMENT IN THE PERFORMANCE OF GDP	29
2.5.1	SUDDEN CRISIS IN THE AREA	33
2.6	ECONOMIC AND FINANCIAL CHARACTERISTICS	34
2.7	DEVELOPMENTS IN SOME SECTORS OF THE KUWAITI ECONOMY	37
2.8	CONCLUSION	44

CHAPTER 3

THE DEVELOPMENTS IN THE KUWAIT STOCK EXCHANGE

3.1	INTRODUCTION	45
3.2	THE IMPORTANCE OF THE STOCK MARKET TO THE ECONOMY OF KUWAIT	46
3.3	DEVELOPMENTS IN THE KUWAIT STOCK EXCHANGE	48
3.3.1	THE INITIAL STAGE.....	49
3.3.2	THE SECOND STAGE (1960-1970)	50
3.3.3	THE THIRD STAGE (1970-1980)	53
3.3.4	THE FOURTH STAGE (1977 -1982)	57
3.4	THE ALMANAKH CRISIS	
3.4.1	THE EMERGENCE OF THE ALMANAKH MARKET DUE TO THE ESTABLISHMENT OF THE GULF PUBLIC SHAREHOLDING COMPANIES	58
3.4.2	THE ALMANAKH CRASH	61
3.4.3	REASONS BEHIND THE ALMANAKH CRISIS	64
3.5	THE EMERGENCE OF THE KUWAIT STOCK EXCHANGE	66
3.5.1	THE MAIN OBJECTIVES OF THE KUWAIT STOCK EXCHANGE	67
3.5.2	DEVELOPMENTS IN THE TRADING SYSTEM IN THE KUWAIT STOCK EXCHANGE	69
3.5.3	DEVELOPMENTS IN TRADING ACTIVITIES IN THE KUWAIT STOCK EXCHANGE	71
3.6	CONCLUSION	77

CHAPTER 4

LITERATURE REVIEW

4.1	INTRODUCTION	79
4.2	PROVISION AND FRAMEWORK OF FINANCIAL REPORTING	81
4.2.1	THE OBJECTIVES OF FINANCIAL REPORTING	81
4.2.2	THE USERS AND USEFULNESS OF FINANCIAL REPORTS ...	86
4.2.3	THE CHARACTERISTICS OF FINANCIAL STATEMENTS	90
4.2.4	VARIABLES THAT INCREASE THE DEMAND FOR QUARTERLY REPORTS.....	96
4.2.5	QUARTERLY REPORTS AND IAS 34	100
4.3	THE IMPORTANCE OF FINANCIAL STATEMENTS IN GENERAL.....	103
4.4	DECLINES IN THE RELEVANCE OF FINANCIAL STATEMENTS	110
4.5	THE IMPORTANCE OF QUARTERLY FINANCIAL REPORTS	114
4.6	THE IMPACT OF FINANCIAL REPORTS ON THE CAPITAL MARKET	118
4.7	RELATED LITERATURE ON QUARTERLY FINANCIAL REPORTS	
4.7.1	EXTERNAL AUDITOR INVOLVEMENT IN QUARTERLY FINANCIAL REPORTING	120
4.7.2	IMPORTANCE OF DISCLOSURES	123
4.7.3	TIMELINESS OF FINANCIAL INFORMATION	124
4.7.4	SEASONALITY OF THE INFORMATION	126
4.8	CONCLUSION	127

CHAPTER 5

THE RESEARCH METHODOLOGY

5.1	INTRODUCTION	128
5.2	OBJECTIVE OF THE STUDY	129
5.3	THE RESEARCH QUESTIONS	132
5.4	THE RESEARCH HYPOTHESES	133

5.5	PURPOSE OF THE RESEARCH	134
5.6	RESEARCH METHODS	135
	5.6.1 SOURCES OF DATA	136
	5.6.2 DATA COLLECTION METHODS	137
5.7	THE RESEARCH METHOD USED IN THE STUDY	146
	5.7.1 THE QUESTIONNAIRE DESIGN	148
	5.7.2 THE STRUCTURE OF THE QUESTIONNAIRE	149
5.8	THE SUPPORTIVE INTERVIEWS	152
5.9	THE QUESTIONNAIRE & INTERVIEW TRANSLATION	153
5.10	PILOT STUDY	154
5.11	RELIABILITY & VALIDITY	156
5.12	SAMPLING TECHNIQUES.....	157
5.12	SAMPLING TECHNIQUES IN THIS STUDY.....	160
5.13	STATISTICAL METHODOLOGY	162
5.14	CONCLUSION	163

CHAPTER 6

AN EXAMINATION OF THE MAJOR SOURCES OF INFORMATION, CONTENT AND USAGES OF QFRs

6.1	INTRODUCTION	164
6.2	BACKGROUND INFORMATION	165
6.3	FINANCIAL USERS AND DIFFERENT INFORMATION SOURCES ...	170
	6.3.1 RANKING THE INFORMATION SOURCES	173
	6.3.2 COMPARISON WITH SIMILAR STUDIES	175
	6.3.3 REASONS BEHIND THE RELIANCE ON QUARTERLY AND ANNUAL REPORTS	178
	6.3.4 SIGNIFICANCE LEVEL BETWEEN SUBJECT GROUPS	182
6.4	CONTENT OF THE QUARTERLY FINANCIAL REPORTS	186
	6.4.1 RANKING	189

6.4.2	DISCUSSION OF THE FINDINGS	191
6.4.3	COMPARISON WITH SIMILAR STUDIES	193
6.4.4	SIGNIFICANCE LEVELS BETWEEN DIFFERENT USER GROUPS	195
6.5	USE OF QUARTERLY FINANCIAL REPORTS	197
6.5.1	DISCUSSION OF THE RESULTS	200
6.5.2	SIGNIFICANCE LEVEL BETWEEN SUBJECT GROUPS	201
6.6	PREFERRED PREFERENCE FOR DIFFERENT TYPES AND FREQUENCY OF FINANCIAL REPORT	203
6.6.1	THE SIGNIFICANCE LEVEL BETWEEN THE DIFFERENT USER GROUPS REGARDING THE PREFERRED FREQUENCY OF REPORTS	205
6.7	CONCLUSION	205

CHAPTER 7

AN EXAMINATION OF THE ATTITUDE OF FINANCIAL USERS OF QUARTERLY FINANCIAL REPORTS

7.1	INTRODUCTION	208
7.2	USEFULNESS OF QUARTERLY REPORTS	209
7.2.1	SIGNIFICANCE LEVEL BETWEEN SUBJECT GROUPS.....	213
7.3	CHARACTERISTICS INFLUENCING THE IMPORTANCE OF QFRs	215
7.3.1	SIGNIFICANCE LEVEL BETWEEN SUBJECT GROUPS.....	217
7.4	CAPITAL MARKET SENSITIVITY, FINANCIAL DISCLOSURE, AUDITOR INVOLVEMENT AND TIMELINESS OF QFRs	218
7.4.1	CAPITAL MARKET SENSITIVITY	220
7.4.2	AUDITOR INVOLVEMENT	221
7.4.3	TIMELINESS	223
7.4.4	DISCLOSURES	226

7.4.5	THE SIGNIFICANCE LEVEL OF THE DIFFERENT USER GROUPS REGARDING CAPITAL MARKET SENSITIVITY, AUDITOR INVOLVEMENT, FINANCIAL DISCLOSURES AND TIMELINESS OF QFRS	227
7.5	THE USEFULNESS OF ADDITIONAL DISCLOSURES IN QFRs	228
7.5.1	THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT GROUPS OF RESPONDENTS REGARDING THE INCLUSION OF ADDITIONAL DISCLOSURE ITEMS	235
7.6	POSSIBLE FACTORS THAT MIGHT INFLUENCE THE DETERMINATION OF THE ATTITUDES TOWARDS PURCHASING SHARES	236
7.6.1	THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT GROUPS OF RESPONDENTS REGARDING FACTORS THAT COULD INFLUENCE THE SHARE PURCHASE BEHAVIOUR	248
7.6.2	KEY DETERMINANTS OF SHARE PRICE AND SHARE PURCHASE BEHAVIOR	250
7.7	FACTORS THAT MIGHT INCREASE THE DEMAND FOR QUARTERLY FINANCIAL REPORTS	252
7.7.1	THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT GROUPS OF RESPONDENT REGARDING FACTORS THAT INCREASE THE DEMAND FOR QFRS	255
7.8	CONCLUSION	256

CHAPTER 8

SUMMARY & CONCLUSIONS

8.1	INTRODUCTION	261
8.2	SUMMARY OF THE PRECEDING CHAPTERS	262
8.3	MAJOR FINDINGS	265
8.4	RECOMMENDATIONS	269

8.5	FUTURE RESEARCH	272
APPENDICES:		
	APPENDIX I	274
	APPENDIX II	286
	REFERENCES	295

List of Tables

Table 1.1	linkages between objectives, research questions and the developed hypotheses
Table 2.1	Development and growth in GDP compared with oil prices
Table 2.2	Oil and non oil exports in Kuwait
Table 2.3	The foreign labour force in the Kuwait economy
Table 2.4	Developments in the price index in the KSE
Table 2.5	Foreign trade in millions KD
Table 3.1	The development stages in the KSE
Table 3.2	A synopsis of shareholding companies that were established in the 1960s
Table 3.3	A synopsis of shareholding companies that were established in the 1970s
Table 3.4	Different investment sectors and number of companies on the KSE
Table 3.5	Value and Numbers of Shares Traded in the KSE 1985-1992
Table 3.6	Value and Numbers of Shares Traded in the KSE 1992-2004
Table 3.7	The development in the price index in the KSE 1993-2004
Table 5.1	The advantages and disadvantages of different research methods
Table 5.2	Profile of Interviewees
Table 6.1	The investment group categories
Table 6.2	Place of Employment of Respondents
Table 6.3	Educational level of Respondents
Table 6.4	Major subject of degrees of Respondents
Table 6.5	Years of experience in the Kuwait stock market of Respondents
Table 6.6	The Importance of different sources of information for decision making
Table 6.7	The ranking of the sources of information for decision making
Table 6.8	A Comparison of the findings of the current study with other studies
Table 6.9	The importance rating of alternative sources of information by different users of financial information (One-way ANOVA test)
Table 6.10	The usage of parts of quarterly financial reports
Table 6.11	The ranking by importance of the contents of the quarterly financial report
Table 6.12	Findings of the current study compared to previous studies
Table 6.13	The rating of different parts of quarterly financial reports by Importance. (One-way ANOVA)
Table 6.14	The use of quarterly financial reports

Table 6.15	The Level of significance between subject groups regarding the use and handling of quarterly information. (One-way ANOVA)
Table 6.16	The percentage distribution and ranking of Different types of Financial Report
Table 6.17	The Level of significance between subject groups regarding the preference for different types of reports (One-way ANOVA)
Table 6.18	Link the main finding of each section in chapter six with the related literature and the main contributions for each section
Table 7.1	The percentage distribution relating to the usefulness of quarterly financial reports
Table 7.2	The Level of significance between subject groups regarding the usefulness of quarterly financial reports (one way ANOVA)
Table 7.3	The percentage distribution and ranking of the fundamental characteristics of quarterly financial reports
Table 7.4	The Level of significance between subject groups regarding the fundamental characteristics of quarterly financial reports (One-Way ANOVA)
Table 7.5	The percentage distribution of respondent views regarding other issues relating to quarterly financial reports
Table 7.6	The Timeliness of Quarterly Financial Reports
Table 7.7	The Level of significance between subject groups regarding the related topics (one way ANOVA)
Table 7.8	The Percentage Distributions Relating to the Mandatory Inclusion of additional Information in QFRs
Table 7.9	The Level of significance between subject groups regarding the items that should be included in QFRs (One-way ANOVA)
Table 7.10	The percentage distribution of factors that influence share prices and share purchase behaviour:
Table 7.11	The Level of significance between subject groups regarding the items influencing share prices and attitudes towards share purchase on the Kuwait Stock Exchange (One Way ANOVA)
Table 7.12	The percentage distribution of the five most important items that affect share purchase attitude of investors

- Table 7.13** **The percentage distribution of factors that might influence the demand for quarterly financial reports**
- Table 7.14** **The Level of significance between subject groups regarding the factors that may increase the demand for QFR (one way ANOVA)**
- Table 7.15** **Link the main finding of each section in chapter seven with the related literature and the main contributions for each section**

List of Figures

- Figure 1.1** **The thesis structure**
- Figure 2.1** **Some factors that shape countries financial reporting**
- Figure 2.2** **Map of Kuwait**
- Figure 2.3** **The Development in the GDP in Kuwait's Economy**
- Figure 2.4** **The Development in oil prices in Kuwait**
- Figure 2.5** **The Development in the share price index in KSE**
- Figure 3.1** **The developments of the share volumes in the KSE**
- Figure 3.2** **The developments of the share values in the KSE**
- Figure 3.3** **The growth in the KSE Index**
- Figure 4.1** **Summary of main Literature review content**
- Figure 4.2** **The main users of financial reports and accounting information**
- Figure 4.3** **Characteristics that make financial information useful**
- Figure 5.1** **Summaries of main research questions and the objective of the study**

List of Abbreviations

AAA = American Accounting Association

AICPA = the American Institute of Certified Public Accountants

ASB = British Accounting Standard Board

ASSC = Accounting standard setting Board Committee

CBK = Central Bank of Kuwait

CICA = Canadian Institute of Chartered Accountants

CPA = Certified Public Accountant

EPS = Earning per share

FASB = Financial Accounting Standard Board

GAAP = Generally Accepted Accounting Principles

GAAS = Generally Accepted Auditing Standards

GCC = Gulf Co-operative Council Countries

GDP = Gross Domestic Product

IAS = the International Accounting Standard reports

IASB = IASC = the international Accounting Standard Board (Committee)

KAFCO = Kuwait Aviation Fuelling Company

KCC = Kuwait Clearing Company

KD = Kuwaiti Dinnar

KFAED = Kuwait Fund for Arab Economic Development

KFH = Kuwait Finance House

KGOC = Kuwait Gulf Oil Company

KIA = Kuwait Investment Authority

KNPC = Kuwait National Petroleum Company

KOC = Kuwait Oil Company

KOTC = Kuwait Oil Tankers Company

KPC = Kuwait Petroleum corporation

KPI = Kuwait Petroleum International Company

KSE = Kuwait Stock Exchange

KSM = Kuwait Stock Market

KUFPEC = Kuwait Foreign Petroleum Exploration Company

MOO = Ministry of Oil

MOP = Ministry of Planning

NBK = National Bank of Kuwait

NYSE = New York Stock Exchange

PACI = Public Authority for Civil Information

PIC = Petrochemical Industrial Company

QFR = Quarterly financial reports

QFS = Quarterly financial statements

QR = Quarterly reports

QFR = QFS = QR

SFAC = Statements of Financial Accounting Concepts

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION:

This study sets out to examine empirically the usefulness of quarterly financial Reports (QFRs) to investors. The study will commence by reviewing the relevant academic literature concerning the usefulness of QFRs in developing countries. In the past there has been limited interest in the use of quarterly reports. Recently, however, there has been increased interest in QFRs because the information contained in them seems to provide crucial benefits to the users.

As a consequence there is a clear trend towards adopting QFRs with literally thousands of companies using them as a primary source of providing financial information to third parties. Many countries throughout the world already require companies to adopt quarterly financial reports as the basis for their interim reports. This year (2005), for example, companies in the UK, Australia, and the European Union will be required to prepare financial reports on a quarterly basis and this will be in addition to annual and semi-annual reports.

Moreover, from 2005 most public companies domiciled within the European Union will be required to use international financial reporting standards. Specifically, the European Union's increase to 25 countries in May 2004 required all of the countries to adopt the International Accounting Standards, IAS (Gannon and Ashwal 2004).

In the UK, half-yearly interim reports have been a requirement of the London Stock Exchange since 1966. However, as from this year all quoted companies will be required to prepare QFRs. This is a direct result of the UK agreeing to use international financial statements (ASB 2004). Elsewhere, the Australian Accounting Board has also decided to follow the international accounting standard for interim reports - IAS 34 (AASB 2005). As a consequence, as from January 2005, Australia similarly uses QFRs as its basis for interim reporting.

A primary objective of the regulators of the Kuwait Stock Exchange is to ensure the availability of quality information to all investors. In practical terms this means that they are eager to provide up to-date information to users. In an endeavour to achieve this objective, the Kuwait Stock Exchange (KSE) issued a rule in January 1998, which compulsorily required all listed companies to publish QFRs in accordance with IAS 34. Implicit in this initiative is the recognition by regulators that QFRs have an important influence on users.

The remainder of this chapter will provide a background to the thesis by discussing some structural and practical aspects of the KSE, and the role of quarterly financial reports. It will also demonstrate the practical and academic significance of the research. The aims and objectives of the thesis together with the research questions, the research methods and the limitations of the study will then be introduced to the reader. Finally, the chapter will provide an overview of the structure of the thesis, which will provide some insight into the various methods, which were brought to bear in resolving the research questions.

1.2 BACKGROUD TO THE STUDY

The functioning of the stock market in Kuwait has become very important to the economy and it is generally recognised as a main indicator for measuring the performance of the economy. This is perhaps not that surprising because according to Alshamali (1989), Kuwait has one of the largest and best developed stock markets in the Gulf area. An indication of its size is clearly discernable from the fact that there are currently 151 listed companies traded on the Kuwait Stock Exchange (KSE 2005).

Financial and non-financial information is essential for investors in order to reach appropriate decisions and a major source of such information is financial statements published by companies. Financial statements have been designed to serve the interests of a wide range of users, such as intending investors, shareholders, financial analysts, managers and creditors. However, nowadays, due to globalisation and modern technology, an increasing number of alternative data sources have become available and in some respects they can be regarded as being in competition with financial statements. The fact that alternative sources of company information have become available raises the question as to whether traditional annual or interim financial statements provide users with sufficient information for decision making. For example, Rimerman (1990) argued that rapid economic change and change in business practices, such as, the emergence of derivative instruments, have lead to a greater demand for more corporate information. Critically, the implication here is that this demand is not currently being met by traditional annual financial statements. Certainly, informed opinion on this subject appears to be divided into two main groups: those who consider that financial statements are one of the major sources of

financial information and those who argue that there is a decline in the relevance of financial statements due to the sort of factors mentioned above.

In Kuwait, where the sources of company information are relatively limited and insufficient, it is presumed that the role of financial statements is more dominant than in more developed countries where there are a far greater range of alternatives. For example, in developed countries, such as, the U.S.A., U.K. and the European Union there are numerous information agencies, which enhance the quantity and quality of available financial information. The main purpose of these agencies is to adapt, provide, enhance and develop corporate financial information for end-users.

Against this background the study will try to investigate the usefulness of QFRs in Kuwait and determine a suitable way for improving them for a selection of end- users. In the process the study will contribute to the existing academic literature on quarterly financial reports, especially, in the developing countries and the Gulf region. The study was prompted by the fact that it addresses a current topic, which is relatively under researched. Moreover, it has practical relevance and can, for example, be useful to market regulators and the accounting profession in improving the provision of corporate information.

1.3 THE SIGNIFICANCE OF THE RESEARCH

The significance of the study emanates from several sources. First, the informational environment in Kuwait is presumed to be not as diverse and rich as that in the developed countries, such as, the United States, the European Union, Australia and

the United Kingdom. Nevertheless, only a few researchers have turned their attention to the Kuwaiti stock market and as far as the author is aware, no PhD has examined the usefulness of QFRs in Kuwait. Second, the fact that the KSE is considered to be one of the most developed markets in the Gulf Council Cooperative (GCC), warrants a study of this kind. From an academic perspective, therefore, the research will support the continuous efforts to fill a gap in the literature on the evaluation of financial statements in Kuwait. Third, this study will help in understanding some of the important considerations that affect users of financial information. In this respect this study will provide a better understanding of how information in QFRs is evaluated and how the reports contribute to the provision of relevant financial information. Fourth, this study deals with the usefulness of financial statement information, As such; it addresses an area of continuing controversy, which centres on the adequacy of this information for end-users. Fifth, studying the KSE will assist Kuwaiti investors and the market authorities in formulating future investment strategies and policies. Finally, this study takes into account the fact that different countries have their own cultural, social and accounting environments, which impinge on investment decisions. In this respect the study is specifically orientated to the needs and situation prevailing in Kuwait.

1.4 AIMS AND OBJECTIVES OF THE STUDY

The studies' primary aim is to ascertain the attitude of Kuwaiti user groups, i.e. different types of investor, to QFRs. In the process of meeting this aim the study will examine the usefulness of QFRs, highlight problem areas associated with them, and describe the actual and potential benefits associated with their use. Accordingly, the study will draw attention to some of the factors that make QFRs important and

highlight the theoretical and practical roles that they can play in determining investor behaviour in the KSE.

The main contribution of this study lies in its attempts to address the following objectives. Each of these objectives will be linked to the literature in chapter 4.

- Ascertain the attitudes of different groups of Kuwaiti investor to QFRs (individual investors, institutional investors and financial analysts). Specifically the study will ascertain the extent of their understanding of information contained in QFRs and also provide an insight into how they evaluate and use the financial information contained in QFRs to make investment decisions.
- Examine the information content of QFRs in Kuwait and determine how it can be developed or enhanced.
- Ascertain the attitude of Kuwaiti investors towards the release of financial information typically contained in QFRs.
- Highlight some indicators to emphasise the importance of QFRs and the critical role they can play in determining future investment behaviour on the KSE.
- Determine the quality of quarterly reporting by examining the importance of several related factors, such as, the degree of auditor involvement in preparing

the reports, the amount of disclosure required, the timeliness of reporting and the reliability of the reports.

- Investigate the extent to which QFRs provide relevant, reliable and timely information that facilitates comparison with other companies. As such, the study will examine the four essential characteristics of useful financial information.

1.5 THE RESEARCH QUESTIONS:

In addressing the aims and objectives of the study the following research questions were proposed:

- 1 How do Kuwaiti financial user groups rank the importance of QFRs compared to other sources of information and how important are these other sources of information to financial users?
2. How important is the QFR as a source of information for investors and analysts in the Kuwaiti stock market?
3. What is the most important section of a corporate QFR and how does this vary according to user groups?
4. Do financial user groups find the information provided in the QFR useful for investment activities?

5. Are there specific factors, situations or changes in a company that, if incorporated in QFRs, might make them more valuable?
6. Is there a relationship between investor share purchases behaviour and the issuance of QFRs?
7. Does auditor involvement in the QFR enhance its standing?
8. Does the users' financial and accounting background affect the use, analysis, understanding and evaluation of a corporate QFR?
9. What is the perception of financial users regarding the timeliness of QFRs?
10. Do financial investors want more information to be disclosed in corporate QFRs?
11. What are the most important characteristics of QFRs?

1.6 RESEARCH HYPOTHESES

The following nine research hypotheses were developed in the light of the research questions and in accordance with the main themes and objectives of the research:

H1: The different groups of investors in Kuwait have no significant differences of opinion regarding the sources of information about listed companies.

H2: The different investor groups in Kuwait have similar views about the importance of various sections of QFRs.

H3: The different investor groups in Kuwait have no difference of opinion regarding the use of QFRs.

H4: The different investor groups in Kuwait have similar opinions regarding the usefulness of QFR.

H5: The different investor groups in Kuwait have similar views on the importance of selected criteria that might affect the quality of QFRs.

H6: The different investor groups in Kuwait have similar views regarding the sensitivity of the stock market to QFRs, the inclusion of additional selected disclosures in QFRs, auditor involvement in QFRs and the timeliness of QFRs.

H7: The different investor groups in Kuwait have no significant differences of opinion regarding the items that should be included in future QFRs.

H8: The different investor groups have no significant differences of opinion regarding the effect QFRs have on share purchase behaviour.

H9: The different investor groups have the same views regarding the factors that could increase the demand for QFR.

The linkage between the various objectives, research questions and hypotheses are shown in table 1.1.

The objective	The related question	The developed hypotheses
Ascertain the attitudes of different groups of Kuwaiti investor toward QFRs and whether they use, evaluate and understand the financial information contained in the reports when ranking financial decisions.	1- How do Kuwaiti financial user groups rank the importance of QFRs compared to other sources of information and how important are these other sources of information to financial users? 2- How important is the QFR as a source of information for investors and analysis in the Kuwaiti stock market? 8- Does the users' financial and accounting background affect the use, analysis, understanding and evaluation of a corporate QFR?	H1: The different groups of investors in Kuwait have no significant differences of opinion regarding the sources of information about listed companies. H4: The different investor groups in Kuwait have similar opinions regarding the usefulness of QFR.
Examine the information content of QFRs in Kuwait and determine how it can be developed or enhanced.	3- What is the most important section of a corporate QFR and how does this vary according to user groups?	H2: The different investor groups in Kuwait have similar views about the importance of various sections of QFRs.
Ascertain the attitude of Kuwaiti investors towards the release of financial information typically contained in QFRs.	4- Do financial user groups find the information provided in the QFR useful for investment activities?	H3: The different investor groups in Kuwait have no difference of opinion regarding the use of QFRs.
Highlight some indicators to emphasise the importance of QFRs and the critical role the can play in determining future investment behaviour on the KSE.	5- Are there specific factors, situations or changes in a company that, if incorporated in QFRs, might make them more valuable? 6- Is there a relationship between investor share purchase behaviour and the issuance of QFRs?	H9: The different investor groups have the same views regarding the factors that could increase the demand for QFRs H8: The different investor groups have no significant differences of opinion regarding the effect QFRs have on share purchase.
Determine the quality of quarterly reporting by examining the importance of several related factors, such as, the degree of auditor involvement in preparing the reports, the amount of disclosure required, the timeliness of reporting and the reliability of the reports.	7- Does auditor involvement in the QFR enhance its standing? 9- What is the perception of financial users regarding the timeliness of QFRs? 10- Do financial investors want more information to be disclosed in corporate QFRs?	H6 The different investor groups in Kuwait have similar views regarding the sensitivity of the stock market to QFRs, the inclusion of additional selected disclosures in QFRs, auditor involvement in QFRs and the timeliness of QFRs. H7 The different investor groups in Kuwait have no significant differences of opinion regarding the items that should be included in future QFRs.
Investigate the extent to which QFRs provide relevant, reliable and timely information that facilitates comparison with other companies. As such, the study will examine the four essential characteristics of useful financial information.	11- What are the most important characteristics of QFRs?	H5: The different investor groups in Kuwait have similar views on the importance of selected criteria that might affect the quality of QFRs.

Table 1.1 The linkage between objectives, the related research questions and the developed hypotheses.

1.7 THE RESEARCH METHODOLOGY

The research methods used in the study comprised four interrelated stages as follows:

- 1. The researcher reviewed the relevant academic literature on quarterly financial reports and financial reporting in general. This was very important in helping to arrive at the research questions and in designing the study questionnaire and topic guide for the interviews**
- 2. The researcher devised a survey questionnaire, which was written in Arabic and English and the translation back method was used to resolve ambiguities and misunderstandings. It was then piloted before the drop-off method was used to circulate it to respondents.**
- 3. The researcher carried out supportive interviews with experts representing the three different groups of investor/users in order to get a better understanding and interpretation of the findings.**
- 4. The results were eventually analysed using descriptive statistical techniques, ANOVA and appropriate tests of significance.**

1.8 LIMITATIONS OF THE STUDY

The study has several limitations that should be taken into consideration:

- The respondents in the study were Kuwaiti financial users, i.e. different types of investor operating in Kuwait. Therefore, the results may not be applicable or generalised to the western countries.
- The study focuses mainly on the usefulness of quarterly financial report information. The usefulness of other sources of corporate information have not been considered in this research.
- This study attempts to identify and compare only three major user groups: individual investors, institutional investors and financial analysts. Other users of QFRs are not examined
- The study concentrates on the listed companies quoted on the Kuwait Stock Exchange; however, it does not deal with other types of business enterprise.
- The research methodology consisted of questionnaires and interviews. These two research methods were adopted because they convey the perceptions and beliefs of respondents. However response bias is always present in these methods and, therefore, they may not necessarily reflected exact attitudes.
- In total 420 questionnaires were distributed and this resulted in 350 useable responses, i.e. a response rate of 83.3 percent. Although the response rate was

excellent, it must be remembered that we are still only considering a sample. This consideration was also compounded by the fact that only 10 interviews were conducted.

Despite these limitations, the thesis makes an important contribution to the knowledge in the field of quarterly financial reports.

1.9 AN OVERVIEW OF THE STRUCTURE OF THE THESIS

In addition to this chapter (chapter 1) the remainder of the thesis is divided into seven chapters as follows (see Figure 1.1):

Chapter 2 identifies and discusses the essential characteristics of the environment of the research. This chapter accordingly starts by discussing the social and political framework of Kuwait. This is followed by a brief history of Kuwait and its environment, recent economic developments and financial characteristics.

Chapter 3 concentrates on the Kuwait stock exchange (KSE). Accordingly, it reviews the development of the KSE from the first public shareholding company in 1952 until the present time. It also introduces the reader to important factual details about the stock market and places particular emphasis on the Almankh crisis and the main factors that were responsible for the crisis.

Chapter 4 commences by providing an overview of the purpose of financial statements in general. The chapter then reviews the related academic literature on the

usefulness of financial reports and considers whether their usefulness has declined over recent years. Having discussed financial reporting in general, the chapter then moves on to focus on the literature relating to the usefulness of quarterly and interim financial statements. Finally, the chapter concludes by examining the findings of some related studies on quarterly financial reports and introduces some of the key issues that these studies have raised. These typically include *inter alia* auditor involvement, financial disclosures and the timeliness of financial reports.

Chapter 5 is concerned with the research methodology. Accordingly, it analyses the advantages and disadvantages associated with alternative research methods and presents the rationale for choosing the eventual research methods used in the study. In addition to presenting the research methodology, the chapter also introduces the hypotheses and explains how the questionnaire was designed, pre-tested and piloted.

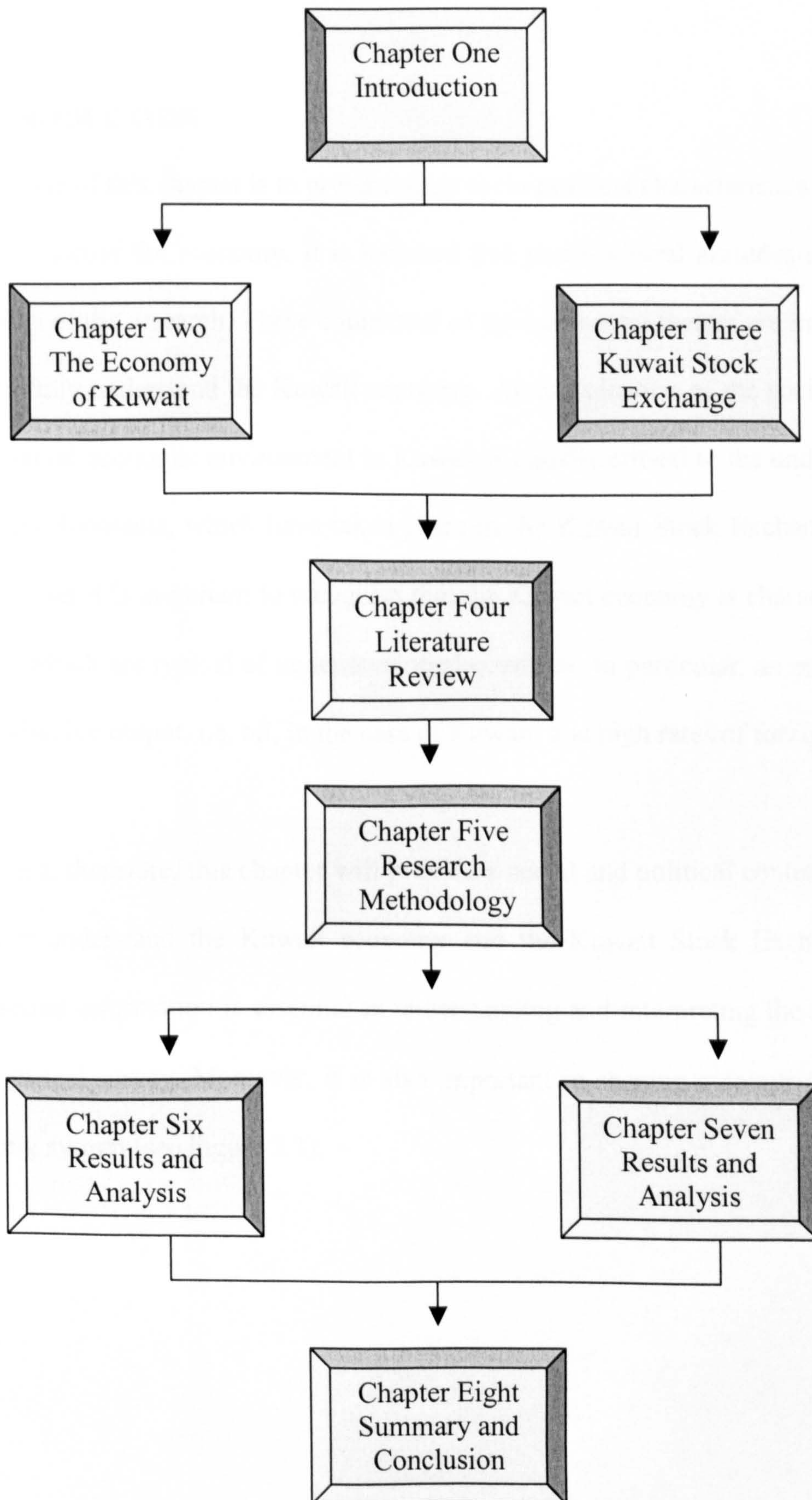
Chapters 6 and 7 present the findings of the questionnaire and provide an informed interpretation or rationale for the results by drawing upon the interviews with experts and making comparisons with similar empirical studies in this area. As such these two chapters address the research questions and the associated hypotheses.

Specifically, Chapter 6 provides some information on the socio-economic and demographic background of the questionnaire respondents. It then examines alternative sources of financial information and in so doing places QFRs within a contextual framework. This enables the researcher to get some measure as to how important QFRs are relative to these alternative sources of financial information. The chapter concludes by examining the content of QFRs in an attempt to identify, which parts of the report add real value to the user groups.

Chapter 7 then re-addresses the factors that have the potential to make QFRs more useful to investors. Consequently it ascertains from the respondents the sort of information that they would like to see included as standard in future QFRs. This enables the researcher to identify what is termed the “ideal” report. Having examined content, the chapter then examines a range of other factors that were identified from the literature as being relevant to the use and usefulness of QFRs

The final chapter provides a summary of the main findings and presents the conclusions of the study. This is followed by a number of pragmatic recommendations for regulators and accounting professionals. The limitations and short comings of the research are then discussed and recommendations for future research in this area are made.

Figure 1.1: THE THESIS STRUCTURE



SOURCE: AUTHOR

CHAPTER 2

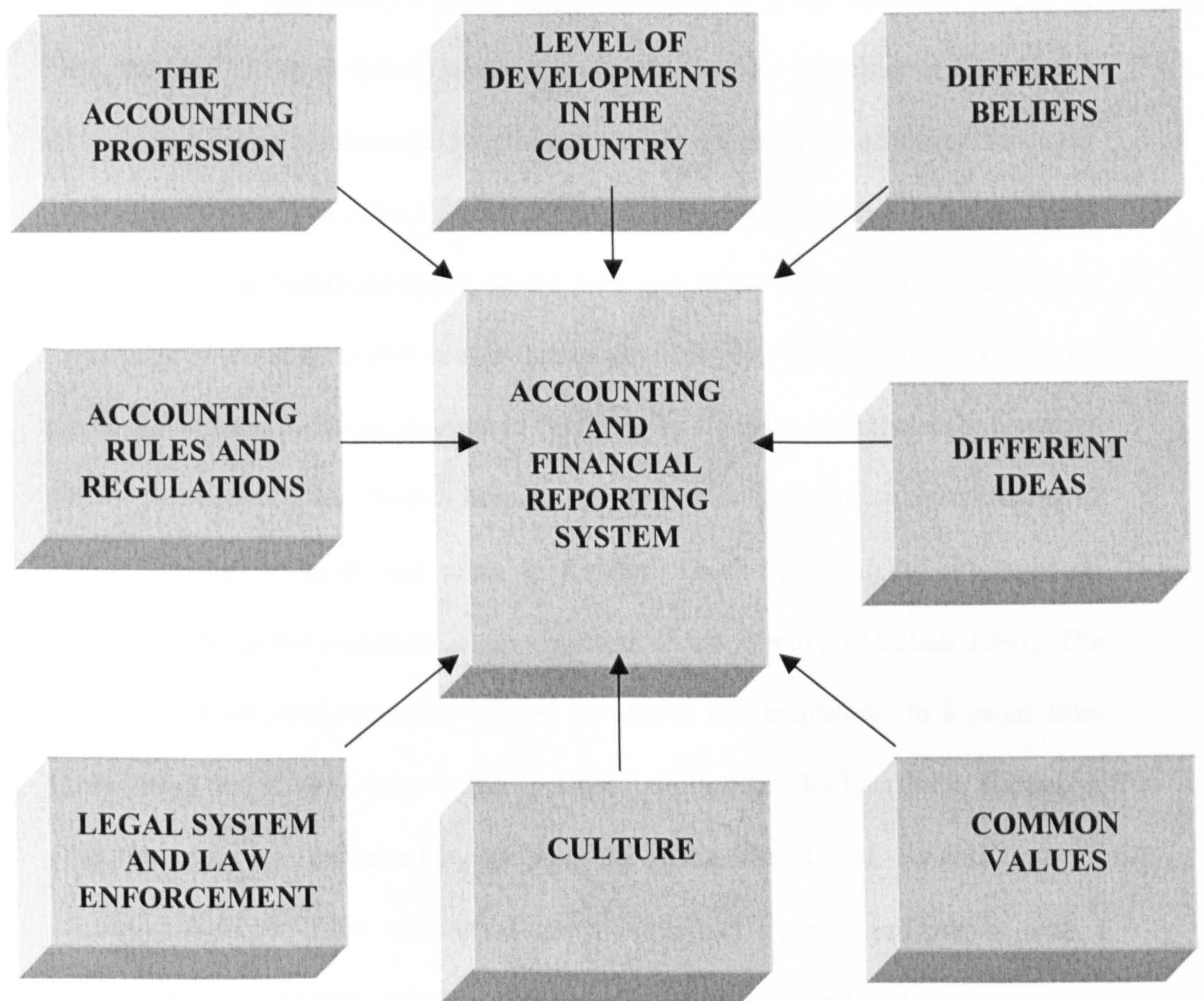
AN OVERVIEW OF THE KUWAIT ECONOMY

2.1 INTRODUCTION

The purpose of this chapter is to present some socio-political characteristics of Kuwait and then discuss the economy. It is believed that socio-cultural attitudes may affect the results of the research. These contextual or environmental factors are important in order to fully understand the Kuwait economy. An examination of the socio-political and financial-economic environment in Kuwait is equally critical to the understanding of the developments, which have taken place in the Kuwait Stock Exchange (KSE). At the outset it is important to recognise that the Kuwait economy is characterised by features which are typical of underdeveloped countries, in particular, an emphasis on one productive output, i.e. oil, in the case of Kuwait, and high rates of foreign labour.

In essence, therefore, this chapter will provide a social and political context in which to better understand the Kuwait economy and the Kuwait Stock Exchange. This background information is essential in understanding and interpreting the result from the empirical survey. Moreover, it is also important in shaping a country's financial reporting system (see Figure 2.1).

Figure 2.1: SOME FACTORS THAT SHAPE COUNTRIES' FINANCIAL REPORTING



Source Author

2.2 A HISTORICAL BACKGROUND

The modern state of Kuwait is a relatively young country, having emerged at the beginning of the 18-century when settlers from Saudi Arabia arrived in the area. At that time Kuwait was simply a small village inhabited by a few thousand people. In 1756, the head of the Al-Sabah family was appointed as the first ruler of Kuwait and the same family has continued to rule the country for the last three centuries. Since the appointment of the first ruler a further fourteen rulers have presided, and the current president is Sheik Sabah Al-Sabah. In the later part of the 18th century the country's importance as a trading centre steadily increased. This growing importance was partly due to the unstable political situation in Persia in the eighteen and nineteenth centuries and the war between the Othman Empire and the Persians, which caused a number of trading families to move and settle in Kuwait. These trading families played an important role in the commercial development of the country (Alsabah 1980). The East Indian Company eventually moved its offices and employees to Kuwait from Basra (Iraq) and Kuwait became the southern terminal for the East India Company, until this route was cancelled by the opening of the Suez Canal. By this time the country had experienced substantial growth and had become prosperous with a number of main activities including trade, boat building and pearl diving.

In 1899, the Kuwait government signed a protection treaty with United Kingdom and in 1904 a British political agency was established in Kuwait. Eventually Kuwait came under British protection in 1914. In 1922 the borders between Kuwait and Iraq were establish and still remain to this day. However, modern Kuwait did not emerge until after the discovery of oil in 1946. The country then witnessed major changes in its social and economic infrastructure. In 1961 Kuwait obtained its independence from

United Kingdom and become fully responsible for its external affairs. After obtaining its independence Kuwait became a full member of the United Nation in 1963.

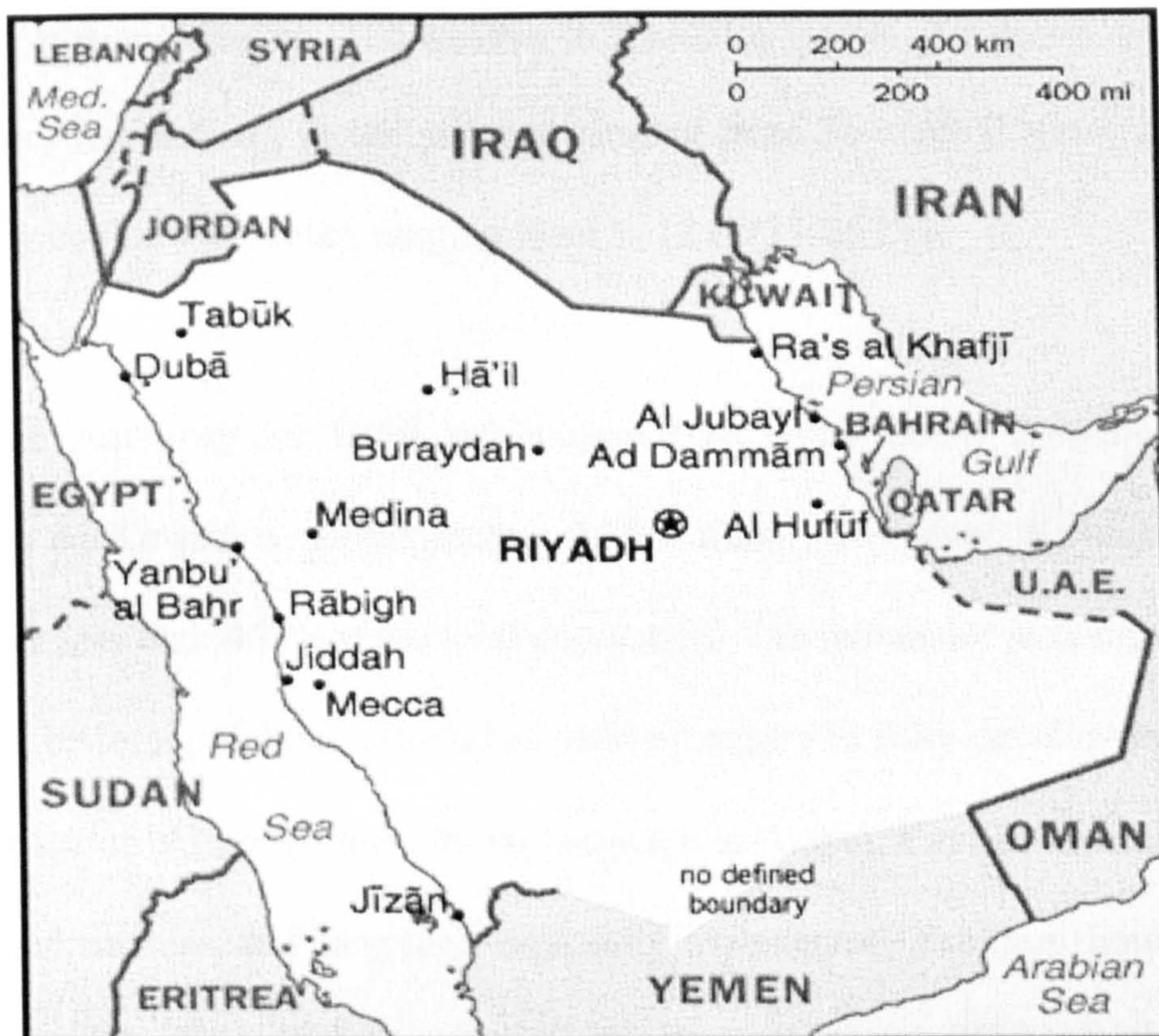


FIGURE 2.2: MAP OF KUWAIT

2.3 SOCIAL AND POLITICAL FRAMEWORK OF KUWAIT

The state of Kuwait is an Arab country, which occupies the north-western corner of the Arabian Gulf (see Figure 2.2). It is bounded in the east by the Arabian Gulf, in the south and the west by the kingdom of Saudi Arabia and in the northwest by Iraq. Due to its geographical location Kuwait quickly became regarded as an important country. Specifically, its location made Kuwait the gateway to the Arabian Peninsula. In addition to its strategic location, which created a natural link between the desert and the ocean, Kuwait has also earned a fine international reputation in the areas of art, trade, and its geographical position has contributed to its development as an important trading port.

The total land area of Kuwait is 17,818 square kilometres or approximately seven thousand square miles. The country is generally flat with the exception of a few hills and several islands, owned by Kuwait, are scattered around the Arabian Gulf, such as Bubian, Warba and Filakah. The weather in Kuwait is typical of a desert region and is usually very hot and dry in the summer ranging from 35 – 49 C (90 – 120 F) and moderately cool in the winter, ranging from 5- 18 C (35-66 F).

The Public Authority for Civil Information (December 2004) estimated that the population of Kuwait is approximately 2.75 million. However, Kuwaiti nationals account for less than 40 % of the total population. The remainder is accounted for by immigrant or foreign labour, which has been necessary to fully develop the oil-based industrial sector. Although the official language is Arabic, English is widely spoken and is used as a second language especially in business, banking, hotels and big shopping centres. The official currency is the Kuwaiti Dinnar (KD), which is divided into 1000 Fils and at the time of writing the thesis the average exchange rate against the dollar is 0.300: US\$ 1.00.

The constitution of Kuwait was adopted in 1962 and it guarantees each individual freedom of liberty, speech/press, worship and religion. The constitution also declares Kuwait to be an Islamic and democratic country. The religion in Kuwait is Islam and it is practised in many mosques throughout the country. Accordingly, the majority of Kuwait's citizens adhere to Islam, which also forms the basis for its legal system. The National Assembly is an extremely powerful body in Kuwait and plays a critical role in the countries political, economic and social development, and has made a valuable contribution to the development of the country.

2.4 ECONOMIC DEVELOPMENTS

Alsabah (1980) and Alkurafi (1988) are typical of academics who have divided the Kuwait economy into two stages: the first stage is the “old economy” and the second stage is the “modern economy”. The old economy stage represents the period before oil was discovered and during this period Kuwait was very poor with very limited resources. The second economic stage started after the first commercial oil shipment in 1946 and heralded the commencement of economic growth and prosperity.

2.4.1 THE FIRST ECONOMIC STAGE (THE OLD ECONOMY)

Prior to oil being discovered in Kuwait, the economy was under developed and relied heavily on pearl diving, fishing and sea transportation. These activities were predominately small family businesses and did not require large amounts of working capital. The economy was, therefore, essentially basic and characterised by very low per capita income. At that time the government played only a limited role in the domestic economy and the private sector, in the form of small family-run businesses, dominated the economy. As a consequence, the main source of revenue for the government at that time was from corporation and personal taxes. Alsabah (1980) encapsulated this period of economic development in the following statement: “Before the discovery and the export of oil, the Kuwait economy depended on fishing, pearl diving, seafaring, boat building and sea trade. These were the pillars of the Kuwait economy, from its establishment in the 1670s until the outbreak of the Second World War.”

Some of these industries were dependent on the world economy and others were dependent on the local economy. The following is a brief discussion of their activities:

- Pearling was the main export activity in Kuwait and the Arabian Gulf in general. Most of the pearls were exported to India and Bahrain in exchange for primary products and other consumer goods. It was the largest sector in terms of employment and the main source of economic revenue until the late 1930s, when the industry started to decline due to strong competition from Japan. According to (Al-Fraih, 1993), about 25% of the population was employed in the pearl industry in 1920.
- In addition to pearling sea faring and trade was another main activity in Kuwait during this period. The geographical location of Kuwait provided it with economic, political and strategic importance. Kuwaiti merchants owned ships that carried cargo and passengers, and trade was particularly buoyant between Iraq, India and east Africa. Dates were the principal traded commodity and they were brought from Basra (Iraq) and traded throughout the gulf and India.
- Boat building was also important in order to facilitate pearl diving and the sea faring sectors. This importance is underlined by the fact that Kuwait became the boat-building centre for the whole Gulf. The wood to build the boats was imported from south Asia and South East Africa, and the boats were then exported throughout the gulf.
- Fishing was important because of Kuwait's location on the Gulf. The Arabian Gulf is considered one of the richest areas for fish and other sea animals, and sea food, therefore, became an essential part of the diet for Kuwaitis. As a consequence, the fishing industry became an important source of employment in Kuwait.

2.4.2 THE IMPACT OF OIL ON THE ECONOMY

According to (Al-Omar 1990) the impact of oil on the economy began in 1934, when the Kuwait Oil Company (KOC) was established as an equal partner with the Gulf oil Corporation and the Anglo-Persian Oil Company (now British Petroleum). This partnership was responsible for the subsequent exploration and development of the market in Kuwaiti oil. The first commercial discovery was in 1938 and the first commercial oil shipment was exported in 1946. In 1948 concession was given to Aminoil (a U.S. company) to explore and produce oil in the territorial waters and Islands off the shores of Kuwait. In 1958 a further concession for the offshore exploration and extraction of oil was signed with the Arabian Oil Company, which was a subsidiary of a Japanese trading company. In 1960 the Kuwait National Petroleum Company (KNPC) was established as joint venture between the government, which had a 60% share, and the private sector. Eventually, the government bought out the private sector and today this company is responsible for selling refined oil in the markets.

By 1975 KOC was also completely owned by the government and in 1977 ownership of Aminoil was transferred to the Kuwait government. By 1978, therefore, the entire petroleum sector was under Kuwaiti control, apart from the Arabian Oil Company.

In January 1980, the Kuwait Petroleum Corporation (KPC) was formed and this brought together all elements of the industry under one holding company, thereby, ensuring more effective control.

To achieve this goal KPC has eight large nationally owned companies under its control. These companies specialise in their own area of expertise and are active in the following areas: oil production, manufacture and transportation. This corporate

structure is conducive to attaining the mission statement of KPC, which is to manage and execute oil integrated activities world wide in a responsible and efficient manner.

The activities of the individual companies, which comprise KPC, are briefly summarised as follows:

1- Kuwait oil company (KOC)

The Kuwait Oil Company's responsibilities under the KPC umbrella are the exploration, drilling and production of oil and gas within the state of Kuwait. The Kuwait Oil Company is also responsible for the storage of crude oil and its delivery to tankers for export.

2-Kuwait oil tankers company (KOTC)

KOTC was founded in 1957 and its primary responsibilities lie in the area of transportation. Currently, it has a shipping fleet, which consists of 16 petroleum product tankers, 6 crude oil tankers, 6 liquefied gas tankers, 2 ship fuel boats, and several supply and tow boats. The total maximum tonnage of the company's fleet is three and half million metric tonnes and, as such, it one of the World's largest shipping companies in the world.

3-Kuwait National Petroleum Company (KNPC)

KNPC is responsible for Kuwait's three largest oil refineries: Shuaibah, Mina Abdullah, and Mina Ahmadi. As such, it is one of the largest oil refinery companies in the World, producing large quantities of naphtha, benzene, kerosene, aviation kerosene, gas and asphalt.

4- Kuwait Petroleum International limited (KPI)

KPI also known as Q8 was formed by KPC in 1983 to oversee marketing, refining and retailing outside Kuwait. It has about 5,500 services stations in Belgium, Denmark, France, Germany, Holland, Italy, Luxembourg, Spain, Sweden, Thailand and the U.K. Q8 outlets are well established in Europe and it has plans to expand into Asia.

5- Petrochemical Industries Company (PIC)

PIC was established in 1963 and is now a major player in the global chemical industry, utilising state of the art technology. PIC uses Kuwait national gas as feedstock and produces liquid ammonia, ammonium sulphate, sulphuric acid and urea.

6-Kuwait Aviation Fuelling Company (KAFCO)

KAFCO was also formed in 1963 and specialises in the supply of jet aviation fuel. It owns six storage tanks with a capacity of 4.5 million litres.

7-Kuwait Foreign Petroleum Exploration Company (KUFPEC)

KUFPC is an international oil company, which manages the corporations' foreign upstream activities. It operates in oil and gas fields in eight countries world wide. It also participates in joint ventures with similar companies involved in the exploration, development and production of oil and gas in the Middle East, south east, Far East and some parts in Africa.

8- Kuwait Gulf Oil Company (KGOC)

KGOC was established in 2002 and controls and manages the Kuwaiti share of natural resources in the off-shore area between Kuwait and Saudi Arabia. KGOC is responsible for oil and gas exploration, production, refining, marketing, transport and storage.

As can be seen from this brief explanation of the activities of KPC, it makes an important contribution to Kuwait's economy both in terms of income generation and in terms of the technical expertise. Over a relatively short period of time KPC has established a presence in international markets and is universally recognised as one of the top ten oil conglomerates in the World (Ministry of Oil 2002).

2.4.3 THE SECOND ECONOMIC STAGE (THE NEW ECONOMY)

The discovery of oil in Kuwait resulted in a sharp increase in its national income. As such, the discovery of oil constituted an important turning point in modernizing the country, changing not only the economy but the very fabric of society in Kuwait. With the export of oil and the ensuing revenue that this generated, a new stage in the country's economic development began. Oil revenue has provided Kuwait with the opportunity to develop its infrastructure and start the process of building a modern country. In addition to the oil revenue having been reinvested back into the oil industry it has also been used to develop other sectors of the economy, in particular, the financial sector, real estate, education and health. The exponential increases in the export of oil and oil related products has, therefore, allowed the economy to grow at hitherto unprecedented rates and this has also attracted additional foreign investment

into the country. This has allowed the country to increase its imports of luxury food and consumer durables and engage in international trade.

2.5 DEVELOPMENT IN THE PERFORMANCE OF THE DOMESTIC ECONOMY (GDP)

The economy of Kuwait has experienced significant developments in all of its industrial sectors over the last few decades. A main feature of this development has been a dramatic increase in the National Income and this has brought about major social and economic changes.

This section will review the most important developments in the Gross Domestic Product (GDP) of Kuwait (see Table 2.1). In the 1960s the economy was characterised by relatively stable growth in GDP but the period between 1973 and 1980 witnessed strong international demand for oil and this raised the prices of oil to extraordinarily high levels. The annual reports from the Central Bank of Kuwait (CBK) and the Ministry of Planning indicated that (GDP) rose from K D 3,485 million in 1975 to K D 7,755 million in 1980. That represented a 123% increase over the five years in question. During the same period, non-oil GDP output increased from K D 1,028 million in 1975 to K D 2,669 million KD in 1980, i.e. a 160% increase.

The most rapid period of economic growth in Kuwait economic history occurred in the decade following the oil price increase in 1973. During this period the country witnessed a big increase in government expenditure as it commenced a series of huge investment projects in the oil sector. Investment in infrastructure projects, such as,

highways, water and electricity, health and education, also received massive injections of money.

By the 1980s, when the World price of oil started to decline the Kuwait economy suffered from both external and internal economic problems. Oil prices dropped to below US \$10 per barrel and as a result the oil revenue bonanza came to an end. The sharp decrease in oil prices and crude oil production reduced the government's revenue from US \$ 6 billion in 1982 to US \$ 3 billion in 1989, a drop of almost 50%. The impact on GDP (in real terms) was such that it declined from K D 5,997 million in 1980 KD to K D 2,805 million by 1989 (CBK Quarterly Bulletins).

However, the government was committed to high levels of expenditure and, therefore, during this period total government expenditure continued to increase. In addition to the oil price recession the Iraqi-Iranian war (1981 to 1988) was also taking place and this placed a heavy financial burden on the Kuwaiti government. Specifically investment in the armed forces and weapons was undertaken but the war also had a detrimental effect on trade with neighbouring countries.

In late 1982, the Kuwaiti stock market (KSM) also came under increased speculative pressure resulting in its eventual collapse. This collapse, which was known as the Almanakh crisis resulted in a massive series of bankruptcies throughout the country (See chapter three for details). The years that followed the Almanakh crisis were characterised by a continuous slow down in economic activity. However, worse was to follow when Iraqi troops invaded Kuwait in 1990.

Table 2.1: DEVELOPMENT AND GROWTH IN GDP COMPARED WITH OIL**PRICES**

Year	GDP (million KD)	Growth in GDP	Average Oil price \$
1972	1264	-	\$ 2.1
1975	3485	+ 175%	11.30
1980	7755	+123%	27.50
1982	5997	- 19%	36.50*
1989	2805	- 50%	9.80
1990	5247	- 12%	16.60
1999	9169	+ 74%	NA
2000	11356	+ 23%	30.50
2001	10445	- 8%	25.25
2002	10691	+ 2%	23.75
2003	12441	+ 16%	31.23
2004	16420	+ 32%	32.77
2005	21346	+30%	47.2

Source Central Bank of Kuwait (CBK)

Note: the prices are for Kuwaiti oil, which is medium weight oil

*starting of Iraqi –Iranian war, NA = not available

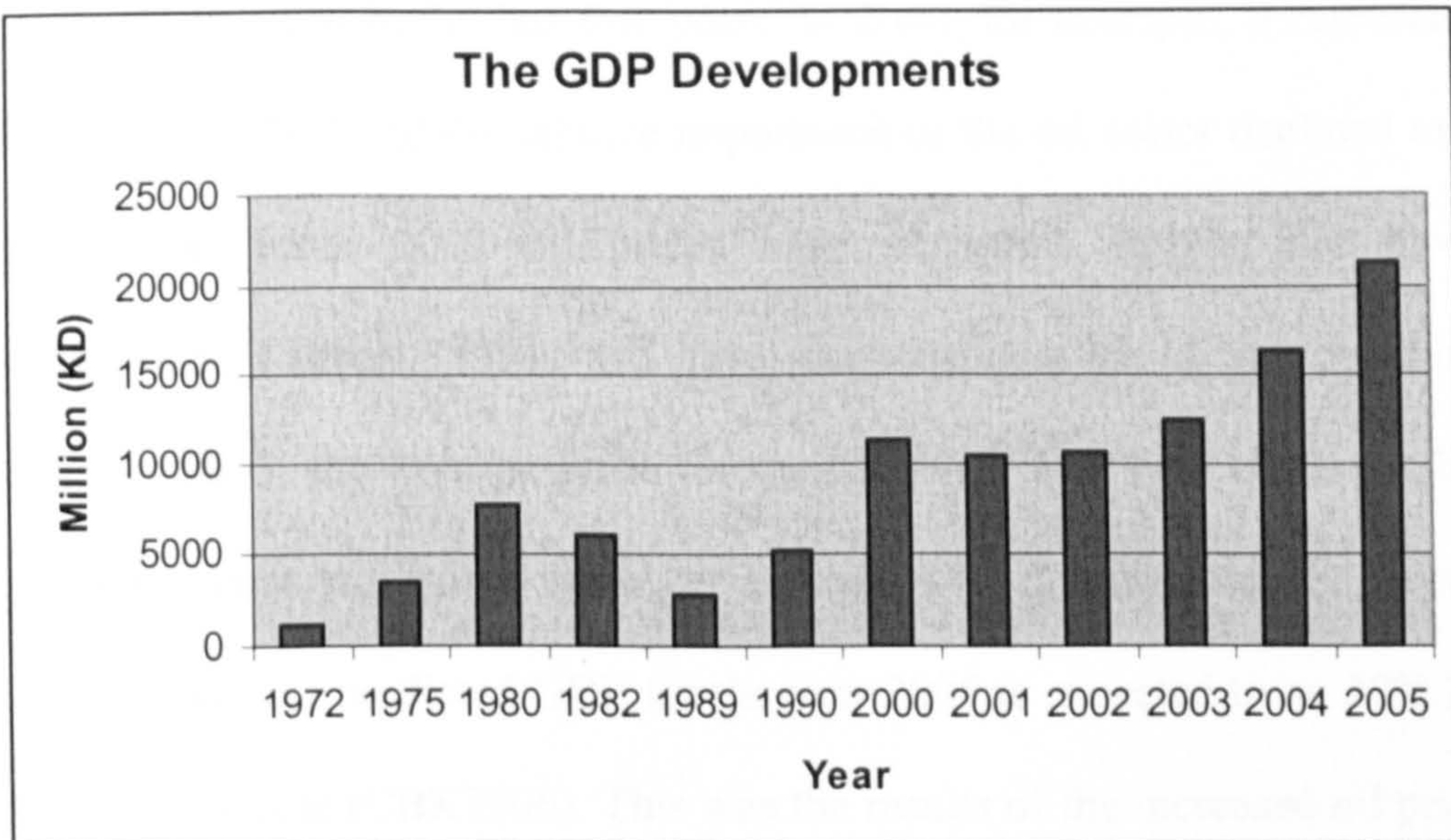


Figure 2.3 The Development in the GDP in Kuwait's Economy

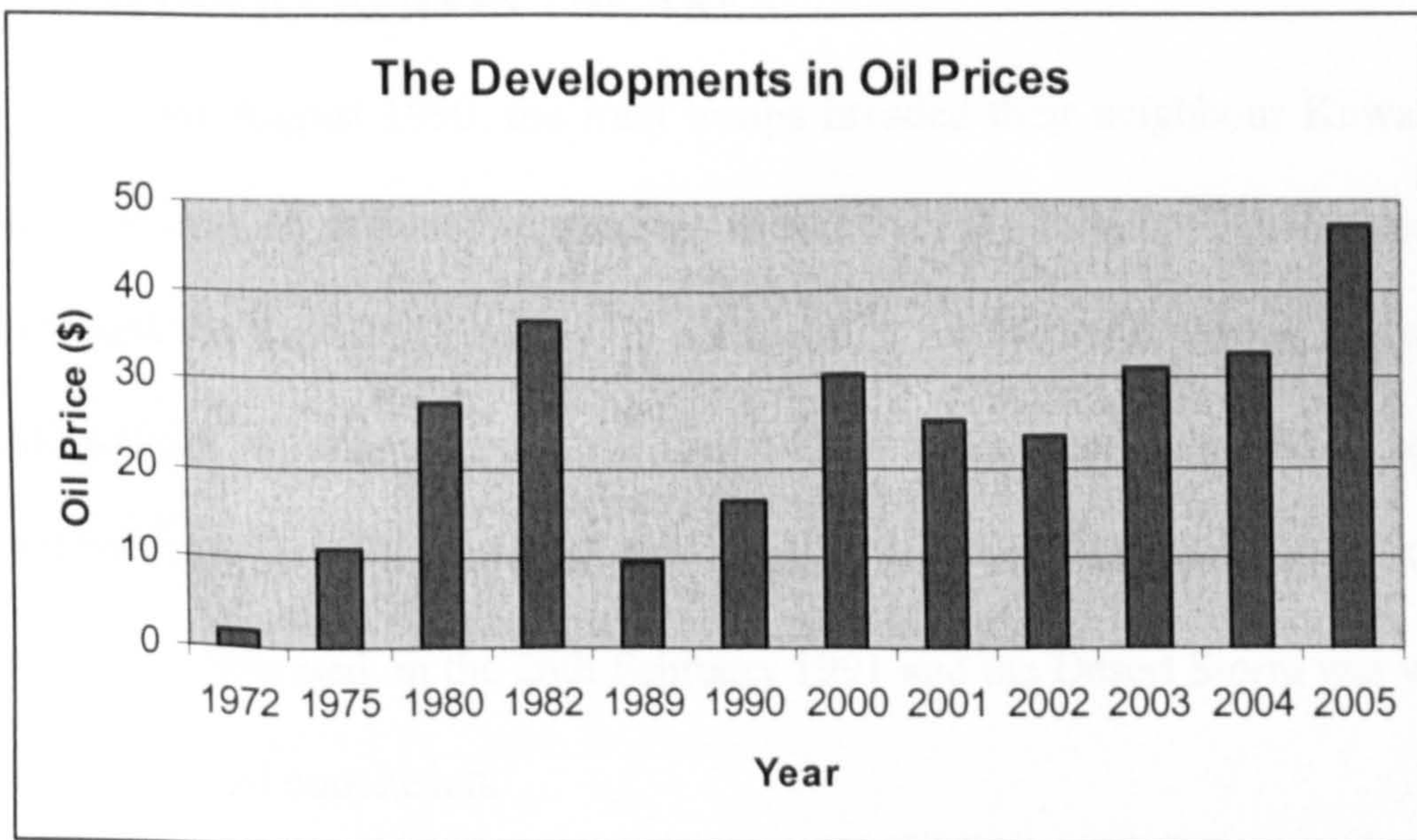


Figure 2.4 The Development in oil prices in Kuwait

The growth in GDP can be seen in figure 2.3. In 2001 the GDP at current price was K D 10,445 million compared with K D 11,356 million in 2000. This decrease of 8 % followed a 23% increase in GDP during 1999. This fluctuation in GDP is largely attributable to changes in World oil prices (see figure 2.4) and to Kuwait's production share under OPEC. Nevertheless, the contribution of the non-oil sector to GDP has

continued to grow in the last few years. In 2000, for example, it represented almost 50% of total GDP and the relative importance of the oil sector declined to 49.3% the same year. From 2003 oil prices have increased sharply and have reached unprecedented levels. This will have, once again, a strong and positive effect on GDP. In 2005, the average price for the crude oil was 47.2 US \$ per barrel. This increase means oil prices were on average 44% higher than the previous year. Furthermore, the predicted GDP for the year 2005 is expected to be 30% higher than the previous year (CBK2006). This was the results of the increased oil prices and the improving growth in the non-oil private sector activities.

2.5.1 SUDDEN CRISIS IN THE AREA

On the 2nd August 1990, the Iraqi troops invaded their neighbour Kuwait using all kinds of land, air and marine weapons to take over the country. This invasion severely damaged the Kuwaiti Economy: in particular, it resulted in a serious loss of Kuwait's oil facilities, for example, no less than 742 oil wells were destroyed or set alight. In addition, the infrastructure of the country was seriously damaged. Kuwait was eventually liberated on the 26th February 1991 and the Desert Storm war was brought to a successful conclusion.

After liberation Kuwait encountered a very difficult economic period. To a large extent this was caused by Kuwait having to liquidate a huge proportion of its financial reserves to pay for the war and reconstruct its infrastructure. Government reserves declined significantly and this adversely affected the economy and had a negative impact on Kuwait's financial status in the World.

2.6 ECONOMIC AND FINANCIAL CHARACTERISTICS

As was mentioned in the introduction to this chapter, Kuwait is characterised by a number of unique features. For example its wealth distribution and patterns of consumer consumption are typical of more developed economies but it also exhibits features, in particular, its labour problems and reliance on one resource, which are normally associated with an underdeveloped country.

i- WEALTH DISTRIBUTION

Kuwait uses a unique mechanism to ensure equitable distribution of oil wealth among its citizens. This distribution mechanism guarantees well paid jobs to Kuwaiti citizens in the government or private sectors. The Kuwait government also has an ambitious human resource development programme. This programme provides free education and health, interest free housing loans and utilities, which decline in price according to use. Health care, education, and social services are currently a major priority for the Kuwait government and, as such, it constitutes a major source of its expenditure.

ii- THE OIL SECTOR

One of the main features of the Kuwait economy is the continued domination of the oil sector. Accordingly, oil is the main source of government revenue and finances its expenditure on goods, services, wages and other development initiatives. According to the Central Bank of Kuwait oil currently accounts for more than 90% of merchandise exports (see Table 2.2), approximately 88 percent of the government's budget revenue and about 50% of total GDP. These facts,

once again, serve to underline the importance of the oil sector in the Kuwaiti economy (CBK). The problem, however, is that the price and demand for oil is outside the control of the government. Both depend heavily on the World's economic and political situation and this can destabilise economies, which are largely dependent on the export of oil.

This explains why the Kuwait government is trying to diversify the economy and reduce dependence on oil as the primary source of National Income. However, this is a long term goal and this objective has not yet been achieved. Moreover, it is difficult to plan long term when the price of oil is subject to the vagaries of World economic and political forces. This is exactly what happened in the late 1980s when the price of oil dipped below US \$10 and Kuwait faced severe economic pressure simply to keep abreast with its expenditure plans.

Table (2.2): OIL AND NON OIL EXPORTS IN KUWAIT

Year	Total value of exports	Of which oil exports	%
1999	3702	3356	90.6%
2000	5962	5578	93.5%
2001	4969	4590	92.3%
2002	4666	4276	91.6%
2003	6242	5663	90.7%
2004	8466	7861	92.8%
2005	13143	12434	94.6%

Source Central Bank of Kuwait (CBK)

iii- OPEN ECONOMY

The Kuwaiti economy is characterised by a very high degree of openness with the rest of the world. This is because it depends heavily on the rest of the world to satisfy its consumption needs. The import of primary and consumer goods is also increased by the number of expatriates, with expensive Western consumption habits, working in the country. To this extent, therefore, the government is committed to a relatively high import bill and this factor also explains why the government is investing and encouraging developments in the non oil sector.

iv- THE GOVERNMENT'S DOMINATION OVER THE ECONOMY

Despite there being a low tax regime in Kuwait, the government is the major controller of the economy. This is because, the oil sector, which is the primary source of income for the economy, is owned and controlled by the government. Unlike the pre oil stage, the government accordingly plays an important role in the financial activities of the country. It has become one of the largest single employers in the country and makes an important contribution to Kuwait's economic and financial development.

v- FOREIGN LABOUR FORCE

The growing expenditures by the Kuwaiti government on construction, welfare, and other services have attracted many immigrants. The total population has risen from about 150,000 in 1949 to 2.75 million in 2004. However, there is an imbalance between the structure of the population and the structure of the labour force. According to the public authority for civil information, the total labour force

in 2005 was approximately 1,634,000 and 75 % were non-Kuwaiti (see Table 2.3). This is explained by the simple fact that the rapid growth in the Kuwaiti economy has led to the creation of vast number of work opportunities and the domestic population has simply been too small to satisfy this demand. Another facet of this imbalance is revealed by the fact that the Government employs about 80% of the Kuwaiti born labour force, and foreign labour is, therefore, almost exclusively employed in manual jobs in the private and oil related sectors.

Table (2.3): THE FOREIGN LABOUR FORCE IN THE KUWAIT ECONOMY

Total labour	%	Kuwaiti	%	Non-Kuwaitis	%
1,634,351	100%	402,635	24.6%	1,231,681	75.4%

Source public authority for civil information 2005

In essence, therefore, the Kuwaiti economy suffers from a lack of manpower. To place this in perspective, the ratio of Kuwaitis to total population is only about 40%. Experienced labour from overseas is, therefore, critical in satisfying demand, especially, in the private sector.

2.7 DEVELOPMENT IN SOME SECTORS OF THE KUWAITI ECONOMY

Having discussed the main structural changes that have occurred in the oil sector, this section examines the major developments in the financial sector and other sectors.

A- DEVELOPMENTS IN THE FINANCIAL SECTOR

Kuwait's government has shown a strong willingness to develop the financial sector. These efforts have been conducive to ensuring a high rate of financial growth and

economic development and have made the financial sector capable of sustained growth. In the process the government has made significant inroads into making the country less dependent on the oil sector.

The Kuwait financial system includes several major financial institutions:

1- Kuwait Stock Exchange (KSE)

The Kuwait Stock Exchange was established in 1977 and attracts significant investment from Kuwaiti investors. The KSE offers a wide range of diverse and quality stocks, coupled with a growing number of market instruments, which make the market attractive for all kinds of financial user. The KSE helped the Kuwait economy develop a strong and secure capital base to promote the industrialisation of the economy. The KSE support national polices designed to raise capital for business and promotes share-ownership for all citizens.

Table (2.4): DEVELOPMENTS IN THE INDEX PRICE IN THE KSE

Year	Average price index
1993	1000
1995	1365
1999	1442
2001	1709
2002	2375
2003	4790
2004	6409
2005	11445

Source Central Bank of Kuwait (CBK)

Today the KSE is considered to be a world class stock exchange offering unique investment opportunities. An insight into the growth and development of the KSE is revealed by Table 2.4. (See Chapter 3 for details.) In a recent publication by the CBK, the share prices index reached its highest ever level soaring to a figure of 11445. Indeed, profit growth of listed companies in general rose by 89% during the first nine months of the year 2005 (NBK). The year also saw the listing of as many as 33 new companies on the KSE.

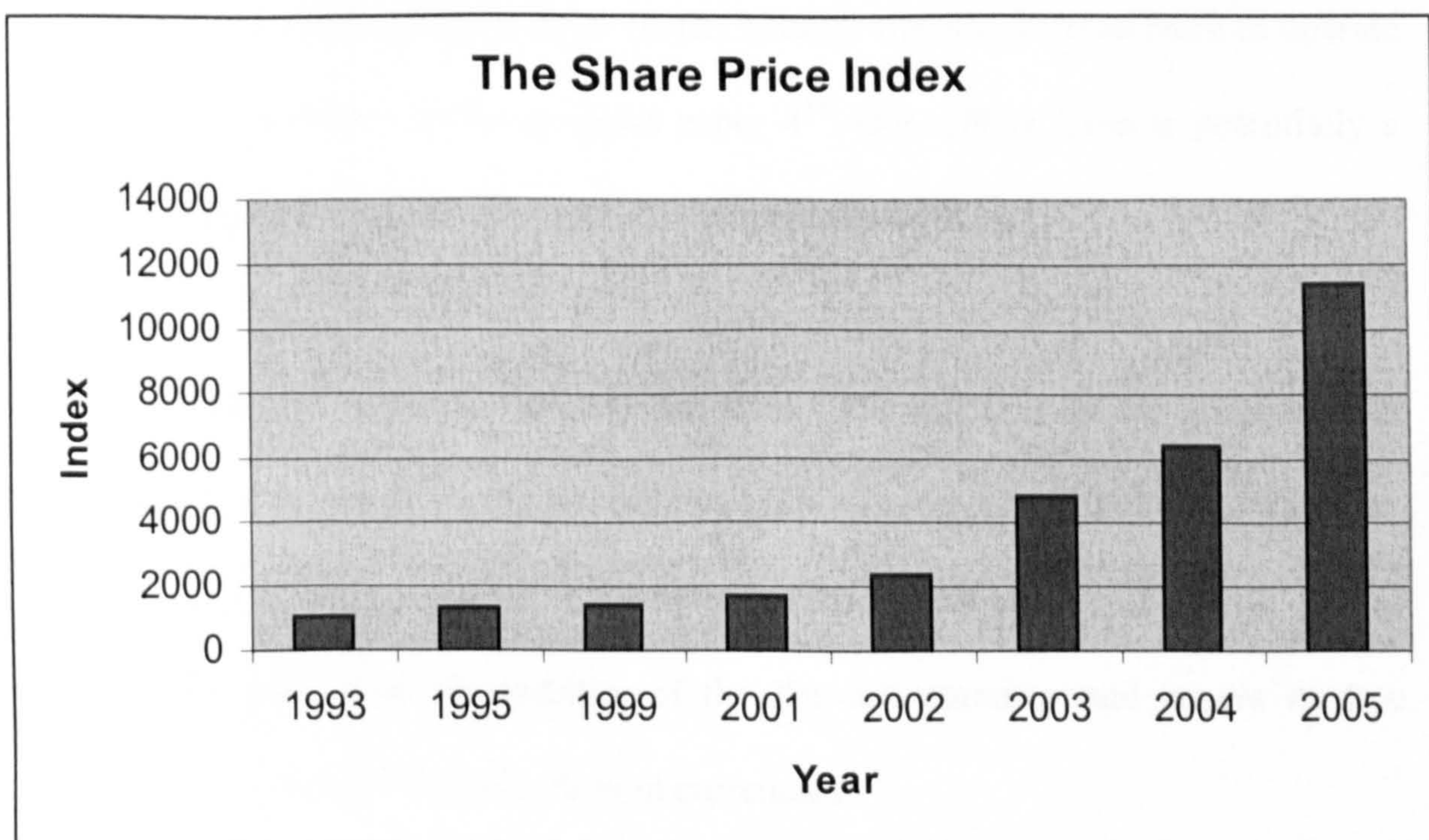


Figure 2.5 The Development in the share price index in KSE

2- The development in the banking industry:

The modern banking system in Kuwait started in 1941 with the opening of the British Bank of the Middle East, which became the first financial bank to operate in Kuwait (Alshamali, 1989). In 1952, The National Bank of Kuwait (NBK) was the first Kuwaiti public shareholding bank to be established in Kuwait. Today NBK is the most important commercial bank in Kuwait and has a presence throughout the entire

Arabian Gulf region. Kuwait also has seven other commercial banks, with almost 140 branches and assets totalling K D 19 billion in 2004 (CBK). They are joint stock businesses and are, therefore, privately owned by the general public. One of the commercial banks, the Kuwait Finance House (KFH), operates according to Islamic banking principles but they are all essentially concerned with financing short-term loans and accepting private deposits. According to Wilson (1990) KFH is considered the second oldest Islamic bank (opened in 1977) and is one of the most successful Islamic commercial banks. Until recently, foreign banks were not allowed to operate in Kuwait; however, in October 2005 HSBC became the first foreign bank to operate in the Kuwaiti market (Al-Watan news paper 4TH Oct. 2005). This is potentially a good move that should open the economy to international banks.

The central bank of Kuwait was established in 1968 and acts as the government's bank to monitor the banking system in Kuwait. The objectives of CBK are as follows:

- a. To issue currency on the behalf of the State.
- b. To secure the stability of the Kuwaiti currency and ensure its free convertibility into foreign currencies.
- c. To manage credit policy and thereby increase National Income by assisting social and economic progress.
- d. To supervise the banking system in the state of Kuwait.
- e. To act as the government's bank.
- f. To provide financial advice to the government.

3- Kuwait investment authority (KIA):

The state of Kuwait issued a law in 1976 to create the Future Generations Fund. Since its inception the fund has received 10% from the annual budgetary revenue of the

state and the profit from these assets are ploughed back into the fund. The original idea was to have the fund as a source of income to safeguard against times when the oil markets were depressed or when the crude oil dried up. Nowadays, investment income from this fund is one of the main sources of National Income after the oil industry.

In 1982 KIA was established to operate the fund on behalf of the state of Kuwait and to develop and manage its general reserve and assets. As such, the primary objectives of KIA are to develop the general reserve and to enhance state economic and financial policies.

4- Kuwait Fund for Arab Economic Development (KFAED):

In 1961, the Kuwait Fund for Arab Economic Development was established to provide and administer financial and technical assistances to developing countries.

The operating funds were originally designated to Arab countries but in 1974 the scope of the fund's activities was extended to the rest of the developing world. The capital for Fund Aid is approximately, K D 2,000 million (1\$ = .303 KD) and its primary role is to provide "soft" finance for projects in developing countries throughout the World. The repayment periods vary considerably according to the nature of the project and the overall economic circumstances of the country concerned (Wilson 1983).

B- THE DEVELOPMENT IN FOREIGN TRADE:

The Kuwait economy depends heavily on the foreign trade with the rest of the world (see Table 2.5). Kuwait's main exports are crude oil and oil manufactured products. Oil exports have accounted for approximately 90% of total exports over the last

decade. Kuwait relies on foreign trade to satisfy its consumption needs of various goods and services that cannot be produced locally. In the same way Kuwait depends on foreign trade to export crude oil and oil products. As a result of low diversity in exports oil products have dominated exports. The total value of exports in 2004 was 8466 million KD and the value of oil exports was 7861 million KD, which represents about 92% of total exports (CBK). Over the past thirty-odd years, Kuwait imports have increased continuously. In 1979, for example, total imports were 1437 million KD, in 1984 total imports were 2094 million KD and in 2005 they had increased to 4752 million KD. The amounts imported have increased over time due to increases in the population. Limited agricultural and manufacturing activities have also necessitated heavy reliance on imports.

Table (2.5): FOREIGN TRADE IN MILLIONS KD

Year	Total value of exports	Of which oil exports	Total value of imports
1970	590	564	223
1979	5043	4735	1437
1984	3632	4735	2094
1993	3091	2929	2123
1999	3702	3356	2318
2001	4970	4590	2413
2003	6242	5663*	3216
2004	8466	7861*	3538
2005	13143	12434	4752

Source Central Bank of Kuwait

* The average oil price was \$47.2 in 2005 compare with \$32 in 2004

C- THE DEVELOPMENTS IN OTHER SECTORS:

These other sectors include development in the health, education, agricultural, fishing and non-oil industry. These sectors have witnessed a radical change in the last four or five decades and the following sections provide a brief explanation and description of these changes.

Health: the government of Kuwait is focussing on the provision of medical services. Consequently, Kuwait has a highly developed public health service, which is provided to both citizens and residents free of charge. The government has allocated large amounts of finance to health care but there is a shortage of trained personnel, especially doctors and nurses.

Education: Since education is compulsory and free for all residents, literacy rates are very high. Consequently, the government regards education as a high priority area and is investing large amounts of money into the sector.

Agriculture: due to soil infertility, water scarcity, an inappropriate climate and a lack of well trained labour, the agriculture sector plays a minor role in Kuwait's economy. According to the Ministry of Planning only 0.3% of the total land area was used for agriculture in the late 1990's, however, the government has an ambitious policy to expand the agricultural sector by providing technical and financial support.

Fishing: Although the Arabian Gulf is considered one of the richest areas in fish and marine resources, fishing accounts for a very small percentage of GDP. According to the Ministry of Planning, fishing accounts for less than 1% of Kuwaiti GDP. Nevertheless, fishing represents an essential part of the local food resources of Kuwaitis.

Industry (non-oil industry): the government was eager to diversify national income in order to minimize dependence on oil exports. The government accordingly

established the Industrial Bank in Kuwait in 1974 and this was considered an important step towards encouraging the growth of industrial sector in Kuwait. The main purpose of the Industrial Bank is to finance the industrial projects, however; the non-oil industry is concentrated on a small number of activities, such as, food producing, building materials, furniture and machinery. Most of these products are consumed locally and provide very little opportunity for exporting.

2.8 CONCLUSION:

The objective of this chapter was to provide a descriptive overview of Kuwait's economic development and describe some characteristics of the Kuwait economy. The social, political and historical backgrounds were discussed in the first part of the chapter and this was followed by a discussion of the economic developments.

Before discovering oil the Kuwaiti economy depended on some basic crafts such as pearling, sea faring and boatbuilding. Financial transactions at that time were small and very limited; however, the discovery of oil has played an important part in developing the Kuwait economy.

After the discovery of oil in Kuwait a new stage of economic development was created, which necessitated the introduction of comprehensive developments plans. Infrastructure projects were also developed and more job opportunities provided, especially after the sharp increase in oil prices in the 1970s. Eight major oil companies and eight major banks have been established since the 1950s, and a stock market of international re-known has been created. The next chapter will discuss the development stages in the Kuwait Stock Exchange and show how these stages affect the Kuwait Economy.

CHAPTER 3

THE DEVELOPMENTS IN THE KUWAIT STOCK EXCHANGE

3.1 INTRODUCTION

The Kuwait stock exchange has passed through several stages of development and each of these stages represent a significant step in the development of the Kuwait economy. After the discovery of oil, the Kuwait government recognised that there was an immediate need for joint stock or shareholding companies to build the infrastructure of the country. As a consequence, several companies were actively encouraged to issue shares on the Kuwait Stock Exchange (KSE). This process started in 1952, when the first public company, The National Bank of Kuwait, started trading. The establishment of a capital market facilitated economic growth and enhanced the general standard of living in the country.

Against this background, the main objectives of this chapter are to describe the various stages of development in the KSE and to explain just how important it has been to the Kuwait economy. This chapter, accordingly, provides an overview of the structure of the KSE identifies the main developments in trading activities and discusses the major characteristics of the market. The chapter is organised as follows: section 3.2 provides an overview of the importance of the stock market to the Kuwait economy, section 3.3 describes the main development stages of the market and section 3.4 discusses the Almanakh crisis. Section 3.5 discusses the emergence of the KSE and describes the major developments that have taken place since its inception. Finally, section 3.6 presents a summary and conclusion of the main point from the chapter.

3.2 THE IMPORTANCE OF THE STOCK MARKET TO THE ECONOMY OF KUWAIT

The primary function of the capital market is to facilitate the continuous distribution of financial assets amongst investors, allowing some to divest themselves of assets while others can use their surplus funds to acquire assets (Ba-Owaidan 1994).

The existence of the stock market has played an important role in developing the Kuwait economy. However, there have been instances, notably the Almanakh crisis in 1982, when the market collapsed and caused severe problem for the economy. Due to the Kuwait Stock Exchange (KSE) immaturity (and the financial services markets in general) there was also an absence of appropriate laws or directives, to effectively regulate the market. This consideration too, has detracted from the KSE's ability to make a full impact on the development of the economy.

After the discovery of oil the Kuwait government recognised that there was an immediate need for infrastructure projects. Accordingly, it encouraged the establishment of private companies and the issuance of capital to allow the stock market to participate in developing the country. The National Bank of Kuwait (NBK) was the first public company to be established followed by the National Cinema and Kuwait Oil Tankers. Subsequently, a variety of other private companies, in different industrial sectors, were quickly floated on the exchange. The primary purpose behind the creation of the KSE was to establish a reliable method of financing large corporate infrastructure projects. The financing of such projects was beyond the resources of individuals or small groups of investors and the government was also restricted in terms of the amount and number of projects it could finance. In this respect the

floatation of companies on the KSE has increased the number of alternative financing options available to these companies and taken some of the financial pressure off the government to develop Kuwait's infrastructure. Just as important it has also created a vibrant private sector to counteract the dominance of the public sector and develop the economy.

In addition to the development of Kuwait's infrastructure, the stock market has created wealth by fulfilling the needs of local and foreign investors who wished to invest their money in the country. This has been achieved by the markets liquidity, which facilitates the easy conversion of stocks and shares into cash. The stock market has also encouraged individuals to invest their saving in profitable projects. In addition to private investors, the KSE has contributed to the growth of the Kuwait economy by facilitating opportunities for institutional investors to transfer their surplus funds into productive investment enterprises. As such, the stock market has attracted funds from a wide variety of investors, which might otherwise have remained unavailable or been used to fund the consumption of goods and services.

Finally, under normal circumstances investors try to purchase the shares of successful companies. In this respect, the stock market has imposed an element of self discipline on Kuwaiti companies because if they are to successfully raise finance on the exchange, they must be professionally managed and perform according to expectations. This greater accountability of the private sector, therefore, represents another consideration in explaining how the KSE has made a contribution to the economic development of Kuwait.

3.3 DEVELOPMENTS IN THE KUWAIT STOCK EXCHANGE

As Table 3.1 shows the Kuwait Stock Exchange has passed through several developmental stages, which represent important steps in the Kuwaiti economic journey. As already mentioned, the KSE was created in 1952 with the emergence of the first public shareholding company and its development has continued, via some radical reorganisation, notably in 1983, through to the present day.

This section will trace the historical development of Kuwait's initial trading in public shares through to the emergence of the official Kuwait Stock Exchange in 1983.

Table 3.1: SUMMARISED THE DEVELOPMENTS STAGES IN THE KSE

Stage	Characteristics
Initial stage 1950s	Transfer to modern economy, Establishment of shareholding companies, First step to security trading ,Limited share trading
Second stage 1960s	Increase in financial resources ,More demand on public companies, Unauthorised brokers, Investors Lack of experience ,Speculations and price fluctuations.
Third stage 1970s	Increase in the oil prices, More financial resources, More new companies, emergence of small investors , lack of experience, Post dated cheques payment method, Market collapsed in late 1976
Forth stage 1977-1982	Establishment of temporary KSE, high speculation and price explosion , Almanakh crises, severe economic problem
1983- 2005	Establishment of the new KSE, new developed computerised system, more strict laws & regulations, more developments

Source: Author

3.3.1 THE INITIAL STAGE

The initial stage of stock trading is a significant stage in Kuwait's economic development because it represents a milestone in the establishment of Kuwaiti share holding companies. This stage is also important because it helped to establish and organise the modern Kuwait economy. During this period a major transformation took place from a "traditional" underdeveloped economy to a "modern" fast developing country. In particular, the attraction of foreign capital and the establishment of a financial services sector were crucial to the development of the economy. The British Bank of the Middle East was the first bank to be established in Kuwait. It was formally opened in 1941 and was owned entirely by foreign investors. As such, it was the first modern financial institution in Kuwait and continued to operate in this way for thirty years. During this time it had a monopoly on all banking transactions in Kuwait.

Kuwaiti nationals have been involved in share trading since the establishment in 1952 of the first Kuwaiti share holding company, the National Bank of Kuwait (NBK). The bank's capital at that time was 13 million Indian rupees (66 million US dollars), which was fully paid in one payment (NBK reports 2002). This initial period also witnessed the establishment of the first public shareholding companies in the country and, as such, it represented the first step towards trading securities in the Kuwait economy.

The first dealings on the stock exchange were done through real estate brokerage offices and public cafes, where each broker had different prices and different quantities to be traded. However, rapid economic expansion and the continuous

increase in financial trading increased the demand for more financial and non financial institutions (Al-Qenae 2000). This led to the emergence of the National Bank of Kuwait in 1952 followed by the National Cinema Company in 1954, Kuwait airways in 1956 and Kuwait Oil Tankers in 1957. Although some Kuwaitis had an incentive to place their saving in good investments, there was initially no market for securities and the investment in the shares of these companies was, therefore, limited to wealthy families. Accordingly, trading was made either directly between sellers and buyers or through unauthorised brokers.

3.3.2 THE SECOND STAGE (1960-1970)

The 1960s witnessed the establishments of several share holding companies in various economic activities. During this stage these public shareholding companies became popular and investor demand increased quickly. Consequently, large groups of Kuwaitis, in addition to the Kuwaiti government, invested in this sector, which became an effective and important part of the Kuwait economy. This period also witnessed considerable activity by speculators and as a consequence, price fluctuations did not always reflect the performance of companies. This period was also typified by unqualified investors and unauthorised brokers, whose lack of experience and inability to instigate rigorous financial analysis, resulted in somewhat volatile and high share prices. The stocks were traded in cafes and through real estate brokers where each broker represented an individual market with different prices and different quantities for trade. The selling and buying prices varied between each of these cafes, which were determined by market forces in the individual cafes.

There were several factors, which increased the demand for public shareholding during this second stage.

- 1- During the 1960's (after the oil explosion) both the Kuwaiti government and individual investors experienced a massive increase in financial resources
- 2- The traditional trade activities in Kuwait started to decline and traders needed to transfer their money to other more profitable activities, and investments in stocks and shares proved to be an attractive alternative. Quite simply, this was because the return on capital from public companies was very good, reflecting the high profits generated by these businesses. In addition, the process of transferring cash into shares was relatively straight forward.
- 3- During this period the Kuwaiti government started to provide employment for all of its citizens. This factor, combined with relatively high salaries, resulted in an increase in domestic liquidity, which allowed people to accumulate more savings and investments.
- 4- In the 1960s the government concentrated on developing the infrastructure, and providing public services, and this provided a golden opportunity for establishing new companies. Moreover, there was little or no competition and there was plenty of capital looking for good investment opportunities.
- 5- The government played an important part in developing the shareholding sector. It helped the private sector by acquiring a minimum investment of shares in designated companies and was very proactive in helping to establish new businesses. Alshamali (1989) mentioned that in the 1960s the government was involved in seven very large companies in which it invested about 43% of the total capital.

During this second stage, the Kuwaiti government faced some difficulties in controlling the issuance and trading activities of shareholding companies. In particular, the market lacked a strong organisational structure and there were no regulations to protect it at this stage of its development. Moreover, Kuwaiti investors were not familiar with trading in company shares.

According to Al-Qenae, between 1960 and 1962, nine shareholding companies were created and in the following six years a further ten holding companies were established. By 1968 the number of shareholding companies in Kuwait had reached 25, with a nominal capital of KD 100 million (Al-Qenae 2000). To support and encourage the creation of holding companies, the Kuwaiti government issued the first commercial law No 15 in 1960. Specifically this law regulated the organisation and formation of new companies, and it was quickly followed by commercial law No 27 in 1962, which addressed the question of Kuwaiti companies established abroad.

Although these laws were passed with the full backing of the government they were insufficient to give the market a strong and clearly defined organisational structure. As a consequence, by the end of the 1960s the market was characterised by declining security prices and a general lack of trading interest. Kuwaiti investors felt that the stock market required new regulations to control its future growth and development. Alshamali reported that no new companies were established between 1968 and 1970 and investor confidence in the market was low, mainly due to the absence of appropriate regulations to organise trading operations. Alshamali also highlighted the fact that the market was stagnating because of a dearth of relevant investor information on quoted companies (Alshamali 1989).

In 1970 commercial law No 32 was issued and addressed the regulation of stock trading in share holding companies. This law is considered to be the first significant step toward the organisation of trading in local shares.

Table 3.2: A SYNOPSIS OF SHAREHOLDING COMPANIES THAT WERE ESTABLISHED IN THE 1960S

Name of the company	Establishment date	Name of the company	Establishment date
Gulf bank	1960	Kuwait food co.	1963
Kuwait commercial bank	1960	Gulf insurance co.	1962
Al-Ahli bank	1967	Ahliah insurance co.	1962
Kuwait investment co.	1961	National industries	1961
KFCTIC	1965	Kuwait metal pipes	1966
Kuwait insurance co.	1960	Kuwait cement co.	1968
Kuwait hotel co.	1962		

Sources Kuwait stock exchange bulletins

3.3.3 THE THIRD STAGE (1970-1980)

The 1970s witnessed a number of important developments in the Kuwait stock market. For example a number of laws were passed, which helped to build a basic organisational structure for the trading operation of public shareholding companies. These laws provided the way for the emergence of the modern stock exchange in Kuwait.

Law No 32 (1970) created a consultation committee to organise and supervise trading in the stock market (KSE Bulletins). With the passing of this law the government tried

to develop the role of trading in the market and protect investors in the event of unusual fluctuation in stock prices.

In 1972 the government introduced a daily check on the trading activities of the KSE. Under this provision employees of the Exchange had to provide a daily report on the number of shares that had been traded on the Exchange, the number of transactions that had taken place and itemise which shares had been traded (KSE Bulletins). After the introduction of this new legislation and the tightening up of the supervision of the market, there was an increase in the number of shares traded and eight new companies were founded during the 1972-1974 period.

Alajmi (1994) reported in his study that there was an increase in the number of shares traded from 3.41 million in 1972 to 10.8 million during 1973-1974 and the average price of stocks increased from about 15 KD in September 1970 to 45 KD by the end of 1973. However, despite this threefold increase in the price of shares, this was not matched by the performance of the companies. Moreover, the increase in share prices gave rise to heavy speculation on the market (Alajmi 1994).

Large numbers of small investors entered the market while, at the same time, banks increased speculative activity by expanding credit facilities and providing investors with cash loans. In addition, a new method of payment for stock trading was introduced, which allowed the use of post-dated cheques for trading settlements. Shares were traded at market value plus a premium, which took into account the ensuing delay caused by using post dated cheques. The price and the premium increased according to the length of the settlement period. Consequently, the longer the settlement period is, the larger the premium becomes. This type of post dated

trading was considered to be one of the major reasons for the Almanakh crisis in 1982.

Al-Qenae (2000) also argued that the market was manipulated by key investors who overpriced the market to make short term gains. This attracted inexperienced traders who were looking for short-term profits.

In 1974 the Government passed a law that prohibited forward transactions in the market and as a consequence, the market slowed down and trading activity declined. The seemingly exponential increase in share prices also came to an end and the market readjusted to more realistic levels. Alshamali (1989) claimed that in 1974 there was an 8% decrease in average stock prices and average trading volumes decreased by 58 % (Alshamali 1989).

From 1975 to 1976 the stock market, once again, witnessed unusual trading activities and huge increases in share prices. During this period the government introduced a new law that encouraged more small investors to enter the market. The law in question was the Ameri decree no 3/1975, which set the nominal share value at 1 KD compared with 7.5 KD in the earlier law 15/1960. As a consequence, market trading increased substantially. This growth was far greater than in 1973 and shares recorded an average 135% increase during this period. As Table 3.3 reveals a significant number of companies were also floated on the Exchange. However, perhaps not surprisingly, this was followed by a collapse at the end of 1976.

The collapse in the market was a natural reaction to the increase in market activity, however, there were some other factors which, acted as a catalyst and helped to speed

up this collapse. First, share prices reached such high levels that it became difficult for dealers to convince investors to continue purchasing more shares. Second, speculators and other key investors accumulated significant amounts of future deals with instant due dates. Moreover, many of these transactions were due to be settled by cheques, which were not guaranteed by the banks. Third, some losses were encountered in real estate prior to the collapse and this made some investors believe that some sort of crash or collapse was imminent.

The stock market crash occurred in late 1976 and by the beginning of 1977 the volume of shares traded on the exchange had dropped by 66% compared to the same period in the previous year.

In November 1976, the trade and industry minister passed Ministerial Resolution No. 61 to establish a committee with responsibility for the security trading market (Al-Qenae 2000). The security committee tried to control and redress the collapse of the market by issuing Order No 31/1977. This order tried to boost market activity by, once again, permitting trading with settlement at a later time but it also introduced some restrictions, such as, the temporary suspension of establishing new shareholding companies. In addition, the government helped by purchasing some of the private sector shares at minimum prices and reducing interest rates on bank loans.

Table 3.3: SYNOPSIS OF SHAREHOLDING COMPANIES ESTABLISHED**IN THE 1970s**

Name of the company	Establishment date	Name of the company	Establishment date
Kuwait & ME. Bank	1971	Arabian General Inv.	1979
Real Estate Bank	1973	Warba Insurance Co.	1976
Burgan Bank	1975	Refrigerator Industry	1973
Kuwait Finance House	1977	Gulf Cables Electrical	1975
First Gulf Bank	1979	Shipbuilding & Repair	1974
Kuwait Int. Investment	1973	Marine Services	1973
Commercial Facilities	1976	Kuwait Real Estate	1972
Int. Financial Advisor	1974	United Real Estate	1973
Pearl of Kuwait	1975	National Real Estate	1973
Investment Co.	1975	Salhyah Real Estate	1974
Kuwait Inv. Projects	1975	Livestock Transport	1974
Kuwait Poultry	1972	Kuwait Fisheries	1972
Over Land Transport	1977	Public Warehousing	1979
Gulf Medical Project	1979		

Source KSE bulletins

In April 1977 a temporary stock exchange was opened, which was later referred to as The Kuwait Stock Exchange. This temporary exchange carried on working until August 1983, when an Ameri Decree was issued concerning the establishment of a permanent stock exchange, which would work as an independent financial institution.

3.3.4 THE FOURTH STAGE (1977 -1982)

In this section we will note the major developments which occurred after the first collapse of the stock market in 1977, up to the emergence of the official Kuwait Stock

Exchange in 1983. During 1977-1982 Kuwaiti investors engaged in uncontrolled speculative activity, which resulted in a share price explosion. This speculative activity came to an end in August 1982 and the net result was a collapse of the stock market and the Kuwait economy. This collapsed which was known Almanakh crisis is discussed in the next section in detail.

3.4 THE ALMANAKH CRISIS

However, without doubt the most important stage was the Almanakh crisis in 1982. Significantly, most of the changes during this period were directly attributable to the Almanakh crisis. Accordingly, the next section of the thesis is devoted to this crisis.

3.4.1 THE EMERGENCE OF THE ALMANAKH MARKET DUE TO THE ESTABLISHMENT OF THE GULF PUBLIC SHAREHOLDING COMPANIES

In the late 1970s the Kuwait market witnessed the establishment of a new type of Shareholding Company which had a different share structure and method of trading. These companies were established in neighbouring Gulf States, such as, the United Arab Emirates and Bahrain, and were joint venture companies owned by different nationals of the Gulf Arab States (mostly Kuwaitis).

These joint venture companies opened their main offices in Kuwait and senior management was consequently based in Kuwait. Branch offices were typically established in neighbouring Gulf countries to arrange and transfer information between the various company divisions. Significantly, however, this corporate structure led Kuwaiti investors to regard this type of company as a sort of private company.

There were many considerations behind the establishment of these gulf public shareholding companies:

- 1- After the 1977 collapse of the market, the Kuwaiti authorities banned the establishment of new companies temporarily until 1979. However, in 1977 some wealthy traders did set up new companies in the neighbouring Gulf States. This consideration was undoubtedly the major incentive behind the establishment of the new type of Gulf public company.
- 2- Another reason for establishing Gulf companies was that after the 1977 collapse, stock trading in the Kuwait market was very slow compared to 1976. At the same time, the sudden rise in the price of oil in the mid 1970s saw rapid increases in money resources and liquidity in Kuwait.
- 3- Additionally, the laws for establishing new companies in the neighbouring states were very flexible and this made it easy for Kuwaiti investors to establish new shareholding companies in these countries.

Initially, the authorities did not permit Gulf companies to be traded on the Kuwait Stock Exchange because they were, strictly speaking, not Kuwaiti companies. However, some unofficial trading did take place in a building called the Almanakh market. The official prohibition, which prevented gulf public companies from being traded in the stock market, was the main reason for the emergence of the unofficial Almanakh Stock Market. The Almanakh was a building with broker offices located in the financial district next to the Kuwait Stock Exchange and next to the main banks and financial institutions. This market became the main source of buying and selling gulf public share companies.

This type of company attracted many Kuwaiti investors, especially, those with limited resources. This was because there were no restrictions on the minimum number of shares that could be traded. At the same time, the Kuwait Stock Exchange defined the minimum size of a trade as 1000 shares.

Another reason that helped to encourage share dealing in this type of company related to the fact that sellers could sell their shares at any time without any kind of restriction and investors could trade without any limitations. Shares were typically divided into small units at relatively low prices to attract more people compared with Kuwaitis share, which had minimum nominal prices. Moreover, no attention was paid to a gulf company's country of origin.

According to Alshamali (1989) the first gulf public company to be established offered its shares for public subscription in November 1976 in Kuwait and the public responded in large numbers. Alshamali added in his study that despite this enthusiastic welcome, a number of irregularities occurred. For example, companies illegally traded shares before they had been sorted and allotted. The absence of laws and regulations also allowed dealers to have unrestricted freedom in deciding the price of shares. Consequently, shares prices increased to more than ten times face value. Large profits were earned by major investors and this success encouraged several Kuwaiti investors to establish similar companies in neighbouring countries (Alshamali 1989). Almutairi (2001) observed that thirty eight gulf companies were established with a subscription capital of 3.5 billion KD. In a relatively short period of time, therefore, the equity of the gulf companies quickly exceeded that of the listed Kuwaiti companies.

The primary reason behind this growth was that there were no effective laws or legislation from either the Kuwaiti government or the other Gulf countries. It followed, therefore, that the key investors found a ready opportunity for speculation and manipulation of prices.

In the beginning, the Kuwaiti authorities paid no attention to the emergence of the gulf companies in the Kuwaiti market and took the view that because the Almanakh market had no legal basis they could not impose any regulations. The government at that time believed that each person was personally responsible for their investment decisions. The government also did not expect that this type of trade would increase sharply and did not anticipate the problems that would occur in the future. Such was the growth in this unregulated market that for a time it was ranked as a second unofficial market for share dealing, alongside the official Kuwait Stock Exchange.

3.4.2 THE ALMANAKH CRASH

During the 1977 –1982 period, Kuwaiti investors engaged in unprecedented speculative activity on the Almanakh stock market. There were no regulations or supervision by the authorities so the market effectively made up its own rules. As a consequence, there were two stock markets effectively working in tandem, the first one being the official Kuwaiti stock Exchange and the second one the Almanakh unofficial market.

In 1981 and the first half of 1982, both the Almanakh market and the Kuwait Stock Exchange witnessed unexpectedly high volumes of trading, which exceeded all expectations. Most Kuwaitis seemingly rushed to trade in the stock market. The price

and volume of traded stocks multiplied several times over a short period of time and stock trading became wide spread among Kuwaitis. This unusual situation attracted people from different areas of society including businessmen, senior citizens, employees, the military and students. Everybody who had some money became a trader in the stock market looking for fast and easy profits and no one thought of the possibility of a market crash. Some individuals resigned from their work or sold their traditional businesses and concentrated exclusively on the stock market. Some individuals sold their homes and others used their savings or took out bank loans to invest in the markets.

Unofficial brokers and key investors took the opportunity at the time to gamble on stock prices (especially in the Almanakh market) and the period was generally characterised by unprecedented investor optimism. However, many of these investors had limited experience and little information regarding what to buy and when to sell. Lack of experience also made traders overconfident and there was a pervading view that the market would provide quick and high returns. Such was this optimism that investors did not hesitate to buy overtly overpriced shares. Significantly, however, there were no financial statements or methods of analyses to inform investors about whether shares were overpriced. At the same time there was no legal framework or litigation that would control the unusual status of the stock market, especially, the Almanakh market. In essence, the government had limited legal power to control what happened in the markets.

The sharp increase in trading volumes in the Almanakh market severely affected the official Kuwait Stock Exchange by sharply increasing prices to a level, which was much higher than the normal. The two stock markets were inextricably linked by

investors and dealers who made trading movements between the two stock markets, (KSE & Almanakh), thereby, keeping them connected with the latest prices and news. During the first six months of 1982, trading activities reached their highest level. Public demand for shares was very high but in the later part of 1982, the market became uncertain. A number of key investors failed to pay their cheques due to heavy forward sales and transactions. In response, traders began to present their cheques prior to the date they were payable. This was because the law in Kuwait treated cheques as payable upon presentation. In other words, under Kuwaiti commercial law, cheques were regarded as cash instruments payable upon presentation; therefore, the future date was not significant. The banks refusal to pay most of these cheques, due to insufficient funds in the accounts of the payers, damaged business confidence and precipitated the Almanakh crash. Share prices fell and the majority of key traders, who dealt in post dated cheques, failed to meet their obligations. A chain of payments problems resulted because most of these cheques were transferred between several investors. The end of August 1982 saw the end of the Almanakh market's spectacular emergence and growth. A number of key investors absconded abroad to other countries; others transferred their money to relatives to escape meeting their financial obligations. The collapse of Almanakh caused terrible financial problems for the Kuwait economy and eventually, the authorities closed the Almanakh market in November 1983.

Almutairi (2001) mentioned in his study that when the market was closed, outstanding post dated cheques totalled US \$ 94 billion and 83% (US \$ 78 billion) of this related to transactions in the Almanakh market. This amount has been estimated to be more than the total cost of the Gulf War in 1991 and was more that ten times Kuwait's annual budget.

3.4.3 REASONS BEHIND ALMANAKH CRISIS

There are several distinct causes of the Almanakh crisis:

- 1- The first cause was the absence of effective rules and monitoring by the authorities. In essence, the authorities failed to introduce effective legislation, which could be used to support litigation to control the stock markets. To some extent, this was not surprising because at that time, Kuwait had in general, only limited legislation to deal with stock market activities. Moreover, the existing legislation applied only to the official stock market. In the beginning, therefore, the Kuwaiti authorities tended to ignore the unofficial market. The authorities also did not anticipate that trading on the Almanakh market would increase so rapidly. This failure on the part of the authorities meant that only when the crisis was imminent did they wake up to the fact that there were no effective laws to control or circumvent the situation. In contrast, developed countries have an independent institution or stock exchange commission, which has the authority to issue laws and regulations that control the security of the trading system. As such, they have the authority to stop and punish trading activities, which fall outside these rules. In Kuwait, however, such a control system was only introduced in 1983, i.e. after the Almanakh crash.

- 2- Another major cause for the market crash was the use of post-dated cheques for settlement. These cheques facilitated sharp increases in share prices. When liquidity shortages led investors to present the post-dated cheques before their due date, a chain reaction started, which undermined confidence. As a consequence, prices fell very quickly and the majority of investors suffered large losses. According to Alshamali (1989), about four months before the

crisis, the aggregate value of post dated cheques issued amounted to 3500 million KD, which combined with the premium of 1245 million KD gave an outstanding total of 4745 million KD. Buyers had been purchasing shares at between 300-500% above the current price and paying by post dated cheques typically, three, six months or one year later. Buyers obtained the shares immediately and sellers collected the cheques, and either waited until they matured or discounted them in the market. The seemingly never ending opportunity to make large profits encouraged speculators to trade in shares even when they had no cash to meet their obligations under the post dated cheques system (Alshamali 1989).

- 3- The third cause related to the Gulf public companies. The absence of any meaningful controls over these companies enabled a small number of key investors and “unofficial” brokers to gamble and manipulate the prices. In this respect, they took advantage of lax or non-existence laws and the limited experience of many investors. In particular, there was no control over the financial information provided to investors. Consequently, some companies were economic with the truth when presenting accounting data. Typically, they frequently changed their accounting methods and presented limited information.
- 4- Inaccurate and false accounting information was also prevalent at this time and this constituted another major reason behind the crash. Some companies submitted inaccurate or misleading reports to investors on their financial performance. Similarly, accountants took advantage of the vagaries of account reporting and presented inaccurate financial statements and balance sheets.

These considerations were compounded by the existence of poorly qualified auditors, which at that time had no power to intervene. Today, however, the situation is completely different and all listed companies are required to follow certain definitive accounting rules and to provide particular reports at specific times. Companies must also use two independent auditors and at least one of these must be from the big five international auditing firms.

- 5- A combination of investor inexperience and limited financial information also played an important role in causing the crash. It was relatively easy to manipulate and mislead investors with limited experience, especially, as there was no effective control from the authorities. At the time investors were trying to maximise their short- term profits. The high profits of the preceding period reinforced this behaviour and, significantly, it also encouraged investors with limited experience to enter the market.

3.5 THE EMERGENCE OF THE KUWAIT STOCK EXCHANGE

After the Almanakh crisis the government became more involved in regulating trading on the stock market. The Emir of Kuwait passed a decree in August 1983, which effectively established the Kuwait Stock Exchange as an independent financial institution, managed by an executive administration and committee. In September 1984 the KSE opened its new building to investors under a new trading system.

Table 3.4: DIFFERENT INVESTMENT SECTORS AND NUMBER OF COMPANIES ON THE KSE

Name of the sector	Number of companies included
Banking sector	8
Investment companies	34
Insurance companies	7
Real Estate companies	26
Industrial companies	23
Services companies	32
Food companies	5
Non Kuwaiti companies	16
Total numbers of companies in the KSE	151

Source: Kuwait stock exchange

The newly established KSE had an independent existence with the right to make laws and pursue litigation to maximise its efficiency. The stock exchange administration also applied a newly developed computerised system in 1984, which applies the same rules as those used by many of the World's leading stock exchanges. Today KSE has more than 150 companies listed in eight sectors that offer a wide range of diverse quality stocks making the market attractive for all kinds of financial users (see Table 3.4).

3.5.1 THE MAIN OBJECTIVES OF THE KUWAIT STOCK EXCHANGE

The main objectives of the Kuwait Stock Exchange are as follows:

- 1- Introduce and implement governing rules and regulations relating to the scope of the stock exchanges activities. The KSE adopted international accounting

standards as a basis for its laws and regulations and now actively co-operates with the rest of the world in developing its operations.

- 2- Take the necessary steps to control and develop straight forward and secure dealings in stocks and securities and avoid illegal or doubtful activities.
- 3- Encourage and promote investment awareness among investors by providing investors with approved financial and non-financial information regarding listed companies. The KSE requires all listed companies to provide annual and quarterly financial reports, which must be approved by at least two external, independent auditors. In addition the KSE requests companies to provide investors with any important financial information, such as, annual and quarterly profits or notify them of any increases in issued capital, etc.
- 4- Promote research aimed at improving security trading and, in general, to obtain appropriate advice regarding the development of the stock exchange. The KSE is, therefore, committed to developing its trading systems and in this respect has adopted modern technology to improve the efficiency of the markets at both regional and international levels.
- 5- Co-operate with the Kuwaiti government in order to coordinate the efficient movement of capital within the country and enhance the efficiency of the financial system and the economy. Accordingly, the KSE submits continuous reports to the Central Bank of Kuwait and the Ministry of Commerce in addition to several other authorities, regarding the financial situation in the market.

3.5.2 DEVELOPMENTS IN THE TRADING SYSTEM IN THE KUWAIT STOCK EXCHANGE

Trading in securities was traditionally instigated by the “negotiation system”, which involved buyers and the sellers dealing directly with each other. Alternatively, it could take place via unofficial brokers or by whoever offered the highest price for the transactions. Today, however, the new trading system has become more efficient and more effective. The trading system of the KSE is an automated, computerised trading system, which makes trading in securities faster, fairer, more secure and more efficient than ever before and provides an accurate audit trail.

The modern system, therefore, guarantees fair and complete security and confidentiality for traders. Necessary trading information regarding all elements of security trading is available through the computer system. Investors can easily access information on traded companies at several public computers in the KSE building. There are also other directly linked centres outside the market where an investor can access this information through the KSE website. Investors can access various reference tables necessary for stock trading, such as, the current day’s market quotation for each traded stock, various indices relating to traded volumes and performance indicators for different companies.

In contrast to earlier years, there is no trading in securities outside the KSE. All exchange transactions must now be done through official brokers who have their certified offices inside the trading hall in the market. Brokers enter orders in the central exchange computer and the system then immediately attempts to match supply with demand. In order to trade in public shares all investors have to have an account

with the KSE and the exchange also keeps information on traders, including their share trading activity.

In addition to the advanced computerised system, an Ameri Decree was issued in December 1986 concerning the organisation of trading activities and the clearing system in the exchange. This decree handed over the duties of administration to the clearing chamber to clear transactions or register shares in the market, and to specify the parties and their respective rights for each deal.

According to KSE Committee Resolution no 3 (1987) “responsibility lies with the clearing chamber for all procedures relating to clearing and to inform all registered companies of the names of parties holding shares”

This system has been successful in helping investors to make their investment decisions safely and quickly. The Kuwait Clearing Company (KCC) has been assigned to take on the responsibilities for making settlements between buyers and sellers. This is done by ascertaining the financial status of both parties involved in the deal, prior to settlement. The company also delivers a report on the next business day following the deal to the broker, showing the client’s balance of cash and shares.

If any investor fails to comply with his obligations in the deal, such as, not having enough cash to settle the deal, the clearance company has the right to issue a penalty or impose sanctions on the investor. One of the causes of the Almanakh crisis was the use of post dated cheques. Post dated cheques can no longer be used to pay for shares.

3.5.3 DEVELOPMENTS IN TRADING ACTIVITIES IN THE KUWAIT STOCK EXCHANGE

In general, trading activities in the Kuwait Stock Exchange (KSE) became stable after the Almanakh crash. As explained above, several important rules were adopted after the emergence of the KSE and the Kuwait Clearing Company was given responsibility to control speculative activity or any manipulation of share prices, etc in the market. In addition a “price unit system” was introduced to protect the market from sharp movements in share prices. This system allows share price to move five units as maximum during any given business day. A committee was also appointed to set up rules and regulations for controlling forward deals in the market.

Table 3.5 shows the value and the volume of trading activity in the KSE from 1985 to 1992. The trading system in the KSE, which was introduced after the Almanakh crisis made the price and volume of trade less volatile. Overall trading activity was very buoyant in 1987 and 1988, and there was an increase in both the value and volume of traded shares. The main reason behind this buoyancy was the ending of the Iranian-Iraqi war in 1988 and the ensuing increase in confidence that ensued in the Gulf region.

**Table 3.5: THE VALUE AND NUMBERS OF SHARES TRADED IN THE
KUWAIT STOCK EXCHANGE 1985-1992**

Year	Value of shares traded KD Millions	Volume of transactions Millions
1985	116.3	179
1986	384.6	478
1987	828.9	970
1988	710.7	2798
1989	502.1	1613
1990	260.3	754
1991	0	0
1992	116.3	302

Source Kuwait Stock Exchange annual reports

On 22nd August 1990 Iraqi troops invaded Kuwait and the effects on the KSE are clearly indicated by Table 3.5. The KSE stopped operating in August 1990 and, even though Kuwait was liberated on 26th February 1991 (after Operation Desert Storm), the market did not reopen until September 1992.

**Table 3.6: THE VALUE AND NUMBERS OF SHARES TRADED IN THE
KUWAIT STOCK EXCHANGE 1992-2005**

Year	Value of shares traded KD Millions	Volume of transactions Millions
1992	463	1200
1993	788	2928
1994	584	2520
1995	1908	9055
1996	5756	25711
1997	10494	33993
1998	3343	13919
1999	1842	9496
2000	1291	6759
2001	3584	16304
2002	6681	27838
2003	16253*	49565
2004	15275	33537
2005	28422	52246

Source Kuwait stock exchange annual reports

* Saddam Hussein's removal from power.

Table 3.6 shows the value and volume of shares traded on the KSE from 1992 to 2005. Trading activity from 1992 to 1994 was limited because after the liberation of Kuwait the country entered into a very difficult economic period. The Iraqi occupation inflicted severe damage on the KSE and the Kuwaiti Economy, and this was compounded by political uncertainty immediately after the war. Moreover, Iraq

did not stop threatening Kuwait even after Dessert Storm. However, by 1995 confidence had returned to the market and the value and volume of transactions started to increase (see Table 3.7). One of the biggest jump in share prices and volumes was in 1997, reflecting the regeneration of the Kuwaiti economy in the aftermath of the war. Subsequently, the market stabilised and started to reveal trade values and volumes, which were comparable to the period immediately preceding the war. In the year 2005, trading activities rose to new high record levels with 28422 million KD for the value of traded shares and 52246 million for the volume of traded shares. In fact, the volume and value of shares traded on the KSE also reflect what is going on in the global economy and are, therefore, responsive to economic and political events elsewhere.

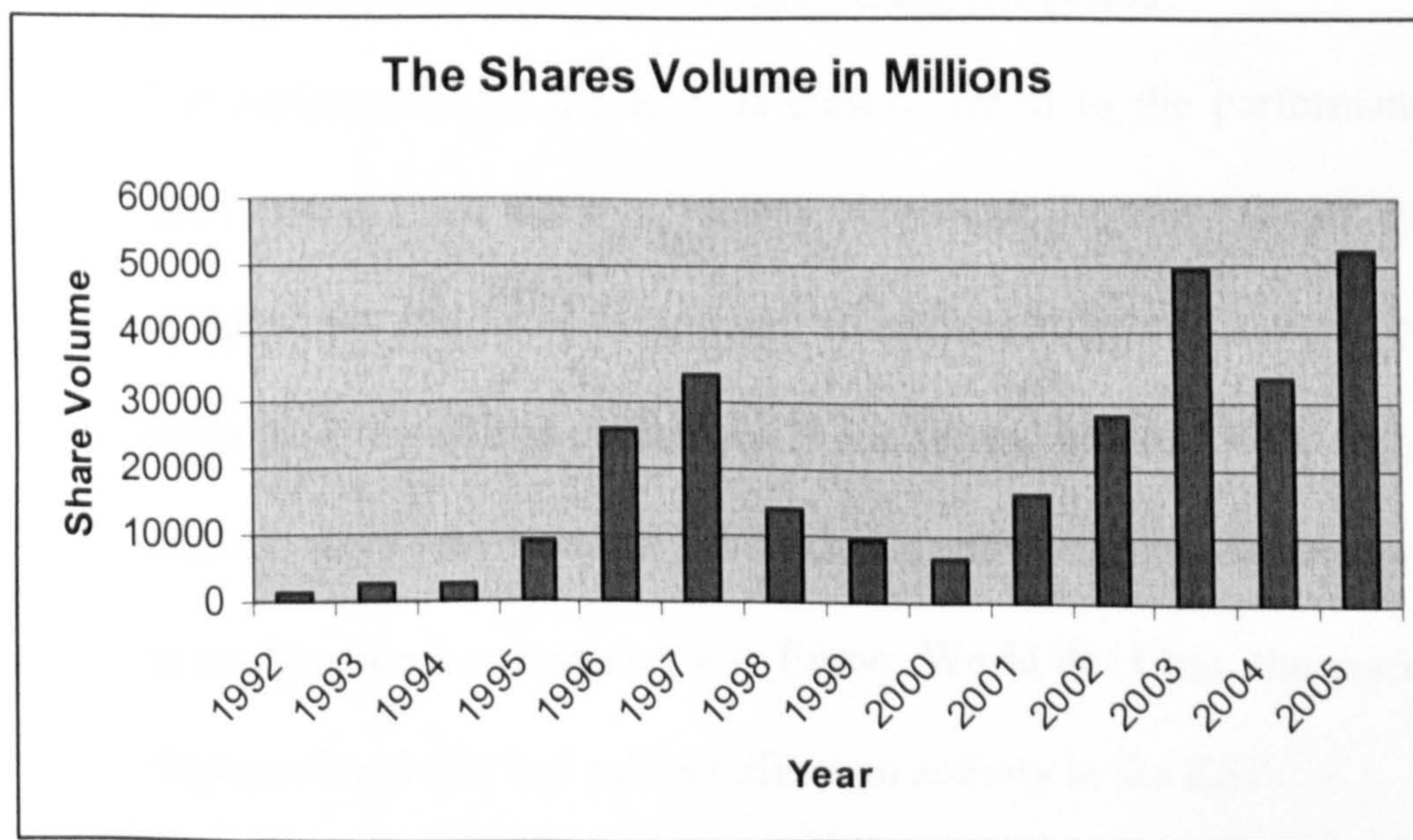


Figure 3.1 The developments of the share volumes in the KSE

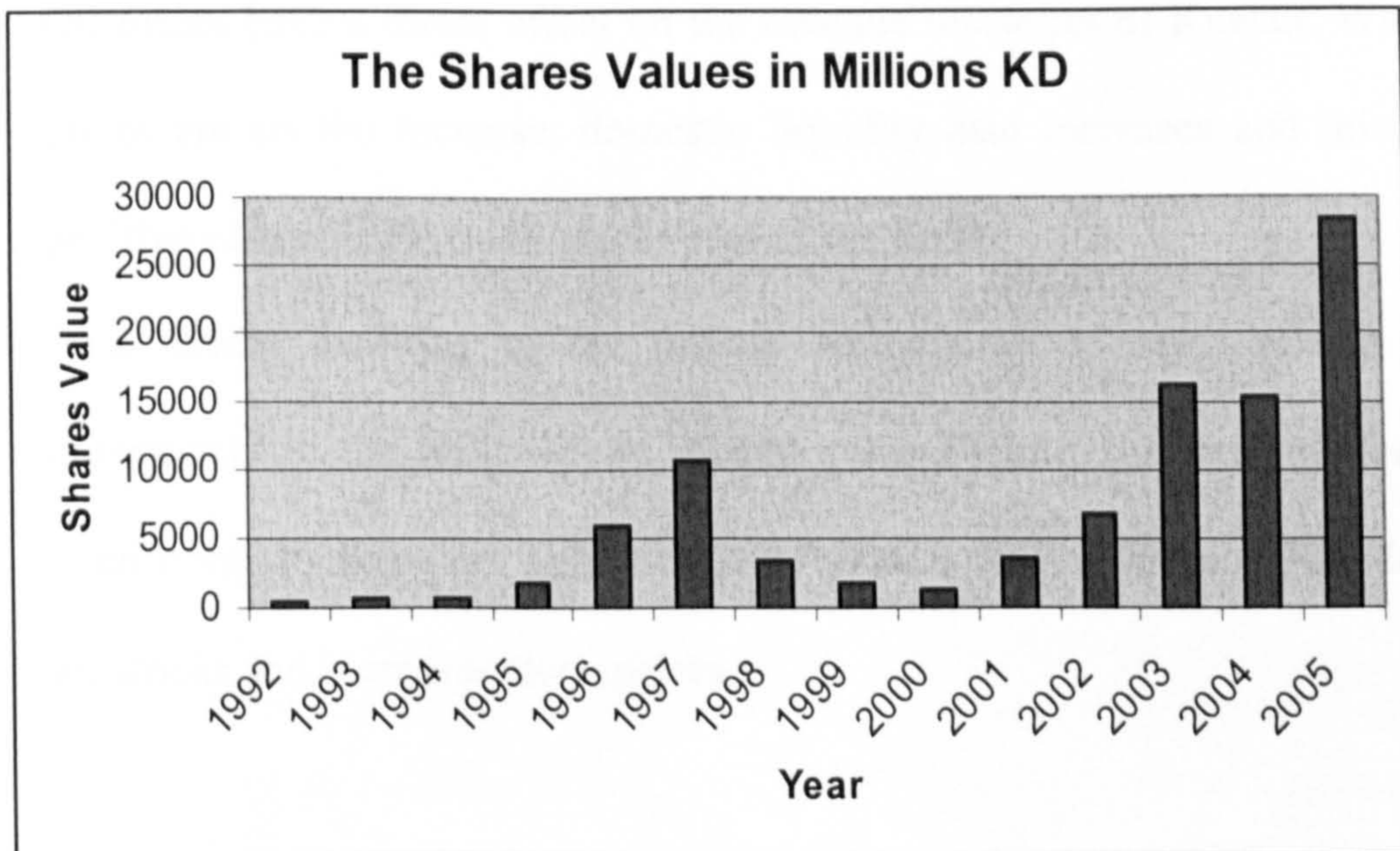


Figure 3.2 The developments of the share values in the KSE

Accordingly, there are several important factors, which help to explain investor behaviour and price movements in the KSE during this period:

- 1- The performance of the KSE is closely linked to the performance of other international stock markets, such as, New York, London, Tokyo, etc, and most of the banks and listed investment companies have international portfolios in different international exchanges. In the second half of 1990s, the global stock markets were very buoyant but by 2001, with 9/11 and the crash of a number of multinational companies, e.g. Enron, World dot Com, the markets became depressed and this had a direct affect on activity in the KSE.
- 2- The unstable political situation in the Gulf affects capital movements in the KSE. It is normal for markets to decline when there is uncertainty regarding the political or the economic situation and since the beginning of the Iranian-Iraqi war in 1980 up to the present time with the Gulf war II in 2003, there has been uncertainty in the region.

- 3- Oil prices have a direct affect on the revenue resources of Kuwait. When oil prices are on the increase, domestic liquidity also increases and this has a positive effect on the trading activities of the KSE.
- 4- Bank credit facilities to the private sector play a major role in price movements in the KSE. When interest rates decline, the demand for bank loans normally increases and this typically has a positive affect on the demand for stocks and increases stock prices.

**Table 3.7: THE DEVELOPMENT IN THE INDEX PRICE IN THE KSE
1993-2005**

Year	Average price index
1993	1000
1995	1365
1999	1442
2001	1709
2002	2375
2003	4790
2004	6409
2005	11445

Source Central Bank of Kuwait (CBK) & KSE

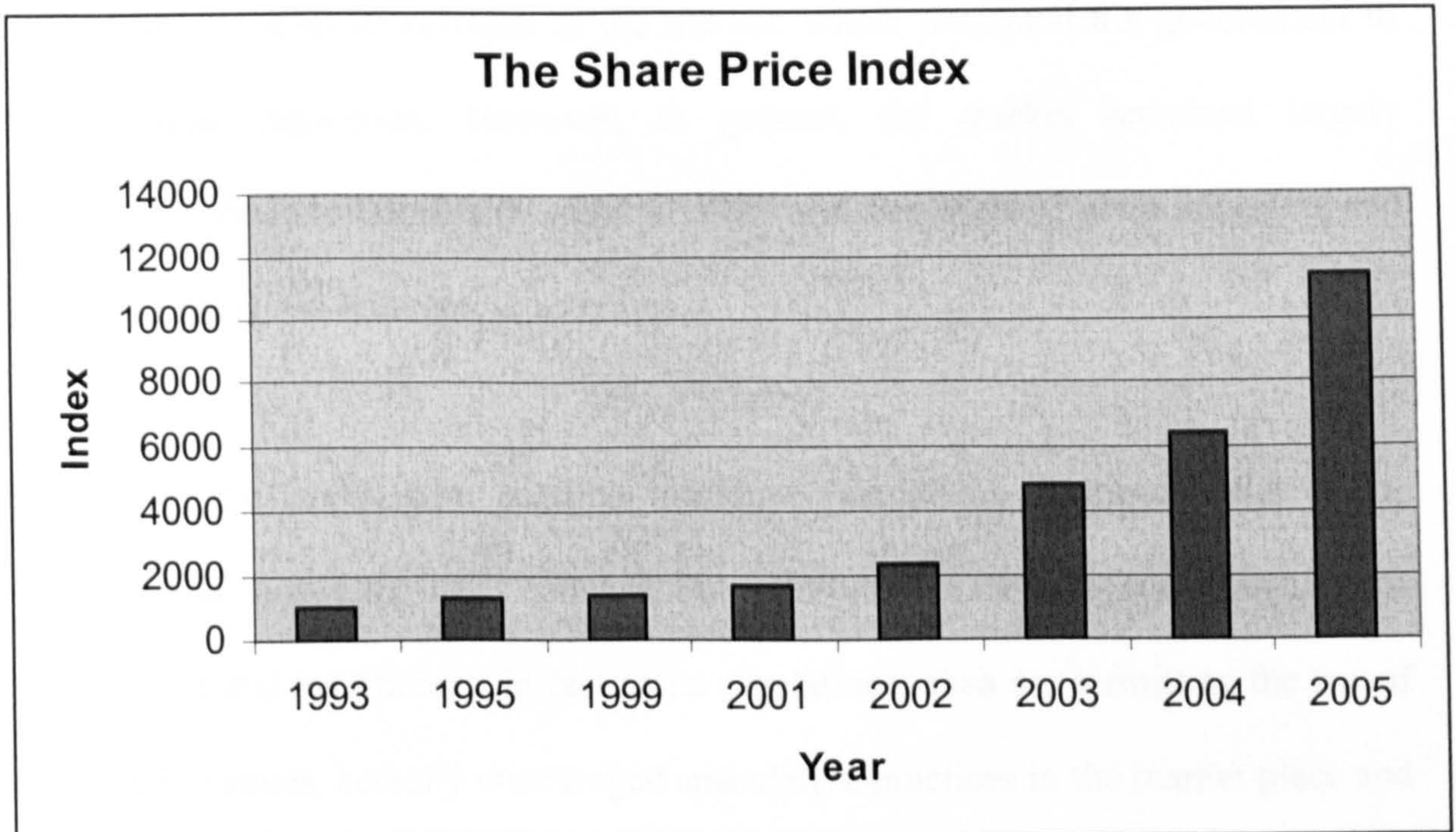


Figure 3.3 The growth in the KSE Index

From 2003 the Kuwaiti stock market became more active and attracted more capital resources. The main reason for that activity was the removal of Saddam Hussein. After the removal of Saddam Hussein the Gulf became more stable and capital flowed into Kuwait. The sharp oil price increase also encouraged the government to invest in infrastructure projects which were delayed due to budget deficits. This has led to a very sharp increase in share price index reaching its high of 11445 points in 2005. In general, the economic outlook for Kuwait remains favourable with significant prospects for continued growth in domestic economic services.

3.7 CONCLUSION

The history of the Kuwait Stock Exchange can be described in terms of several development stages. The initial period of the development was characterised by the emergence of public companies in the 1960s. In the 1970s there was a rapid increase in stock trading activities, which reflected the increase in the price of oil. However, in

1977 there was a small collapse in the market, which prompted the government to impose some regulation. However, in general, the market remained largely unregulated until the Almanakh crisis in 1982 and this allowed some investors and brokers to engage in speculative activities.

After 1977 the government tried to introduce regulations to avoid some of the problems that caused the 1977 collapse, but unfortunately these laws and regulations were limited and insufficient. In fact some regulations, such as, permitting the use of post-dated cheques, actually encouraged speculative practices in the market place and helped to bring about the Almanakh crisis. The formation of gulf public companies was another major factor behind the emergence of the unofficial Almanakh stock market. This market grew with amazing speed and soon became comparable with the Kuwait stock market in terms of its size and importance within the Kuwaiti economy. The economic problems created by the Almanakh crisis were very serious and involved personal tragedy as individuals lost their life savings. On the other hand, these problems were the catalysts that heralded the adoption of strict laws regarding company reporting and security trading system in the new Kuwait Stock Exchange.

LITERATURE REVIEW

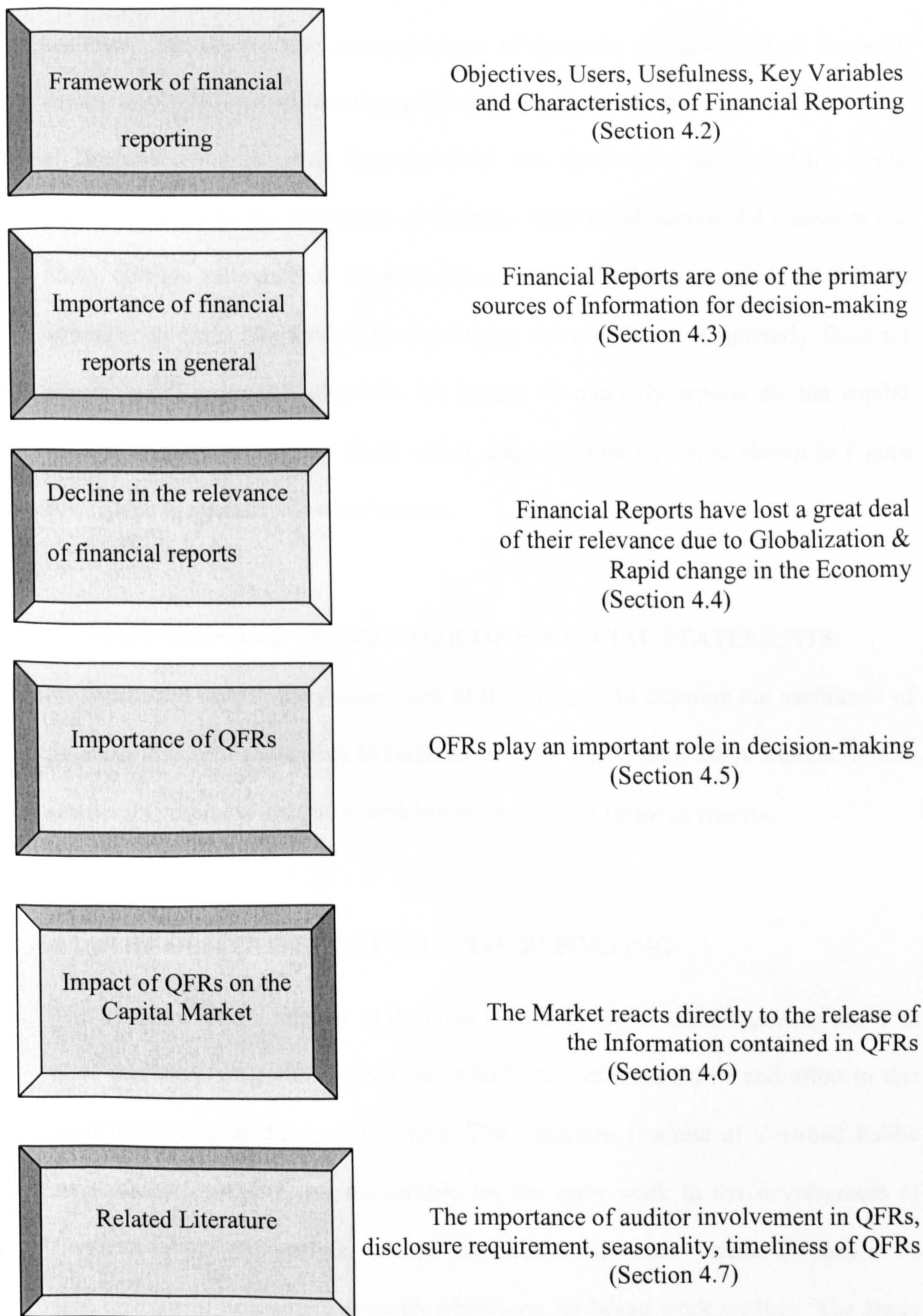
4.1 INTRODUCTION:

Researchers typically use the literature review to present and critically review the results of previous studies in related areas. Crucially, however, the main benefit of the literature review lies in the fact that it allows researchers to justify the adoption or development of methodological approaches. Moreover, it is also important in providing a framework for analysing and comparing the results of a study with previous studies and explaining what the similarities and differences are and why they have occurred (Greswell 1994). The literature review was also extremely useful in developing the research objectives, questions and hypotheses, and in designing the research questions.

The primary purpose of this chapter is, therefore, to review the related literature regarding the importance, use and usefulness of quarterly financial reports and financial statements. Most of the literature on the usefulness of interim financial statement information has focused on the United States or the United Kingdom, because these two countries are characterised by a strong regime of regulation and enforcement. However, in emerging markets, such as Kuwait and the Gulf States, the number of studies that have focused on examining the usefulness of interim and quarterly financial reports is relatively small.

The main aim of this thesis is to discuss and ascertain the usefulness of quarterly financial reports to financial users in Kuwait. Accordingly, this chapter is organised as follows (see Fig.4.1): the next section (4.2) discusses the provision and framework of financial statements.

Figure 4.1 SUMMARY OF MAIN LITERATURE REVIEW CONTENT



Source: Author

It provides a theoretical framework for examining financial statements by discussing the objectives of financial reporting, the use of financial reports and the people who use them. The section also examines some of the main characteristics of financial reports and the main variables that are included in them. In addition to the discussion of International Accounting Standard (IAS 34), Section 4.3 also identifies some previous studies on the usefulness of financial reports and Section 4.4 examines the claim that the relevance of financial statements is declining. Section 4.5 follows naturally on from this section by identifying the usefulness of quarterly financial reports and Section 4.6 discusses the impact of quarterly reports on the capital markets. Finally, section 4.7 deals with a range of other topics, as shown in Figure 4.1, related to quarterly financial reports.

4.2 PROVISION AND FRAMEWORK OF FINANCIAL STATEMENTS:

As mentioned earlier, the primary aim of this study is to examine the usefulness of quarterly financial statements to financial users in the Kuwaiti Stock Market. In this respect it is useful to start by examining the purpose of financial reports.

4.2.1 THE OBJECTIVES OF FINANCIAL REPORTING:

The literature cites a number of different objectives for financial reporting and it is clear that there are certain researchers who have spent much time and effort in this field in arriving at these explanations. The American Institute of Certified Public Accountants (AICPA) was responsible for the early work in the development of financial reporting objectives. In 1958, the AICPA appointed Maurice Moonitz as its first director of accounting research whereupon he began work on the: "The Basic Postulates of Accounting" (1961). In this study, he defined the objectives of financial

statements as “the provision of data to be used as a basis for choosing between available economic alternatives and for checking and evaluating progress and results” (Moonitz, 1961). At the time, rather than establishing a foundation for accounting objectives this study caused controversy among professional accountants. As a consequence, the AICPA made a further attempt to outline the objectives of financial statements. This resulted in the publication of AICPA’s approved statement No.4: Basic Concepts and Accounting Principles (1970), which identified the general objectives of financial reporting. These general objectives were identified as follows:

1. To provide reliable financial information about the economic resources and obligations of a business enterprise.
2. To provide reliable information about changes in net resources of an enterprise that result from its profit-directed activities.
3. To provide financial information that assists in estimating the earning potential of an enterprise.
4. To provide other necessary information about changes in economic resources and obligations.
5. To disclose, to the extent possible, other information related to the financial statement that is relevant to users’ needs.

Immediately after the publication of APB No. 4, AICPA faced continuous criticism from professionals who felt that it had no theoretical basis. As a result, AICPA announced the formation of a study group on the objectives of financial statements, which was chaired by Robert Trueblood. This represented the next significant step in

the development of objectives for financial statements. The Trueblood Report was eventually published in October 1973 and it, once again, developed some basic objectives of financial statements, which were encapsulated in the following statement:

“The basic objective of financial statements is to provide information useful for making economic decisions”, (Trueblood Report, AICPA, 1973).

In meeting this broad objective the report identified seven characteristics of financial reports, which had to be addressed in order to satisfy the needs of users. The Trueblood Report and the findings of another study group on the establishment of accounting principles formed the basis for the establishment of the Financial Accounting Standards Board (FASB) in 1973, which replaced the APB.

From the mid 1970s, the (FASB) was engaged in developing a framework for accounting and in 1978, it issued SFAC No.1: Objectives of Financial Reporting by Business Enterprises. According to SFAC No. 1 (1978), the main objective of financial statements is to provide relevant information for users to make useful decisions. The objectives of financial reporting, according to this framework, were as follows:

1. To provide information that is useful to current and potential investors, creditors and other users in making rational investments, credit and similar decisions (Para.34).

2. To provide information to help investors, creditors and others assess the amount, timing and uncertainty of prospective net cash inflows to the related enterprise (Para.37).
3. To provide information about the economic resources of an enterprise, the claims on those resources and the effects of transactions, events and circumstances that change resources and claims on those resources (Para.40).
4. To provide information on how an enterprise obtains and spends cash, on borrowing and repayment of loans, its capital transactions, including cash dividends and other distributions of an enterprise's liquidity or solvency (Para.49).
5. To provide information about an enterprise's financial performance during a given period (Para.42).
6. To provide information about how the management of an enterprise discharges its stewardship responsibility to owners for the use of the enterprise's resources that are entrusted to it (Para.50).
7. To provide information that is useful to managers and directors in making decisions in the interests of owners (Para.52).

There are also other authorities around the world, which have made great efforts to set standards and define the objectives of financial reports. For example, over the last few years the Accounting Standards Board (ASB) and the International Accounting Standards Committee (IASC) have developed conceptual frameworks for accounting that have many common elements. These frameworks have relied on the earlier pioneering work undertaken by the Financial Accounting Standards Board (FASB).

The financial reporting objectives provided by the British Accounting Standards Board (ASB), for example, sets out the following principles: “The objective of financial statements is to provide information about the reporting of an entity’s financial performance and financial position that is useful to a wide range of users for assessing the stewardship of management and for making economic decisions”(ASB 1991).

In July 1989, The International Accounting Standards Committee (IASC) published its framework for the preparation and presentation of financial statements. This framework includes a statement on the objective of financial statements, which is: “ to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions” (IASC, 1989).

Other esteemed committees and associations that have offered definitions of the objectives of financial statements include the American Accounting Association (AAA), which defined the objective of financial reporting as follows: “Financial reports are intended to provide information that is useful in making business and economic decisions” (AAA, 1966).

In 1975, the Accounting Standard Setting Committee reached the following conclusion regarding the fundamental objectives of corporate reporting: “The fundamental objective of corporate reports is to communicate economic measurements of and information about the resources and performance of the

reporting entity useful to those having reasonable rights to such information” (The Corporate Report, 1975, P.28).

A more recent description of the objectives of financial statements was provided in 1980 by the Canadian Institute of Chartered Accountants (CICA). This report stated that the objective of financial reporting was: “to provide adequate information about the real economic position and performance of an enterprise to all potential users who need such information to make decisions” (CICA, 1980, P.32).

4.2.2 THE USERS AND USEFULNESS OF FINANCIAL REPORTS:

Quarterly financial reports are an important translator of financial information to users. Many people base economic decisions on their relationship and knowledge about a business enterprise, but they are also interested in the information provided by financial reporting.

Worldwide, setters of accounting standards have included the usefulness of financial statements in their mission statements. The FASB, for example, in statement 1 (1978) states that: “financial reporting should provide information that is useful to present and potential investors and creditors, and other users in making rational investment, credit and similar decisions”.

The accounting standards in the UK (1991) explained the usefulness statement in terms of providing: “information about the financial position, performance and

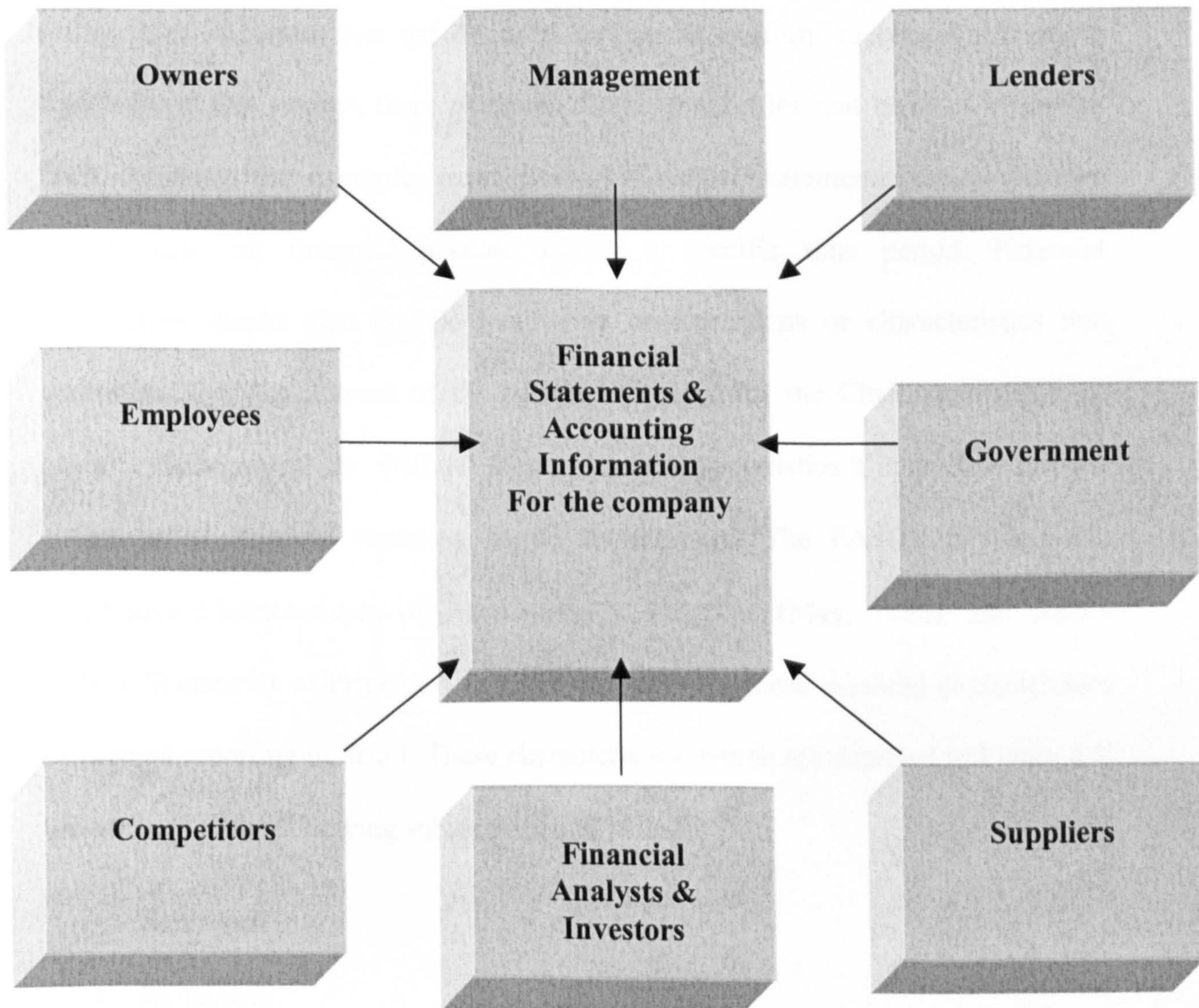
financial adaptability of an enterprise to a wide range of users in making economic decisions”.

Different user groups have been identified by the standard-setting committees (see Figure 4.1). This is important because financial reports are used by a wide range of users and each group of users has different objectives. However, almost all of the standard setters (and academic authors) agree that the major users of financial statements are owners or shareholders. The following is a brief summary of some of the major groups of users of financial statements and their main requirements:

1. **Owners (shareholders):** shareholders are formally the owners of the enterprise. Owners, therefore, need to assess how effectively management is running the business. Owners need to monitor the performance of the enterprise's management with a view to intervening if their performance is not satisfactory. Owners are also concerned with the profitability, safety and future performance of their investments. Reliable accounting information in the form of financial reporting will be critical in addressing these issues.
2. **Management:** management are interested in measuring or benchmarking the performance and progress of the company in order to help make future decisions and plans. Management strategically plan and control every aspect of a business and, therefore, they require information concerning the actual performance of the company. In addition to accurate information being important in designing plans, it is also important in monitoring and comparing actual performance against plans.

3. **Financial Analysts:** analysts use financial report information to advise clients and help decide between alternative investments.
4. **Lenders:** lenders, such as banks, are interested in the financial situation of their actual and potential customers. An ability to assess a company's ability to meet its obligations and repay its debts is crucial to the continuation of a banking relationship. This need is dynamic in the sense that reliable financial reporting is necessary not only for the initial granting of the loan but also for its subsequent monitoring.
5. **Employees:** employees are an important user group. Employees are interested in monitoring and assisting the financial performance of a company in order to obtain better working conditions, higher remuneration and promotion. The information is important to employees because it can also tell them whether their company is able to provide adequate remuneration and secure employment.
6. **Government:** governments require financial information on businesses for tax computation, regulation and the awarding of government contracts.
7. **Competitors:** competitors typically benchmark and compare their performance in terms of profitability and financial status with other companies to measure efficiency.
8. **Suppliers:** suppliers need to make sure that they are dealing with reputable businesses that are able to pay for the goods and services supplied. This is particularly important as most suppliers extend credit or deferred terms to customers.

Figure 4:1 THE MAIN USERS OF FINANCIAL REPORTS AND ACCOUNTING INFORMATION



Source: Author

As can be seen from this review of users, each group has different needs and, therefore, attach different values to different pieces of information in the financial and quarterly reports. This means that the primary purpose of the reports and the analysis of the information differs from group to group.

4.2.3 THE CHARACTERISTICS OF FINANCIAL STATEMENTS:

It has been established that financial statements provides economic information to different users of the reports. In order for financial information to reflect economic reality, it is important that the financial statements conform to certain acceptable standards. In this respect, there are some fundamental rules that must be observed. Each company, for example, must produce financial statements, which disclose performance and financial position during a specific time period. Financial information should also include qualitative considerations or characteristics that contribute to the usefulness of the information, such as, the Chairman's report or notes to the accounts, etc. Without these rules or characteristics it is unlikely that the objectives of financial reporting would be achieved. The FASB's SFAC No.2: Qualitative Characteristics of Accounting Information, (May, 1980), and ASB's (1991): Statements of Principles examine and describe these essential characteristics of account reporting in detail. These characteristics, which are depicted in Figure 4.3, are outlined in the following subsections and include:

- Relevance
- Reliability
- Comparability
- Understandability
- Consistency

Accounting information should be relevant:

Relevance and reliability are two primary qualities that make accounting information useful for decision-making. Relevance means that all material information provided in financial reports should have an influence on the decisions of users. In short,

therefore, the purpose of financial statement is to present all the information that influences and is relevant to decision making by different users.

SFAC No. 2 (referred to above) highlights “relevance” as one of the primary characteristics that makes accounting information useful for decision makers. According to this standard: “Accounting information must be capable of making a difference in a decision by helping users to form or predict outcomes for past, present and future events, or to confirm or correct expectations” (FASB, 1980, SFAC No.2).

The financial statement must, therefore, focus on highlighting the significant points that meet users’ needs. Moreover, non-relevant information in financial statements may mislead users and lead to incorrect decision making.

In the ASB (1991) Statement of Principles, chapter 3, “The Qualitative Characteristics of Financial Information”; relevance is similarly emphasised: “Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming, or correcting, their past evaluation” (ASB, 1991, Para.23).

The ASB statement defines relevant information as that which is capable of making a difference when trying to make a decision. An obvious example is when users, such as shareholders, are trying to decide whether to sell, hold or buy shares. The accounting standard-setters for corporate reports succinctly captured the importance of relevance when they stated that: “Corporate reports should seek to satisfy, as far as possible, users’ information needs” (The Corporate Report, 1975, P.29).

In addition to professional bodies and setters of financial standards, there are several academic authors who have proffered arguments regarding relevance. Examples of such writers include Pizzey (1998) who stated that: “Relevance implies that accountants must be ready to adapt the form of statements to the changing needs of the users”. McLaney et al similarly considered the concept of relevant information and noted that: “Accounting information must have the ability to influence decisions.” (McLaney and Atrill, 2002).

Accounting information should be reliable:

Reliability is considered to be the other primary characteristic that is vital for account reporting. Reliability means that financial users must be able to depend on the information contained in the reports and be able to base decision making on it. This means financial statements should be truthful and free of significant error or bias. SFAC No. 2 accordingly defines reliability as: “the quality that assures that information is reasonably free from error and bias, and faithfully expresses what it purports to represent” (FASB, 1980, SFAC No.2).

The accounting standard-setters for corporate reports make the following observation concerning the reliability of information in financial reports: “The credibility of the information contained in corporate reports is enhanced if it is independently verified, although in certain circumstances it may be useful for an entity to supply information which is not verifiable in this way” (The Corporate Report, 1975, P.29). Pizzey (1997) similarly endorsed this view when he stated that: “An accounting system must be reliable if it is to be used with confidence”. Finally, a further insight into reliability is provided by the ASB (1991), which stated that to be reliable: “information must be

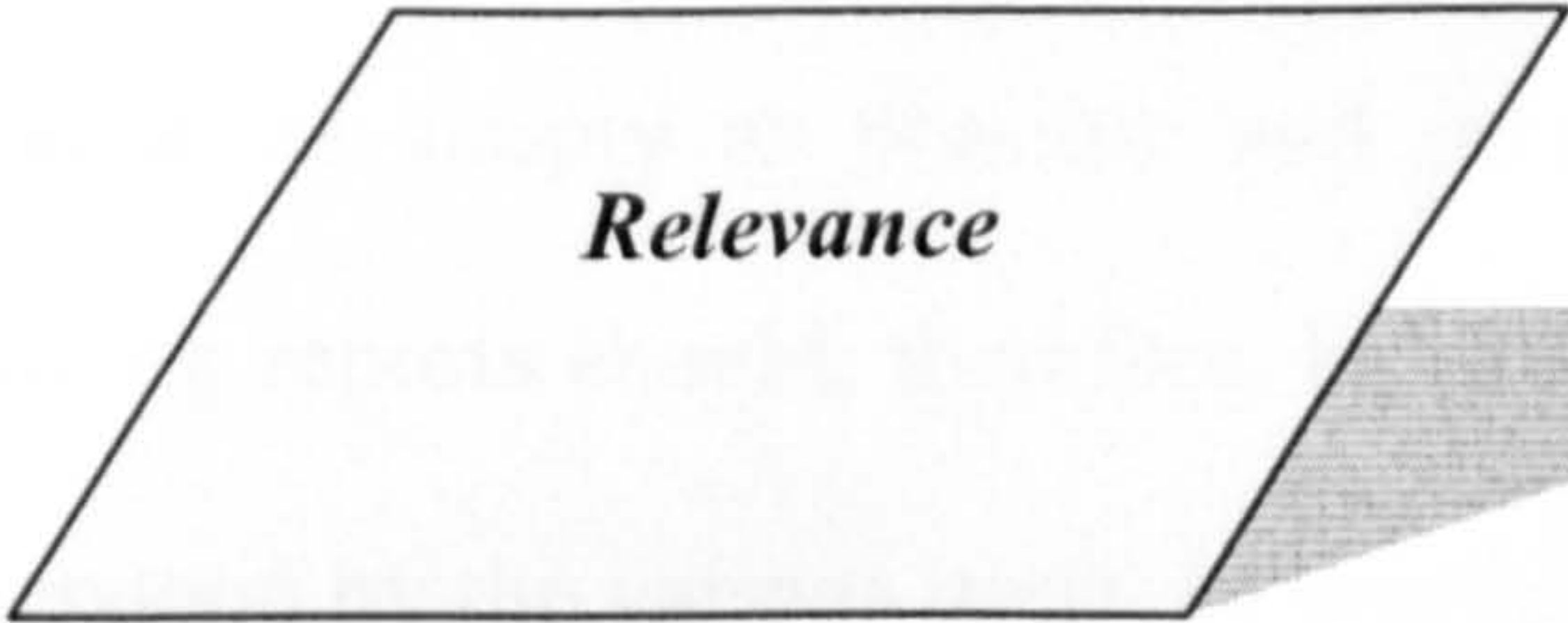
free of bias and material error". The ASB (1991) also went on to say that reliability was determined by the following elements:

- Faithful presentation
- Complete financial statements
- Prudence
- Timeliness.

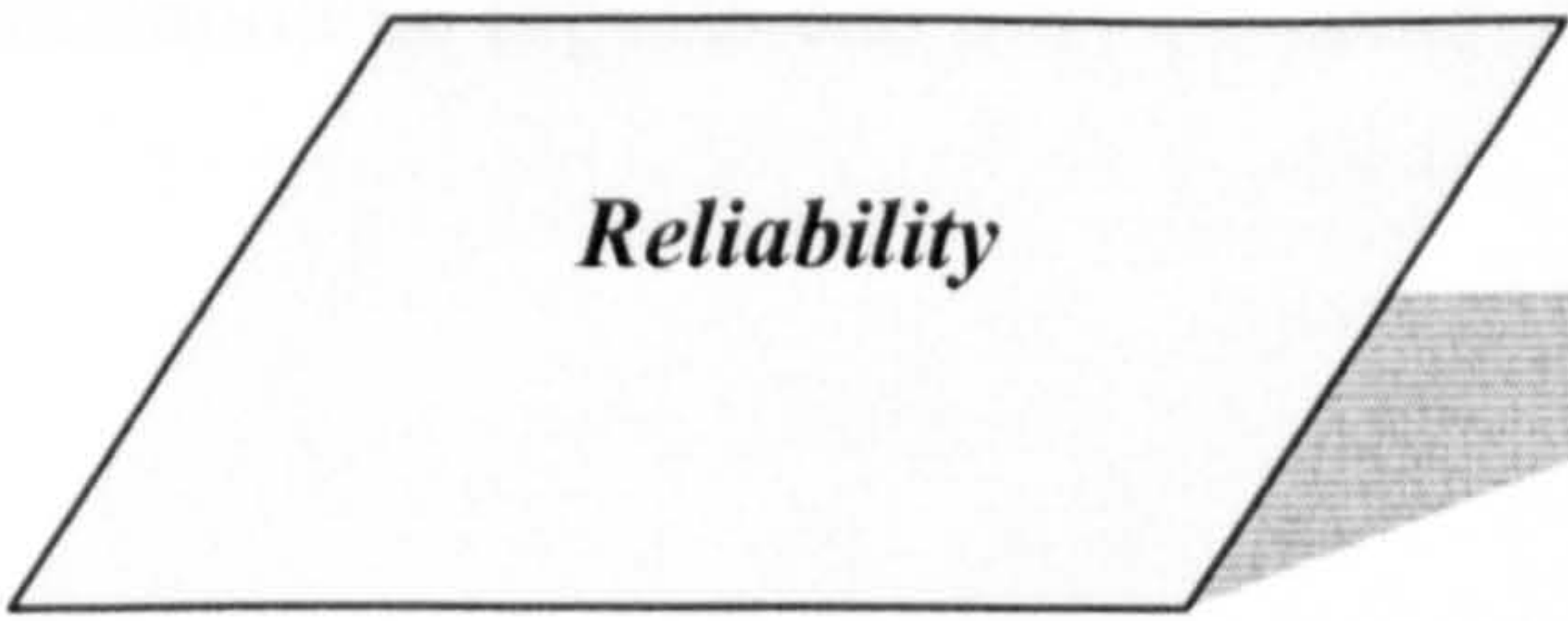
Accounting information should be comparable:

Information regarding a particular company becomes more relevant and meaningful if it facilitates comparison with other companies over similar periods. Accordingly, FASB NO.2 (1980) defined comparability as "the quality of information that enables users to identify similarities in, and differences between, two sets of economic phenomena" (FASB, 1980,SAFC No.2). Comparable information is important, therefore, because it allows users to identify similarities and differences between different enterprises. Comparability also enables users to evaluate the performance of a particular company over a period of time and, therefore, monitor the progress of the business and the success of its management.

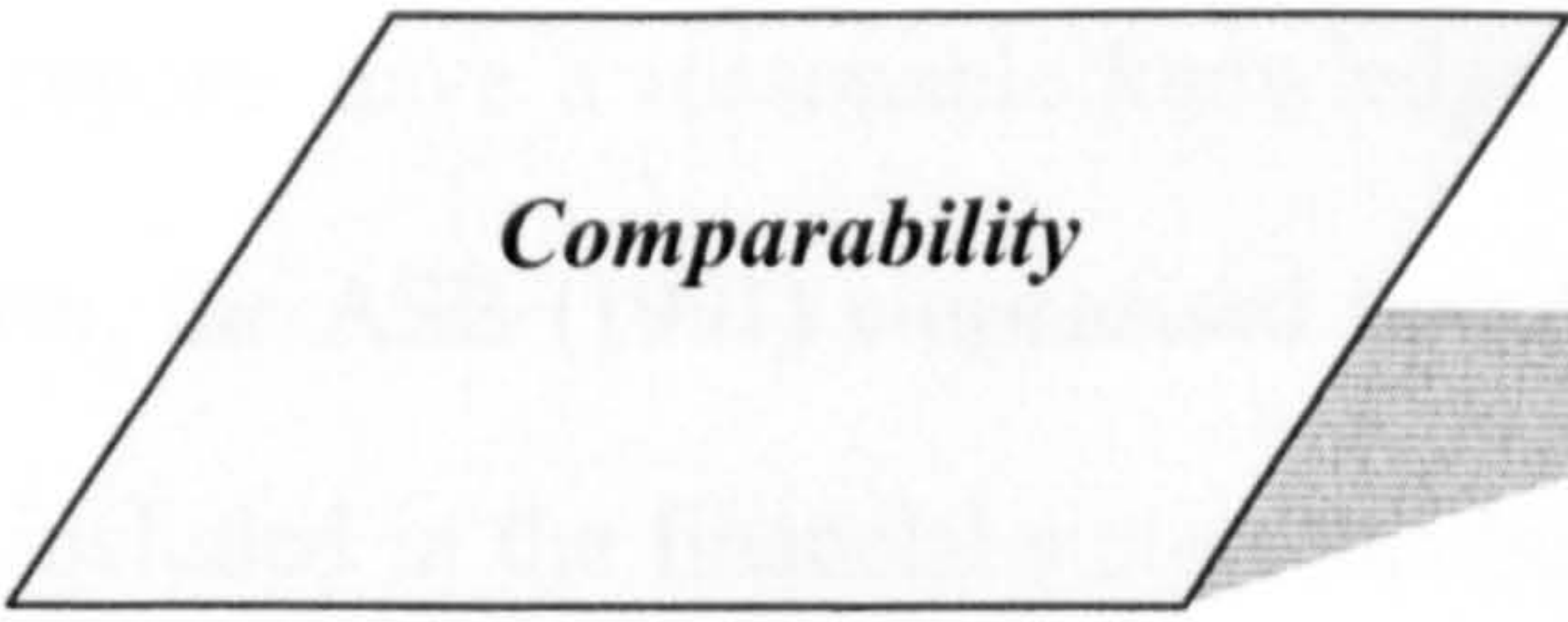
Figure 4.3
Characteristics that make financial information useful



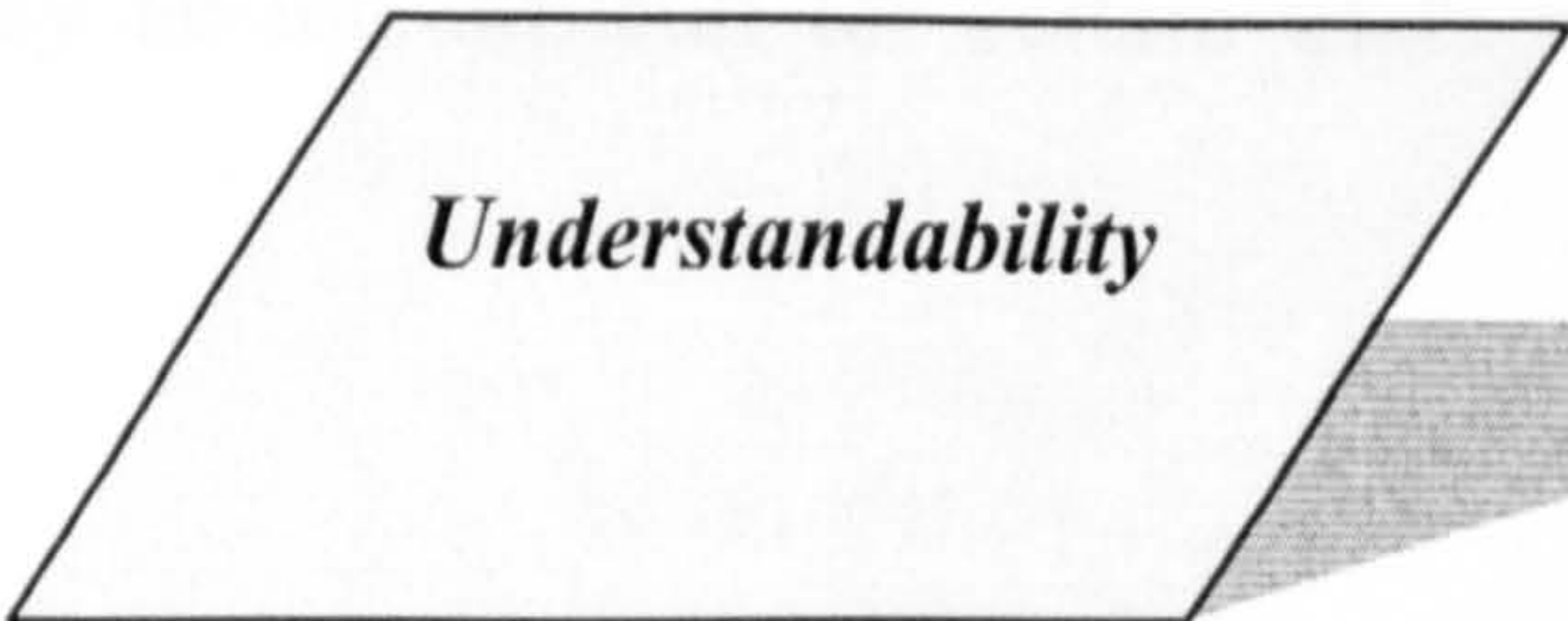
Material information that has an influence on user decisions



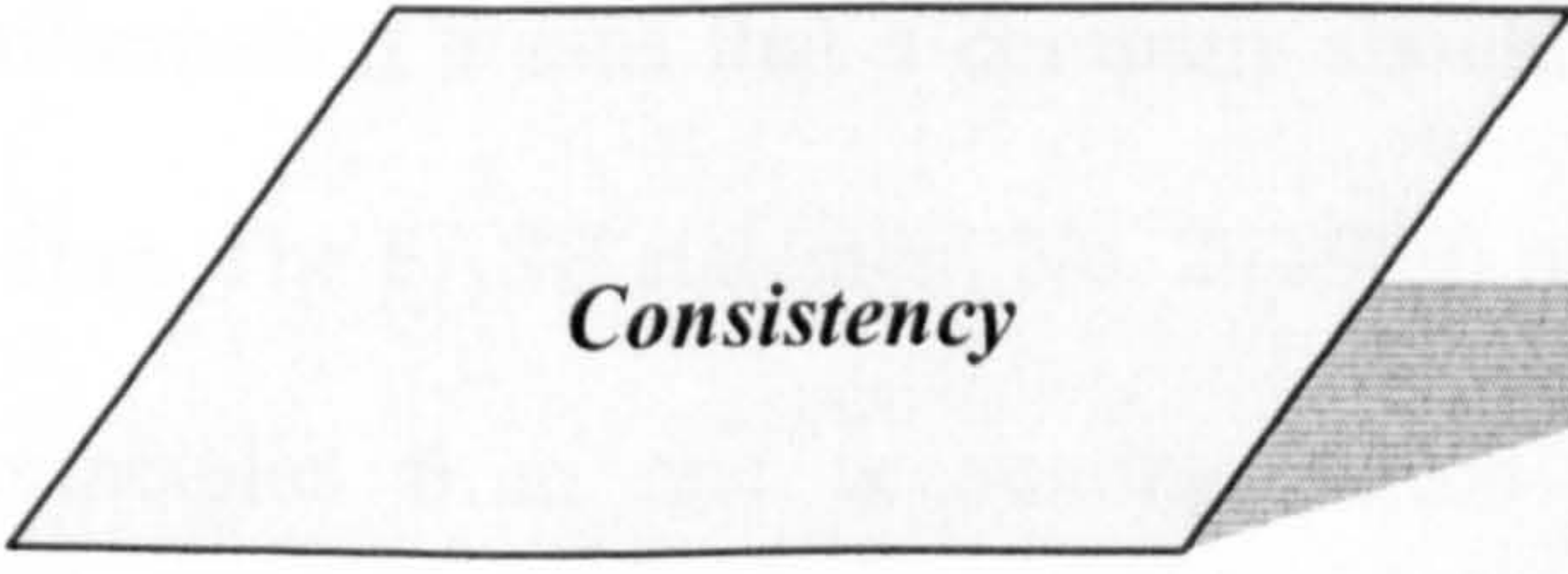
Quality information that can used with confidence for Decision-making



Easy to evaluate other time-periods and facilitate a comparison



Clear and easy to understand information



Companies should use the same accounting methods over time

Accounting information should be understandable:

For information to be useful, it should be easy for users to understand. Pizzey (1998) encapsulated this sentiment when he argued that: “A useful financial statement will present its information as simply as possible and in a format, which is easy to assimilate”. Accounting reports should, therefore, be expressed as clearly as possible and be readily understood by the various users. In practice, however, in order to make reports understandable it is necessary to trade-off detail and transparency. In other words, readily understandable reports can only be achieved by sacrificing some of the detail.

However, despite these trade-off considerations there is an implicit assumption that users of financial reports have a reasonable knowledge of accounting and business principles. Moreover, the ASB (1991) emphasised that: “information about complex matters should be included in the financial statements because of its relevance to the economic decision-making needs of users and should not be excluded merely on the grounds that it may be too difficult for certain users to understand” (ASB. 1991, Para.38).

Accounting information should be consistent:

Consistency of information means that a company should use the same methods of accounting over time. The FASB statement No. 2 (1980) notes that the consistent use of accounting principles from one accounting period to another enhances the usefulness of financial statements by facilitating analysis and understanding of comparative accounting data. However, consistency does not mean that a company

cannot change its method of account reporting. If it does, however, it must disclose the rationale and the benefits behind the change.

4.2.4 VARIABLES THAT COULD INCREASE THE DEMAND FOR QUARTERLY REPORTS:

There are several variables (for example receivables) that play an important role in the valuation of shares and other forms of security. Previous studies (which are referred to below) have focussed on factors, which explain and determine the direction and magnitude of movement in company share prices following the issue of quarterly reports. These variables, and the information they impart, accordingly, increase the demand for both annual and quarterly financial statements.

Chan (1991) observes that the relationships between financial variables and movements in stocks and shares have attracted a considerable amount of research attention in the United States. Similarly, Chan's study on Japanese stocks found significant relationships between some variables (for example, earnings yield, size of business, book to market ratio, cash flow, etc.) and expected returns in the Japanese market

Lev and Thiagrajan (1993) identified a set of financial variables and considerations, which they claimed give financial reports meaning and were highly significant in the valuation of securities. They also claimed that financial reports should have one or more of the following factors and that their inclusion will increase demand:

Industry type (complexity of company): Industry characteristics may affect the frequency of demand for financial information. In general, the more complex a company's business, the more likely that user will seek frequent financial data. Complexity may be related to the nature of the industry, the nature of the assets, or the product of the client. Complication also attaches to the client's accounting system and in general, the more complicated the system, the greater the demand for financial information (Ismael 2003).

Firm Risk: Another factor that could increase the demand for quarterly financial statements is firm risk. Some firms will have riskier assets than other and, therefore, it is important that these firms, in particular, produce high quality interim financial returns on a regular basis, i.e. every three months. Examples of assets, which are difficult to value, include *inter alia* current assets, such as, cash, receivables (debtors) and inventories (stock). Moreover, in addition to these types of assets being difficult to value, their value can also change over relatively short periods of time (Simunic, 1980).

Leverage: Leverage (or gearing) is generally measured by the ratio of debt to shareholder equity. However, there are alternative measures and Firth (1979), for example, uses the ratio of debt to total assets. The more debt the firm has, i.e. the higher the leverage or gearing of the company, the more pressure creditors will exert on it to achieve a stronger financial position. Creditors may also instigate their own monitoring or, alternatively, they might prefer the company to adhere to acceptable norms of financial reporting (see section 4.2.3). This is important because a study

carried out by Menno and Williams (1988) found that highly distressed companies showed a high propensity to switch policies on company reporting.

The agency conflict: Most firms separate management and ownership. Management may have incentives to use a firm's resources in a way that may not be consistent with the owner's interests. Quarterly financial reports help to reduce information asymmetries between managers and shareholders by offering more financial data about the company over a shorter time period. The higher the level of agency conflict between managers and owners is, the higher the demand for timely, high-quality financial information. Several studies have concluded that firms with higher agency costs are expected to provide such information and generally do provide it to their investors (Jensen 1976). Watts & Zimmerman (1983) have also argued that auditing is also a form of monitoring, which is used by firms to reduce agency costs.

Change in Chief Executive Officer (CEO): New CEOs have been shown to have an effect on financial practices, especially, in the initial periods of their appointment. Some recently appointed CEOs have an opportunity to make changes in the financial reporting of the company and typically justify the change as part of the company's change in strategic planning. To some extent this is justified because a change in CEO is not typically associated with major corporate changes. This was borne out by the findings of Menno and Williams (1988), who found that a change of CEO had a significant influence on major decisions and strategic direction.

Size of the Firm: Firm size is consistently associated with the requirement for more information and greater assurance in financial reporting. To some degree, this is

because larger organizations engage in relatively more transactions and this necessitates more detailed reporting.

In other words, as the firm's size increases, financial accounting systems have to perform more effectively to ensure adequate compliance and provide substantive financial data. This was substantiated by the findings of Chari (1988), who examined the effect of firm size on the share prices of 56,147 quarterly announcements between 1976 and 1984. The study found that the share price of small companies showed a large positive mean, i.e. an abnormal return. On the other hand, the share prices of large firms showed no such effect. Almahmood (2000) in supporting this finding also asserted that investors in small companies rely more on financial announcements than large companies. Ismael found in her study that there was a negative association between company size and the reporting times in Malaysia. In essence, the larger the company is, the shorter the reporting times (Ismael 2003).

Concentration of ownership: In some companies, concentration of ownership may force the management to choose a specific level of financial information. In this respect, investors who own a large proportion of a company may have an effect on the way its financial information is produced. The decision to accede to demands for higher quality financial information can be taken by management voluntarily or, in extreme cases, be imposed by stockholders. Ownership concentration can be measured by calculating the percentage of ownership held by a small group of investors controlling the company. Firth (1979), in his assessments, takes the proportion of ownership held by the "top shareholder" only. Graswell, Guz and

Frances (1999), however, take the proportion of ownership held by the top 20 shareholders.

Importantly, for our discussions, there would appear to be a robust relationship between concentration of ownership and the demand for quarterly financial reports.

4.2.5 QUARTERLY REPORTS AND IAS 34.

The International Accounting Standards Committee (IASC) was founded in June 1973 and located in London (UK). The International Accounting Standards Board (IASB) eventually replaced the IASC in March 2001. The IASB is an independent body, which is responsible for setting international financial reporting standards. Its main job is to improve and harmonise accounting regulations. The international accounting standard setters recognised that interim financial statements are important. The IASC, therefore, published IAS No. 34 to clarify the concept of interim reports, provide a framework for the reports and define their usefulness to the users.

The International Accounting Standards Board approved Standard IAS 34 (interim financial reporting) in February 1998, which became effective on 1 January 1999.

IAS 34 defines interim reports as covering a financial reporting period shorter than a full financial year (most typically, a quarter or half year). The interim financial report can, therefore, be described as a financial report that contains a set of financial statements for a period shorter than a full financial year.

IAS 34 prescribes the minimum content of an interim financial report as follows:

- A consolidated balance sheet
- A consolidated income statement
- A consolidated statement of changes in equity

- A consolidated cash flow
- Selected extraordinary notes.

The Kuwait Stock Exchange follows International Accounting Standards (IAS) but under Kuwaiti law, all listed companies are required to prepare and present financial reports on a quarterly basis covering periods beginning 1998. Kuwaiti law allows a maximum of 45 days after the closing date for the reports to be published. In addition, Kuwaiti law requires two external auditors to review and approve the quarterly reports. The Kuwait Stock Exchange (KSE) ensures that quarterly financial statements include information that is relevant to user's needs, so that they can understand an entity's financial position at the end of the interim period and ascertain its financial performance during the interim period.

Nowadays there is a clear trend toward adopting international financial reporting standards. Many countries already require companies to adopt IAS for their reports and in the next few years it is anticipated that thousands of companies will move to international financial reporting standards as their primary basis for financial reporting. Most public companies domiciled within the European Union, for example, will be required to use international financial reporting standards by 2005 (Gannon and Ashwal 2004).

The harmonisation of accounting standards has been examined closely in recent years and the primary objective has been to reduce the variations in accounting practices in different global and regional financial markets. Harmonization would have several advantages and benefits to the users of financial information such as:

- **Globalisation:** The economic environment is now characterised by an increase in international business and global investments. Therefore, there is a need for internationally accepted accounting and auditing standards.
- Companies have become increasingly multinational and mergers between large companies are more common.
- Harmonisation helps to transfer experience from country to country, thereby, reducing training costs and enhancing the workers' skills.
- Harmonisation helps to enhance the skills needed to understand business reporting easily and to make comparisons of the financial strength of companies in different jurisdictions. Knowledge will, therefore, be similar throughout the world and comparability between business activities will be made easier. This is likely to result in producing more efficient financial reports.
- Harmonisation will help to promote international investments and support cross border business activities.

The international Accounting Standards Board cooperates with national accounting standard setters to develop these standards. In April 2004 the IASB announced that the board would cooperate with the FASB to achieve convergence in accounting standards around the world (IASB 2004).

4.3 THE IMPORTANCE OF FINANCIAL STATEMENTS IN GENERAL:

The previous section concentrated on the theoretical framework. This section will review the related literature regarding financial statements and quarterly financial statements. As the aim of this research is to measure the usefulness of quarterly financial reports to users in Kuwait, a general discussion of the usefulness of financial statements will follow. This will be followed by a discussion of the usefulness of quarterly financial reports as evidenced by empirical research. For ease of presentation the relevant literature will be examined in chronological date order.

At the outset it is important to bear in mind that the financial report is one of the major sources by which most companies communicate with their shareholders and the external world. The primary objective of financial statements is, therefore, to provide information about the financial position and performance of an enterprise that is useful to a wide range of users.

The work of Lee and Tweedie (1975) has achieved global recognition in this field. They have carried out several important studies on the usefulness of financial reports. In 1975, for example, they carried out research to ascertain whether shareholders actually used information from company financial reports and found that they were the most important source of information for shareholders and were used more than any other sources of information. Significantly for this thesis, interim reports were found to be the third most important source of information. The study also found that shareholders with some form of training in accounting read the reports more carefully than those without any accounting knowledge. This later group of shareholders tended to rely more on the Chairman's statement in order to arrive at investment decisions.

Lee & Tweedie completed a further study in 1976, which considered whether or not private shareholders in medium-sized public companies read corporate annual financial reports thoroughly and whether they used other sources of financial information. They sent questionnaires to shareholders and found that although more than 97% of private users read annual reports, the degree of understanding and attention varied quite significantly. The users who had some form of accounting training were more likely to read the reports thoroughly compared with those with less training. In addition, those users who read annual reports thoroughly were more likely to understand them and find them relevant to their investment decisions. Another finding of the study was that users who carefully read the annual reports also examined (and understood) other sources of information more thoroughly (Lee & Tweedie, 1976).

More recently, Lee and Tweedie (1981) have made a comprehensive survey of investment analysts in the U.K. They interviewed 136 senior investment analyst managers employed in 79 financial institutions and 95 senior analysts in 61 stock-broking firms. The research was divided into two parts: the first part considered how analysts read information from different sources and how important they believed each information source to be. The second part of the study examined the level of understanding of accounting concepts amongst the investment analysts and how this affected investment decisions. They found that institutional investors considered the annual report to be the most important source of information and that 80% of respondents were generally confident about the information provided in financial statements (Lee and Tweedie, 1981).

In another study, Frith (1978) tried to ascertain the importance of different items or pieces of information contained in annual reports. Using a questionnaire, which was sent to seven hundred and fifty users of reports, including one hundred and twenty investment analysts, respondents were asked to weight the importance of the items using a Likert scale. The results showed that historical accounting information received the highest score in terms of importance (Frith, 1978). This finding supported the earlier work of Briggs (1975), which was based on twenty five interviews with analysts working in the UK.

Change and Most (1981) also tested the importance of corporate annual reports in the making of investment decisions. Their study classified the users of corporate financial reports into three groups: individual investors, institutional investors and financial analysts. The authors sent a questionnaire survey to participants in all three groups in three different countries (the U.S.A, U.K., and New Zealand) with large capital markets and organised stock exchanges. The study found that all three user groups in each of the three countries placed great importance on corporate annual reports. Next in terms of importance were quarterly and half yearly reports. Furthermore, all three-user groups in each of the three countries rated financial statements as the most important part of the report (Change and Most, 1981).

Anderson (1981) reported the findings of an empirical investigation into the usefulness of annual reports to institutional investors in Australia. Three hundred questionnaires were used and the response rate was 63 percent. The results indicated that institutional investors attach most importance to dividend income and capital gain. The study also found that the corporate report was the most important source of

information for these respondents when attempting to ascertain future yields on stocks and shares. This finding was supported by the results of Arnold and Moizer (1984). Their study, which focussed on investment analysts in the UK and involved two hundred and two interviews and a series of follow up interviews, revealed that annual reports, followed by quarterly or interim reports were the two most important sources of information when making investment decisions.

Day (1986) examined the approaches and the information sources that were employed by UK investment analysts when assessing shares. He identified a variety of information sources but discussions with company managers and annual reports were identified as being the most important. However, analysts agreed that there was a need for further, more detailed information in the annual report.

Ginewosz (1990) similarly investigated Australian institutional investors and their use of different sources of information when making decisions. To achieve this goal, the study monitored the process of making recommendations about whether to buy or sell shares. The results showed that, despite the comprehensive use of many sources of information, financial reports were the single most important source of information.

Ou and Penman (1989) argued that an analysis of financial statements may reveal value that is not reflected in the stock price. This is important because analysts typically calculate "intrinsic value" from financial statements and compare this with stock prices in order to identify overpriced or under-priced stocks. To this end analysts use financial ratios and some accounting fundamentals to predict future earnings. In this respect, Ou and Penman's work provided a link between the

information in financial statements and predicted future share prices. A more recent study carried out by Schipper (1991), also emphasized that analysts depend heavily on financial statements as proxies for market expectation and making future forecasts.

Lev and Thiagarajan's study (1993), following on from Ou and Penman's (1989) and Schipper's (1991) work, and determined that financial statements were useful in estimating future value. The study identified particular financial variables, which analysts used in the valuation of securities and when estimating future earnings. These variables included, increases in inventory (stock), cost of sales, account receivables (debtors), decreases in gross margin, increases in doubtful receivables (debts) and expenditure on research and development. The study also found that these financial variables accounted for approximately seventy percent of the explanatory power when predicting or estimating future returns on assets.

Abarbanell and Bushee's study (1997) investigated how information in financial statements is used by market participants and also used some of the variables identified by Lev & Thiagarajan (1993) to assess a firm's future performance. However, Abarbanell and Bushee's work adds value to the literature because it identifies four additional factors (change in earnings, earnings growth, labour force and inflation) that were highly significant in the investment decision making process.

Ba-Owaidan (1994) in accordance with the findings of earlier researchers, found that information contained in financial statements helps investors to make investment decisions and ranked the company's corporate report as the most valuable and useful source of information. Likewise, Abu-Nasser & Rutherford (1996) research, which

focussed on Jordan, came to the same conclusion. Their research also revealed that bank loan officers were the most intensive users of company financial reports and that income statement and balance sheets were the most important part of the reports.

Bartlett & Chandler (1997) used the same methodology as Lee & Tweedie (1975) to re-examine private shareholders in the UK. They concurred with the earlier findings of Lee and Tweedie but their results also identified certain minor differences. For example, they found that the chairman's statement was considered to be the most important part of the financial report for users and the auditor's report to be the least important. Rather interestingly, they also found that shareholders were not very interested in either the profit and loss account or the balance sheet.

Almubarak (1997) examined how investment analysts use corporate annual reports in Saudi Arabia and found that it was regarded as the most important source of information. However, in contrast to Bartlett and Chandler's (1997) study on shareholders, the revenue statements and balance sheet were perceived as being the most important parts of the reports. This suggests that although different users find financial reports useful, they seem to place importance on different parts of the report.

Almahmoud (2000) also investigated the attitude of institutions, individual investors and financial analysts in Saudi Arabia towards annual reports. The results, once again, indicated that financial reports are important and participants in the market rely heavily on financial reports when making investment decisions.

Albulooshi (2000) carried out his study in the United States and like, Ou and Penman (1989), Schipper (1991) and Lev and Thiagarjan (1993) examined the extent to which financial statements are useful when forecasting future earnings. In accordance with the finding of these earlier studies, Albulooshi found that financial statements accounted for approximately 58% of the forecast. Somewhat significantly, however, Albulooshi's study also revealed that the usefulness of financial statements declined rapidly with time. In other words, there was an obvious need for up to-date information in the form of interim accounts by this group of users.

Nasser & Al-Hussaini (2003) investigated the usefulness of different aspects of the annual reports in Kuwait. The study was important because it examined an extremely comprehensive list of users and one which was far more wide ranging than any of the previous studies in this area. The sample consisted of the following eight groups: individual investors, institutional investors, financial analysts, bank credit officers, government officers, academics, auditors and stock market brokers. The results reaffirmed previous studies and indicated that all of these external users preferred to get information from published annual or interim financial reports or through direct contact with the company itself. This finding was substantiated by Nasser and Nuseibeh's (2003) study of investors in Saudi Arabian joint stock companies.

Finally, Almutairi (2004) adopted a different approach inasmuch as he investigated the markets reaction toward the release of annual financial statements in Kuwait. Almutairi found, once again, that users depend primarily on information produced by the company, especially, the annual report. However, the value of this research lies in

the fact that it showed that the imminence of financial statements influences investor behaviour.

This section has shown that previous research studies in this area, based on evidence from the Gulf States, UK and US, have unequivocally shown that financial statements are important to a wide range of users. Different user groups appear to place emphasis on different parts of the reports but the reports are, nevertheless, universally regarded as important in making investment decisions. The other interesting aspect of this literature review stems from the fact that the timeliness of reports, i.e. up to-date information, in the form of interim reports is regarded as important.

4.4 DECLINE IN THE RELEVANCE OF FINANCIAL STATEMENTS

In contrast to the above findings some observers have claimed that financial statements have lost a great deal of their relevance. For example, some commentators have argued that the information included in reports is historical and, therefore, its use in predicting future events is restricted. Furthermore, reports sometimes ignore or omit important information, such as, changes in performance levels, future plans or fail to assess the general health of the business. In this respect, financial statements can have shortcomings regarding the accurate presentation of the business.

The economic environment is currently characterised by rapid change and the increased globalisation of business. Users, therefore, need more information in addition to that contained in financial statements. In particular, there is a need for more non-financial disclosure about business activities, events and relationships with

competitors, suppliers and customers. In the last few years, users have demanded more relevant financial and non-financial information. Some industries, such as high technology, airlines and pharmaceutical companies, accordingly concentrate heavily on intangible investments, i.e. the creation of a customer-base, research and development and brand names. In order to understand a business, financial information should, therefore be combined with non-financial information. Remerman (1990) recognised this when he argued that the importance of financial statements has declined and the users of such statements are increasingly turning to other information sources to better understand the business and meet their needs. In this respect he also argued that: "Users often make investment and lending decisions.....that are not included in GAAP financial statements." Similarly, Elliot and Jacobson (1991) claimed that the current financial accounting model in the United States provides insufficient information to evaluate companies. They also emphasised the need for new technology in order to assist investment decisions. Consequently, investors are increasingly relying on a variety of sources and do not rely exclusively on financial statements.

Aldaryseh & Brown (1992) carried out a study in the US using 190 US firms. The study aimed to investigate the issue of whether annual reports provided more accurate information than quarterly reports. The results indicated that the financial data contained in quarterly reports might not be as accurate as that contained in the annual reports. Moreover, the information in quarterly reports was not consistent with that contained in annual reports. The study also confirmed the findings of Elliot and Jacobson (1991) as it found that investors used different kinds of data (other than financial reports) when making investments decisions.

Jenkins (1994) also supported the idea that the financial reporting process had failed to meet the information needs of investors and creditors and argued that the historical focus of financial reports did not provide an adequate basis for predicting future corporate performance. Consequently, investors do not make economic decisions based exclusively on financial statements but rather utilise a variety of sources of information.

The tone of these studies indicates that financial statements have lost a great deal of their relevance with respect to users' needs. This is in direct contrast to Baker and Halsem's (1973) study, which as recently as thirty years ago asserted that financial statements were a major source of information. This part of the literature review, therefore, serves to underline how the environment in which businesses operate has changed over a relatively short period of time.

It has to be understood (and this point was made earlier in the chapter) that the producers of financial statement are catering for a wide range of users, and determining and satisfying the needs of these different users is a complicated process. According to Chandra (1974), accounting information cannot adequately provide the information necessary to satisfy each specific group of user. Chandra's study examined whether the "preparers" and "users" of financial statements share any consensus about the value of information. He found that accountants do not prepare financial information for equity investment decisions. Moreover, there was a lack of consensus about what type of information was required due to the lack of communication between users and preparer groups (Chandra, 1974). Accordingly, a

study by Staden (1998) found that, in South Africa, significant use is not made of financial statements because they have shortcomings that impact on their usefulness.

Consistent with these claims of decline in the usefulness of financial statements, Amir and Lev (1996) found that earnings, book value and cash flow leverage were essentially irrelevant to the needs of investors. The study examined the relevance of financial and non-financial information to investors concerning equity values in the wireless industry. Their study found that non-financial information had more explanatory power for stock prices than financial information, i.e. earnings, book value and cash flow.

However, as intimated earlier there is widespread disagreement regarding the value of financial statements. Collins, Edward and Maydew (1997), for example, investigated the change in the relevance of value of earnings and book value over a forty-year period in the New York Stock Exchange (NYSE). The study covered 1953 to 1993 and was motivated by claims that the shift from an industrialized economy to a high technology service economy had made traditional financial statements less relevant for assessing shareholder value. However, their evidence suggested that although historical financial statements had lost some of their relevance, they were still important. Similarly, Pike (1993) reported on changes in the way UK analysts appraised ordinary shares in the 1980s. Although the evidence revealed a shift towards more personal contact, the findings suggested that the advent of new technology had (at that time) made little impact on the approaches employed by analysts.

4.5 THE IMPORTANCE OF QUARTERLY FINANCIAL REPORTS

Most of the accounting literature concerning financial reports deals with annual reports. However, there are several user groups that are making day-to-day financial decisions and, therefore, need reliable information over a much shorter time period than a year. Interim reports constitute the information that is typically received by shareholders between the issue of annual reports. Therefore, the quality of these reports is crucial because they could have a significant impact on the behaviour of investors.

It has already been established that the purpose of interim financial statements is to improve the quality of decision making by external observers and that the quality of information contained in these statements is crucial. It follows, therefore, that they should be prepared so as to provide information about a firm's financial condition and include the operating results for an interim period in a way that conforms with the same accounting policies used in preparing annual statements. Interim reports aim to inform investors about the general development of a company's activities during the period covered by the report. They also aim to help management plan and control the use of future resources effectively and efficiently, and help to improve the quality of their financial decisions.

In the academic literature on quarterly financial reports, a number of important studies have been conducted, using different research methods, to investigate the reaction of users and accountants to a variety of issues. Lee and Tweedie (1981), and Arnold & Moizer (1984) concluded that interim reports are more important to analysts and

financial experts than annual reports. Specifically, Lunt (1982) emphasised the importance of interim reports in estimating annual results and stock exchange value, observing that an announcement is usually required to avoid creating a false market in listed securities. Pike (1993), whilst not going quite as far as Lee and Tweedie (1981) and Arnold and Moizer (1984), found that interim reports were perceived as the second most important source of information amongst investors.

In 1994 the AICPA investigated users' views on the frequency of reporting and the content of reports and found that the most favourable reporting period was considered to be quarterly. The users believed that reporting periods shorter than three months would contain too much 'noise' and longer periods would not be sufficiently timely. The users also claimed there was a need for more information than that currently provided in quarterly reports but not as much as that in the annual reports.

In the UK, Battler & Chandler's (1997) empirical study showed that more than 70% of the respondents read the interim reports. This is probably because they give investors a much better idea of how trading is progressing during each financial year (Dunham, 1990). Weinberg (2000) also argued that information in quarterly reports is considered to be a key barometer of corporate health. However, Gunter (2001) claimed that current stock prices perform this role, which is over and above the information contained in the quarterly financial statements.

Houssey and Woolfe's (1998) survey of interim reports in the UK, found evidence of a dramatic growth in the information disclosed by companies in their interim reports between 1992 and 1997. This was especially the case with regard to balance sheet,

cash flow and profit/loss statement information. Houssey and Woolfe also make the point that this increase in information disclosure took place even though there had been no change in the regulation of reports.

According to Schrand (2000) managers strategically select the period immediately prior to the present one in order to benchmark and evaluate the current period. In this respect interim reports are very important in providing up to date information. Abarbanell (1991) examined the potential links between the forecasting behaviour of analysts and financial announcements, and found that forecast extremes are eliminated or greatly reduced by the use of quarterly reports. Albaqami (1996) examined the usefulness of quarterly financial statements to investors in the Saudi Arabian stock market. The aim of the study was to investigate the perceptions of investors and managements toward issues related to interim reports versus other information sources. The results showed that quarterly financial statements appear to be useful to investors in Saudi Arabia. Also, large institutional investors seem to read and analyse quarterly financial statements more rigorously than private investors. Almubarak (1997), Alrazeen (1999) and Almahmoud (2000) also made studies in Saudi Arabia regarding the importance of financial statements and found, as did Pike's (1993) study in the U.K., that interim reports were ranked as the second most important source of information after annual reports. Almahoud (2000) study, however, found that financial analysts regard interim reports as the most important source of information.

Al-Qenae (2000) studied financial information relating to emerging markets. Part of his study focussed on the usefulness of several information sources when making

financial decisions. The results indicated that both annual and quarterly financial reports are useful for fund managers and investment analysts. Somewhat interestingly, the findings also show that interim reports were particularly important in helping investors and users of financial statements to assess corporate end of year results and for reducing insider trader dealing.

Alduwaihees (2002) used a questionnaire to determine what respondents thought about the relative importance of different items in quarterly financial reports in Kuwait. Respondents were given eight items from interim reports and were asked for their opinions regarding their degree of importance when making investment decisions. The paper found that items relating to the balance sheets were regarded as being the most important factor, followed by earnings per share. However, the study was very brief and concentrates on a small number of specific items in the content of QFRs.

Nasser and Al-Hussaini (2003) explored the perceptions of various groups of users regarding Kuwaiti financial reporting. Eight Kuwaiti users were involved in the study and although the interim reports were ranked sixth (from eight sources) in terms of importance, they were still considered important due to their high mean ranking. Other research in this area has revealed similar findings, which emphasise the importance of interim reports. For example, Ismael (2003) who examined the usefulness of quarterly financial reports in Malaysia; Alhiji (2003) who examined the importance of financial reporting practices in Islamic financial institutions in the Gulf States; and, Nasser and Nuseibeh (2003) who examined the usefulness of corporate reports in Saudi Arabia.

It is important to bear in mind that the application and usefulness of interim financial reports depends on the effort and experience of users. This is crucial, especially as they are used extensively as a benchmark to evaluate the current performance of shares (Schrand, 2000). Not surprisingly, therefore, Sullivan (2001) emphasised the importance, for users of annual and quarterly reports, of reading them carefully.

4.6 THE IMPACT OF FINANCIAL REPORTS ON THE CAPITAL MARKET

This section reviews some empirical studies on the information contained in financial statements and how the capital market reacts to the release of this information. This fundamental relationship between the release of information and the reaction of the capital market has been of interest to researchers since the late 1960s.

Ball and Brown (1968) are pioneers in this field and their study is considered to be one of the seminal works in the area. Their study, which investigated the impact of annual earnings announcements on share prices, found that earnings and some financial components capture information that is contained in stock prices. This allowed them to conclude that trading strategies are often based on predictions of future earnings from publicly available financial statement information. Another major study by Beaver (1968) investigated trading volumes and how they are influenced by the release of financial statement information. Beaver found that if financial statements convey relevant information, the number of shares traded is likely to increase.

May (1971) investigated quarterly earnings announcements and how the market responded to these reports. Using the quarterly earning announcements of 105

companies listed in the New York Stock Exchange (NYSE) during 1964-1968 he concluded that stock prices generally respond to quarterly report announcements and convey useful information to the market. Similarly, Kinger (1972) used Beaver's research methodology to investigate the impact of quarterly earnings announcements on the volumes and share prices of companies listed on the NYSE, and found that quarterly earnings announcements contain information that affects both the price and the volumes of traded shares. Brown and Kennelly (1972) also found evidence to support this causal relationship between quarterly announcements and U.S. stock markets.

Like Kinger (1972), Morise (1981) investigated the behaviour of share prices and trading volumes on the NYSE after quarterly earnings announcements. He took daily data from 1973-1976 for twenty-five companies and found that shares responded in terms of both price and trading volumes, to the issuance of quarterly announcements. Foster et al (1984), basing their conclusions on 56,000 observations from 1974 to 1981, also found evidence of post announcement drift. On the given assumption that interim reports affected trading volumes, Bamber (1987) attempted to measure the magnitude and duration of the trading volume reaction. The study noted that the greater the unexpected quarterly earnings, the greater the magnitude and the duration of "abnormal" trading volume.

Stickels (1989) studied the relationship between interim reports and revisions to annual earnings per share (EPS). The study found evidence of timing revisions around interim announcements, which were abnormally high, for approximately two weeks after the interim announcements. The study also found that forecast accuracy is less

biased when the forecast horizon begins after the third quarter of the year. Somewhat interestingly, the study revealed that if there are “unexpected” disclosures in the quarterly reports, revision activity increases to a far greater level.

4.7 RELATED LITERATURE ON QUARTERLY FINANCIAL REPORTS

4.7.1 EXTERNAL AUDITOR INVOLVEMENT IN QUARTERLY FINANCIAL REPORTING

The demand for audit services and auditor assurance

Investors and other users of financial statements need to have some assurance that the audited quarterly financial statements, in addition to the annual financial statements, follow Generally Accepted Accounting Principles (GAAP) and do not contain any type of misrepresentation. The auditor’s role in the firm is to perform the audit service following General Accepted Auditing Standards (GAAS) and express an opinion that the firm’s financial statements comply with Generally Accepted Accounting Principles (GAAP). The function of an auditor is to monitor the accounting system of the company and to provide assurance to investors and other financial statement users that the financial condition of the company is sound (Wallace, 1987). The effectiveness of the audit is in its ability to detect defects or erroneous statements in financial statements. The auditor must, however, have some incentives to comply with GAAS, especially when there is bad news relating to a company. In essence, the more incentives for the auditor to report the truth, the greater the value of the audit report. This is important because a high standard of work will assure investors and other users, that financial statements do not contain mistakes (Wallace, 1987).

De Angelo (1981) defined audit quality as the assurance that the auditor will be able to detect and report misstatements. Beattie (1999) has shown that users of financial statements react favourably to the selection of a highly respected and regarded auditor. A more credible auditor is believed to supply higher assurance to users because they are more likely to be effective in independently determining whether financial statements follow GAAP.

Auditor involvement in quarterly financial statements

There are several benefits of external Certified Public Accountants (CPA) becoming involved with quarterly financial statements. The potential benefits derive from the production of relevant and reliable financial reporting for interim quarters. CPA involvement means that (as stated above) the quarterly financial statements will have to follow the rules of the Generally Accepted Accounting Principles (GAAP) and, thereby, provide assurances to investors. CPA engagement in the review will enhance the quality of quarterly reporting because, apart from following GAAP rules, it also brings in a wealth of experience to the auditing process. This will not only improve overall quality but also speed up the process of producing accurate reports.

Interim reports are not always audited and when they are, the process is typically not as rigorous as annual reports. Nevertheless, when auditing is undertaken the assurance provided to investors and users of interim reports is not insignificant. Without an audit a financial statement could contain misleading information or falsifications so that it no longer represents the true picture of the organisation. Spathis (2002) claimed that: "Falsifying financial statements primarily consists of manipulating elements by overstating assets, sales and profits, or by understating liabilities, expenses or losses.

Most techniques for manipulating profits can be done through changing accounting methods or shifting the period to include expenses or revenue in the results". The auditing process would effectively mitigate the occurrence of false statements in the accounts and seek to explain the justification for changes in accounting methods.

According to Carnes et al (2001), the SEC prosecutes over 100 cases of accounting fraud every year. However, fraud impacts on companies, not just through misstated financial statements, but also through deception and the misappropriation of assets by employees (Carnes and Glerlasinski, 2001). A study carried out on false financial statements in Greek firms found that in general, companies with high inventories (stock) with respect to sales, high debt compared to total assets, and low net profit compared to total assets are more likely to falsify financial statements (Spathis, 2002).

Ismael's study (2003) revealed that Malaysian users prefer some kind of auditor involvement in quarterly reports and that the majority of users are not fully confident about the reliability of quarterly reports when auditors are not involved. This finding would appear to make sense and reflects the simple fact that the financial resource valuation system cannot be considered to be complete, unless it is followed by an equally competent auditing system. Auditors' reports can only be issued when the auditor has gathered and reviewed evidence supporting the financial statements. Furthermore, accounting policies must be consistent with the last published annual accounts except where they are to be changed in the next annual financial statements, in which case the new policies should follow the interims.

4.7.2 IMPORTANCE OF DISCLOSURES

Information disclosures in the form of footnotes and notes to the accounts are important for users of financial statements. Kieso and Weygandt (1992) argued that financial reporting contains information other than that relating to the specific entity under review. It follows, therefore, that when evaluating financial statements based on annual or interim financial reports, the hidden meaning in these reports should be investigated because warning signs, such as, litigation, cash flow shortages, large amounts of inventory, credit problems, declining profit margins etc, could be revealed. For this very reason, Sullivan (2001) advised users of annual and quarterly reports to read them very carefully.

Shaoul (1997) argued that accounting disclosures can be a powerful tool and a source of evidence to study the outcome of corporate behaviour and to evaluate the public debates relating to corporate policy and strategy. Larson and Kenny (1995) asserted that disclosure information and financial reporting are central to the development of stock markets. In this respect the accuracy and timeliness of the information is critical to the development of the markets.

Ndublizu (1992) developed this theme in a slightly different way in arguing that information disclosure prevents market failure by reducing market uncertainty. In other words it reduces information asymmetry. As such, it motivates greater investor involvement in the stock markets. It is also very important to look behind the numbers that companies release in annual and interim financial statements. In this respect footnotes can sometimes be very revealing and give additional insight into a

company's activities. For example, it could be that the company under examination has long-term debtors or has un-saleable or obsolete stock.

Saudagaran and Diga (1997), who investigated financial reporting issues in emerging stock markets, argued that adequate disclosures could significantly increase investor confidence in the market. Banman and Verrecchia (1996) argued that increased levels of financial disclosure could reduce share price fluctuations. In this respect footnotes help investors to read between the lines. However, sight must not be lost of the importance of timely disclosures of material facts and price-sensitive information that might have a bearing on the performance of the company.

4.7.3 TIMELINESS OF FINANCIAL INFORMATION

As already intimated, timely and reliable quarterly financial reporting improves the ability of investors and other financial users to understand an enterprise's capacity to generate profits and monitor its financial condition. Timeliness involves how an enterprise should present its interim financial reports in terms of frequency (monthly, quarterly or semi-annually) and how soon after the end of an interim period these reports should be issued. An interim financial report is intended to provide up-to-date information based on the most recent data. Therefore it focuses on the effect of transactions and events since the elapse of the last report.

Since January 1998, Kuwaiti law has required all listed companies to prepare quarterly reports and allows a maximum of 45 days after the closing date for the reports to be published. In addition, Kuwaiti law requires two external auditors to

review and approve the quarterly reports. The Kuwait Stock Exchange (KSE) has to ensure that quarterly financial statements include information that enables users to understand an entity's financial position during and at the end of the interim period. The timeliness of financial reports has already been discussed and according to FASB statement No.2 "timeliness is having information available to decision makers before it loses its capacity to influence decisions." The relevance of corporate information is, therefore, dependant on the speed of its publication. In other words, the longer the period between the end of the accounting period and publication of the report is, the less relevant the information (Albaqmi, 1996; Abu-Nasser and Rutherford, 1996; Nasser and Al-Hussaini, 2003).

Ismael (2003) whose research focussed on Malaysia, found that 90 percent of users prefer quarterly reports to be issued earlier than the current lag period of 60 days (79 percent of the users would prefer quarterly reports to be reported as early as 30 days) and only 10 percent of users supported the current lag period. Conversely, 62 percent of accountants, who prepare the reports, support the current 60 day period.

Users of quarterly financial reports would appear, therefore, to want more timely information to make their financial decisions; however, accountants apparently want sufficient time to prepare the reports and are understandably reluctant to place themselves under pressure to speed up reporting.

4.7.4 SEASONALITY OF THE INFORMATION:

Under quarterly reporting, some expense or revenue items might be affected by seasonal considerations and therefore it would not be appropriate to treat all quarterly reports in the same way. Some entities, for example, might earn more revenue or might have more expenses in certain quarters compared with others. The best approach in terms of managing this problem is to disclose seasonal fluctuations in the notes to the interim accounts

Most people would agree that seasonality is one of the factors that should be recognized when quarterly financial statements are prepared. If a company's business is highly seasonal, the International Standards Board (IAS34) encourages disclosure of financial information for the last year, comparative information based on the prior previous year and that is in addition to any interim financial statements (IAS34).

Weinberg (2000) argues that it is not a good idea to draw conclusions based on a single quarter, because it may contain either seasonally good or bad signs. Therefore, he recommended that users compare the current quarter with annual and other quarterly reports. Foster's (1977) study, which covered an extensive period from 1946 to 1974, showed that capital markets do respond to quarterly reports, which contain seasonal information. This suggests that some form of calibration is taking place in the reading of quarterly accounts affected by seasonal variations.

4.8 CONCLUSION

The main purpose of this chapter was to review the literature related to the usefulness of quarterly financial reports and financial information in general. Since quarterly financial reports constitute a specific type of financial reporting, it is important to start with some general theoretical discussion of financial reporting and then concentrate on the usefulness of quarterly financial reports. The chapter was accordingly divided into two main parts: the first part discussed the provision and framework of financial statements, and the second part reviewed the related literature on the usefulness of quarterly financial reports and financial statements.

It appears from the literature that quarterly financial reports and the financial statements generally, are widely used as sources of information. Moreover, there is a diverse range of information contained in these reports that affects the stock market. Even when other data sources are used, quarterly and annual reports are regarded as the most important source of information.

CHAPTER 5

THE RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter examines the research methods that were used to collect and analyse data on the attitude of financial users toward the issuing of Quarterly Financial Reports (QFRs). It is very important that the research methods are appropriate in order meet the objectives of the research. Therefore, it is perhaps germane, to reiterate that one of the main objectives of this study is to make a contribution to the literature on financial reporting, especially, that part of the literature, which relates to less developed countries. Accordingly, the empirical work of this thesis investigates the “nature” of the information provided by QFRs in the Kuwait Stock Exchange and tries to ascertain how QFRs can be useful to Kuwaiti investors when making financial decisions.

Research into financial reporting is important because it addresses the controversial question about the usefulness of such reports. The academic literature on the usefulness of financial reports can be divided into two groups. The first group consists of those academics that consider information in financial statement to be one of the major sources of financial information. The second group consists of those academics who claim that there is a decline in the relevance of financial statements because of the electronic revolution and the globalisation of companies. It can, therefore, be problematic in arriving at unequivocal conclusions regarding the usefulness of financial statements for information users. Nevertheless, Lee and Tweedie (1975, 1976), Anderson (1981), Skipper (1991), Albaqami (1996), Almahmoud (2000), Ismael

(2003), Almutairi (2004) are all examples of academics who have emphasised the importance of financial statements to users when making financial decisions. Conversely, Ramiesh & Thiagarajan (1995) and Amir & Lev (1996) are typical of academics who have expressed growing concern about the usefulness of financial statements.

The discussion in the literature chapter pointed to a number of important studies, which deal with annual and quarterly (interim) financial reporting. It is clear from this chapter that quarterly (interim) financial statements are important in developed countries when making financial decisions. However, the question is whether quarterly financial statements are similarly useful in a less developed country like Kuwait, where financial users have little experience and the authority of the accounting profession is limited.

5.2 OBJECTIVE OF THE STUDY

The study's objectives and research questions are summarised in Figure 5.1. Specifically, the main objective of the study is to examine the usefulness of quarterly financial reports to investors in the Kuwait Stock Exchange when making rational investment decisions. To achieve this objective the study will address the following issues:

1. The attitudes of the main financial user groups towards QFRs (individual investors, institutional investors and financial analysts) and whether they understand evaluate and use the financial information contained in reports when making financial decisions.

2. The study will examine the information content of QFRs in the KSE and address how it can be developed or enhanced.
3. The study will measure the attitude of financial users towards the release of such information.
4. The study will highlight some indicators to emphasise the importance of quarterly accounting information and the critical role it can play, both in theory and practice, in determining future share prices and investor behaviour.
5. The study will determine the quality of quarterly reporting by analysing several related factors such as the degree of auditor involvement in preparing the reports, the amount of disclosures required, the timeliness of reporting and the reliability of reports prepared by companies listed on the Kuwait Stock Exchange.
6. The study investigates the essential characteristics of useful financial information, i.e. relevance, reliability, timeliness and comparability.

In this respect, this study will provide a better understanding of how QFR information is evaluated and how it contributes to the provision of relevant financial information. The study also seeks to raise the awareness of different major interest groups regarding the performance of the QFRs and its importance in improving and determining overall financial decisions. In this way the study might also encourage the authorities in the KSE to develop or enhance the existing policies relating to QFRs.

FIGURE 5.1: SUMMARY OF MAIN RESEARCH QUESTIONS AND THE OBJECTIVE OF THE STUDY

Part II, section 1 of the Questionnaire

Importance of different sources of information

Part II, section 2 of the Questionnaire

Importance of different parts of QFRs

Part II, section 3 & 4 of the Questionnaire

Use & usefulness of QFRs for users

Part II, section 5b of the Questionnaire

Characteristics of ideal financial reports

Part II, section 7 of the Questionnaire

Market sensitivity, auditor assurance, timeliness & quality

Part II, section 6 of the Questionnaire

Factors influencing the determination of share purchase

Part II, section 5a of the Questionnaire

Factors that might increase the demand for QFRs

The Usefulness Of Quarterly Financial Reports For Financial users In the Kuwait Stock Exchange

Source: Author

5.3 THE RESEARCH QUESTIONS

The main contribution of this study lies in its attempts to provide answers to the following questions, which are conducive to meeting the research objectives:

1. How do Kuwaiti financial user groups rank the importance of QFRs compared to other sources of information and how important are these sources of other information to financial users?
2. How important is the QFR as a source of information for investors and analysts in the Kuwait stock market?
3. What is the most important section of a corporate QFR and how does this vary according to user groups?
4. Do financial user groups find the information provided in QFRs useful for investment activities?
5. Are there specific factors, situations or changes in a company that, if incorporated in QFRs, might make them more valuable?
6. Is there a relationship between investor behaviour and share prices, and the issuance of quarterly financial statements?
7. Does auditor involvement in the QFR enhance its standing?
8. Does the user's financial and accounting background affect the use, analysis, understanding and evaluation of a corporate QFR?
9. What is the perception of financial users regarding the timeliness of QFRs?
10. Do financial investors want more information to be disclosed in corporate QFRs?
11. What are the most important characteristics of QFRs?

5.4 THE RESEARCH HYPOTHESES

The following nine research hypotheses were developed according to the main themes and objectives of the research, and in the light of the research questions: (These hypotheses are reported from section 1.6)

H1: The different groups of investors in Kuwait have no significant differences of opinion regarding the sources of information about listed companies.

H2: The different investor groups in Kuwait have similar views about the importance of various sections of QFRs.

H3: The different investor groups in Kuwait have no difference of opinion regarding the use of QFRs.

H4: The different investor groups in Kuwait have similar opinions regarding the usefulness of QFR.

H5: The different investor groups in Kuwait have similar views on the importance of selected criteria that might affect the quality of QFRs.

H6: The different investor groups in Kuwait have similar views regarding the sensitivity of the stock market to QFRs, the inclusion of additional selected disclosures in QFRs, auditor involvement in QFRs and the timeliness of QFRs.

H7: The different investor groups in Kuwait have no significant differences of opinion regarding the items that should be included in future QFRs.

H8: The different investor groups have no significant differences of opinion regarding the effect QFRs have on share prices.

H9: The different investor groups have the same views regarding the factors that could increase the demand for QFR.

5.5 PURPOSE OF THE RESEARCH

Research is increasingly significant at all levels of business but, particularly in accounting and financial studies. The most important aspect of research is about discovering and understanding the human environment. Accordingly, Ryan (1992) defined research as “an activity, which we all undertake to learn more about our environment and the impact we have upon it”. Sekaran (2003) defined business research as “an organized, systematic, data-based, critical, objective, scientific inquiry or investigation into a specific problem, undertaken with the purpose of finding answer or solution”.

Chapter Three of this study, which was concerned with stock market developments, mentioned that there are a number of new regulations and changes that have taken place in the aftermath of the Almanakh crisis and the establishment of the new KSE in 1983. These changes were based on the lessons learned from other financial crises, which suggested that a lack of adequate, timely and reliable company disclosures

could mislead users of financial reports, and prevent them from making appropriate decisions (Ismael 2003).

In 1997, the KSE committee made it compulsory for QFRs to be published by all listed companies in the KSE. As such, quarterly reporting in Kuwait is still in its infancy and in this respect, the timing of this study was judged to be about right. This is because it will contribute to the accounting literature by giving an insight into the development, usage and practice of quarterly (interim) reporting in Kuwait.

5.6 RESEARCH METHODS

In the research literature a wide range of research methods are available, such as, questionnaires, interviews, case studies, observations, event studies and so on. Each method involves a distinctive way of collecting data. Similarly, each research method also involves an equally distinctive set of advantages and disadvantages. It follows, therefore, that there is no right research method and one of the main challenges facing the researcher is to select a research method that will compliment and enhance the value of the research.

Neumann (1997) succinctly captured this dilemma when arguing that: “There are competing approaches to social research based on different philosophical assumptions about the purpose of science and the nature of social reality. At the same time, there are some ideal approaches which answer the researchers’ basic questions. Most researchers operate within one approach, but many combine elements from the others”.

It is clear, therefore, that selecting the best or most appropriate research methodology is one of the key aspects of research design (Tull and Hawkins, 1993). In the following section, the study examines two sources of data collection, namely, primary and secondary data. The advantages and disadvantages of each method will then be discussed and the rationale for choosing the most appropriate method for addressing the research questions in this study will be explained.

5.6.1 SOURCES OF DATA

Sekaran (2003) argued that “Data can be obtained from primary or secondary sources. Primary data refers to information obtained firsthand by the researcher for the specific purpose of the study. Secondary data refers to information gathered from sources already existing”.

Primary data usually needs to be collected and it is used to measure attitudes and opinions, and indicate the views, preferences and feelings of people toward some object or phenomenon (Tull and Hawkins, 1993). AboElanain (2003) expanded this explanation when he mentioned in his study that primary data can be used to measure attitudes, opinions, awareness, intentions, behaviour, motivation and life style characteristics.

Secondary data refers to data that already exists and, in contrast to primary data, it does not have to be collected by the researcher. Secondary data can be used to investigate or make forecasts, depending on what information is available. There are several sources of secondary data such as books, periodicals, magazines, statistics,

government publications and other data base services (Diamantopoulos and Schlegelmilch, 1997).

5.6.2 DATA COLLECTION METHODS

Data collection is considered to be an integral part of good research because the quality of the research ultimately depends on the accuracy of the data. The overall selection of data also requires the researcher to obtain the information in a time and cost effective way. In practice this is not always straight forward because data can be collected in a variety of ways and from a wide range of sources. The methods of data collection that could have been potentially beneficial to this research include *inter alia*, interviews, questionnaires, time series, case studies, and observations.

Most of the data needed for this research falls into the motivational or attitudinal category because it is connected with financial user's and investor's opinions regarding the issuing of QFRs. However, as mentioned earlier in this chapter, each method also has its own advantages and disadvantages. This means the when collecting primary data the researcher has to make a choice as to what is the best research method. The sort of considerations involved in making these choices are shown in table 5.1 and discussed in the rest of this section.

The choice of data collection method also depends on the experience of the researcher, the facilities that are available to them, the time allocated to the study, and the funds or resources that are at the researcher's disposal.

Table 5.1: THE ADVANTAGES AND DISADVANTAGES OF DIFFERENT RESEARCH METHODS

Method	Advantages	Disadvantages
Observation	Low bias, rich data.	Long time, needs skills.
Event studies (Time series)	Accurate results.	Data is not always available, needs high skills.
Case study	Can Provide rich data in certain instances.	Dealing with specific cases, results cannot always be generalised.
Interview	High response rate, ensuring proper answers.	Interviewer bias, high cost, requires skill.
Questionnaire	Low cost, low bias, greater anonymity, low expense.	Low response rate, missing data.

Source: the author

The observation method

In this data collection method, which is referred to in the research methods literature as ethnographic data (for example, Hammersley and Atkinson, 1983; Fetterman, 1989; Shweder, 1996), data is gathered without asking questions and people are observed in their natural habitat, work environment or in the lab. The advantage of this method is that the researcher observes events as they normally occur. Observation studies can provide a rich source of data concerning the nature of the observed phenomena. The data should also be free from respondent bias. However, there are some disadvantages with this method. For example, the observer needs to spend a long time physically observing what happens. In addition, the observer also needs skill, training and experience in order to collect the data without bias.

This method is not suitable for this study because it seeks to measure the attitudes and opinions of financial users.

Event studies (time series)

An event study is the name given to an empirical investigation of the relationship between a financial indicator, such as a share price, and the information contained in a financial statement (Almahmoud, 2000).

The availability of databases is, therefore, important in attracting researchers toward this method because it can increase the quality of the research. The problem, however, is that data in developing countries suffers from major limitations in comparison to data in developed countries. In particular, databases often suffer from missing or inaccurate information and computerised databases are not usually found in these countries.

Case studies

Case studies involve an in-depth analysis of organisations to ascertain the nature of the problem and draw conclusions and/or comparisons (Sekaran, 2003). As such, it deals with a specific problem in more detail and usually focuses on a single organization or a small number of observations. Nevertheless, in order to be manageable and pragmatic the case study needs to place some limits on the subject matter.

- The case study method is not appropriate for this research because it is too focused. The study instead seeks to examine general knowledge regarding the usefulness of

QFRs from the financial users' points of view. Moreover, the behaviour of human beings in the stock market cannot be understood by an individual case study project.

Interview

The interview is another research method for gathering information and obtaining data, which can be conducted either face-to-face, over the telephone, or through the medium of the computer (Sekaran, 2003). As such, they involve direct contact between the researcher and the sample selected and can facilitate the collection of opinions and particular points of view. The purpose of the interviews in this study was to obtain the views and opinions of investors in relation to the aims and objectives of the study.

As a means of data collection, the interview has a number of advantages, such as:

- The interviewer has the ability to determine who will answer the question, the place in which the interview will take place, and the order of answering the questions. Usually the interviewer tries to choose knowledgeable and experienced people involved with the topic to get their views about the subject of the study. This will generally increase the credibility, confidence and quality of the data provided for the research.
- The interview method is considered one of the most effective methods for achieving a high response rate. In this research, for example, the researcher organised preliminary visits to introduce himself and the research topic to the interviewees before making the appointments to conduct the formal

interviews. Prior to each of the interviews, the researcher also telephoned to ensure that the interviewees were available

- Respondents can sometimes complete questionnaires without knowing exactly what the question means. In this respect the interview method provides greater flexibility by allowing the interviewer to eliminate confusion regarding the meaning of questions.
- The interviewer can improve the quality of the data by ensuring that the respondents answer the questions in an appropriate way and can also ask for more details when the answer is either incomplete or ambiguous.
- The interview method can manage open-ended questions in a way that is not available in a questionnaire.

Nevertheless, the interview, as with other data collection methods, has some disadvantages. Some of these disadvantages are as follows:

- There are a number of factors that could introduce bias into the data, such as, the personality of the interviewer, the introductory session before commencing the interview, the inflection of the voice, etc. It is, therefore, important that the interviewer is aware of these potential problems before starting the interviews

- Sometimes interviewees do not reveal the truth or provide inaccurate data, especially, if the questions relate to sensitive issues, such as, job performance, reward and incentives, etc.
- Interviews can be very time consuming and are, therefore, typically more expensive than other research methods. This is particularly the case when respondents are scattered over a large area.
- The physical presence of the interviewer may raise concerns about the lack of anonymity in face-to-face interview, especially if the interviewee is sensitive to the topic or some of the questions.

Questionnaires

A questionnaire survey is a method of research designed to collect information about specific opinions, beliefs or other characteristics relating to groups of people (Al-Qenae, 2000). It is a pre-formulated written set of questions to which respondents record their answers (Sekaran, 2003).

A questionnaire is a highly structured data collection method and can be carried out either by mail, telephone, electronic distribution or by personal administration. Although interviewing has the advantage of flexibility in terms of adapting, adopting and changing the questions, questionnaires have the advantage of obtaining data more efficiently in terms of research time, energy and cost (Burns and Bush, 2000; Sekaran, 2003).

Questionnaires have the following advantages:

- **Impersonal:** the absence of the interviewer provides greater privacy for the respondent, especially, when the survey deals with sensitive issues such as age, salary, profit or wealth.
- **Reduction of error bias:** the respondent answers the questions frankly because there is no pressure on them from the administrator. In this respect, the use of the questionnaire reduces the sort of response bias that might occur in interviews because of the personal characteristics of the interviewer.
- **Low cost:** the cost of the questionnaire is typically lower than that associated with other research methods, especially, interviews.
- **Wide geographical area:** the mail questionnaire can reach a wide geographical area.

However, there are also a number of disadvantages associated with the questionnaire and most of these relate to the mail questionnaire. Some of these disadvantages can be overcome by using self-administered questionnaires.(where the researcher personally delivers and/ or collect the questionnaire but leaves the respondent to complete the questionnaire)

- **Missing or propitiate data:** the researcher may have missing information or the respondents might try and guess what the researcher would like to see from the results. The researcher has limited control over the respondents, especially, when using a mail questionnaire. Missing data may also cause response bias and this problem may be compounded by over complicated questionnaires.
- **Low response rate:** the most serious problem associated with questionnaires is the low response rate: a response rate of 30% is generally considered normal for a mail questionnaires (Sekaran 2003). A good response is important in any survey and the researcher can overcome this problem by contacting the respondents before distributing the questionnaire and following this up by sending reminders.
- **The respondents may have some difficulty in understanding some questions or some of the words.** It is therefore, important to pilot or pre-test the questionnaire before distribution to the sample population.

With a self-administrated or drop-off questionnaire, the respondents complete the survey on their own; they read the questions and respond directly on the questionnaire. Normally, they would also select the time and place to complete and return the questionnaire. A self-administered or drop-off questionnaire is appropriate for a small geographical area when it can be presented to the respondents with an explanation of its purpose and then subsequently collected (Burns and Bush, 2000).

In addition to the general advantages of a questionnaire, these specific advantages of the self-administered questionnaire areas are as follow:

- The researcher has the opportunity to introduce and clarify the importance of the research topic and motivate the respondents toward answering the questions.
- If there is any doubt or ambiguity associated with the questionnaire, the researcher can clarify the problem.
- The researcher can collect responses within a relatively short period of time compared with other research methods such as mail questionnaire.
- It does not require the same level of skill compared with other collection methods such as mail questionnaire.
- It is fairly easy to administer to a large group within a short period of time.

However, self administrated questionnaire require more of the researchers' time to distribute. Mail and electronic questionnaires can also be used when it is important to access a large volume of respondents or respondents who are widely spread geographically.

5.7 THE RESEARCH METHODS USED IN THE STUDY

This section discusses the research methods that have been adopted in this study.

According to De Vaus (1996), "It is impossible to decide which method is the best. The relative strengths and weaknesses vary according to the characteristics of the survey. There are many factors affecting which method is the most suitable for a survey such as the purpose of the study, sample size and distribution, the time available and the environment and conditions under which the study is conducted".

In this study, it was decided to use a self-administered or so called drop-off questionnaire, together with supportive interviews with experts in the study area. These research methods were adopted because they generally ensure a high response rate at a reasonable cost within a relatively short period of time.

In this respect, the research method followed the advice of Sekaran (2003) who argued that: "When the survey is confined to a local area, and the organization is willing and able to assemble groups of employees to respond to the questionnaires at the workplace, a good way to collect the data is to personally distribute the questionnaire. The main advantage of this is that the researcher or a member of the research team can collect all the completed responses within a short period of time".

Having considered the advantages and the disadvantages of the main research methods, the researcher decided that the self-administered questionnaire and the supportive interview methods were the most suitable for this study. The suitability of these research methods was based on the following criteria:

- This study deals with the financial users of QFRs and the results and recommendations of the study will hopefully help financial users by improving the way such statements are provided in the future. A self-administered questionnaire and face-to-face interview will minimise many of the disadvantages associated with the mail questionnaire, such as missing data and low response rates.
- The study aims to obtain the views of as many financial users as possible and the self-administered questionnaire together with face-to-face interviews was judged to be the best method for maximising the response rate.
- The interviews provide flexibility in the questioning process and ensure that respondents answer the questions properly.
- The interviews allow the interviewee to introduce questions that cannot be included in the questionnaire, such as, open ended questions or long questions.
- In the literature, there are several studies in this field that have used questionnaires to good effect, such as, Lee and Tweedie (1975, 1976), Anderson (1981), Albaqami (1996), Almahmoud (2000), Ismael (2003), Almutairi (2004). Similarly, the interview method has been used in a number of other studies on the overall usefulness of financial statements, such as, Lee and Tweedie (1981), Moizer (1984), Day (1986) and Almubarak (1997).

In the view of the above factors, and taking into account the time available, the environment and cultural background in Kuwait, it was decided to use the self administered questionnaire together with supportive interviews.

5.7.1 THE QUESTIONNAIRE DESIGN

When a questionnaire approach is chosen, it is necessary to know how to design a series of effective questions. The questionnaire is considered to be effective if it suits the study's objectives and the nature of the respondents. The golden rules of good questionnaire design dictate that it has to be clear, unambiguous and encourage respondents to participate (Tull and Hawkins, 1997).

According to (Almubarak 1997) a good questionnaire should accomplish the following objectives.

- The questions should measure what you want to measure, and minimise bias and unreliability.
- Proper attention should be paid to structuring the questionnaire and the wording of each question.
- Questionnaires should be free of ambiguity, and each question should express a clear idea. The questions must translate the research objectives into specific questions.

Burns and Bush (2000) argue there are three basic question response formats: open-ended, closed ended, and scale response questions. In this study both closed and open-ended questions are used. A closed ended question would typically ask the

respondents to make a choice from a set of alternatives. The advantages of closed ended questions are that they are quicker and easier to answer. Moreover, the respondent can answer these types of questions with accuracy in a relatively short period of time. "Closed ended questions also help the researcher to code the information for subsequent analysis" (Sekaran 2003).

5.7.2 THE STRUCTURE OF THE QUESTIONNAIRE

The majority of the closed-ended questions were in the form of five-point Likert scales. The Likert scales were used to examine how strongly subjects agreed or disagreed (important or not important) with the research statements. In contrast the open-ended questions allowed the respondents to provide more subjective or personal responses. They can be more difficult to collate but if they are used sparingly they can be extremely useful.

In addition to incorporating both closed and open-ended questions the questionnaire was also written in both English and Arabic. The questionnaire consisted of twelve pages including the cover page, which was used to set out the objectives of the study. It also made clear that the information would be used only for the research and would be treated in the strictest confidence. It was anticipated that this promise of confidentiality would encourage the subject groups to participate and respond to the questions without bias. The questionnaire consisted of nine sections and each section contained a set number of questions (See Appendix A-the Questionnaire).

The first section deals with the background of the respondents and seeks to obtain demographic information about them, such as, their main activities, type of job, main

place of employment, professional and academic qualifications and investment experience in the Kuwait Stock Exchange (KSE). The main objective of this section was to use the demographic information and ascertain to what extent the different backgrounds of the respondents affected their responses to the questions.

Another objective of this section was to obtain a profile of the respondents who participated in the study. To facilitate this process respondent were classified into three groups: Individual Investors, Financial Analysts and Portfolio Investors.

The respondents were also classified according to their education level, years of experience and place of work etc.

The second section of the questionnaire consists of seven parts and was designed to focus on the main objective of the study, which was to investigate the different points of view of financial users regarding the importance of alternative sources of information. In part one of the questionnaire, respondents were given the choice of eight sources of information to evaluate. These main sources of information included company annual reports, quarterly financial reports, direct contact with management, contact with the brokers and trading units, advisory services, market rumours and specialist publications. The researcher also asked respondents to identify other sources of information, which were not specifically mentioned in the questionnaire. The respondents were also asked to rank these different sources of information according to their importance.

Part two of the questionnaire deals with the content of QFRs and the relative importance of different sections. Respondents were asked to specify which sections of the QFR they regarded as important when making investment decisions. It was

thought that the information provided by this part of the questionnaire would be useful in helping the authorities to determine the future content of QFRs.

The third part consisted of six main questions and their purpose was to ascertain the respondent's views on the use of QFRs. Respondents were also requested to rank their preferences on the frequency of different kinds of financial reporting.

The fourth section, which consisted of thirteen questions, examines the usefulness of QFRs and how the users of QFRs make financial decisions, i.e. what factors they considered to be important and how these factors differed according to the different perspectives of users. As investor confidence in financial reporting depends mainly on the amount and the quality of the information this section was thought to be particularly important.

The fifth section investigates some factors which, if included in QFRs, could increase their importance. For example, the appointment of a new CEO or a higher leverage ratio, the riskiness of the firm or its size, etc. In examining how respondents' decisions could be effected by these sorts of factors this part of the questionnaire attempts to provide some causal relationship between their occurrence and the demand for QFRs. For example, the respondents were asked whether the existence of these factors made the issuance of QFRs more useful.

The sixth section of the questionnaire investigates eighteen factors and sources of information, which might affect decision-making when purchasing shares. The determination of stock prices is very complex and is influenced by several factors. The questionnaire, therefore, tried to ascertain whether the issuance of QFRs plays an

important role in affecting share prices and whether there is a relationship between the share price, investor behaviour and the issuance of QFRs.

The seventh and final section of the questionnaire reinforces the above sections by asking a range of related questions, such as, whether financial disclosures, auditor involvement and the timeliness of reports, etc. affects the overall usefulness of QFRs.

5.8 THE SUPPORTIVE INTERVIEWS

The primary purpose of the supportive interviews was to get the views of experts in the field on the usefulness of QFRs. Their views on the results from the questionnaire were also obtained and this was very useful in helping to interpret the results.

Conducting interviews required careful preparation and the researcher arranged a total of ten interviews. As Table 5.2 shows the interviewees consisted of three financial analysts, three portfolio managers, two managers of investment companies and two highly experienced individual investors. The interviewees were chosen because they were considered experts in the field.

Table (5.2) PROFILE OF INTERVIEWEES

Characteristic of the interviewees	Number
Financial analysts	3
Portfolio manager	3
Manager of investment company	2
Highly experienced individuals	2
Total	10

Source; Author

The researcher started by explaining the aims of the research and the purpose of the interviews and assured the interviewees that the information would be treated confidentially and would only be used for the research. The primary objective of the interviews was to assist in the interpretation of the results from the questionnaire. Accordingly, they were designed to cover the same main points. Permission was sought to record the interviews and all of the interviewees agreed to this request. The interviews were conducted at the interviewee's place of work, with the exception of the two individuals. In these two instances the interviews were conducted at their respective homes. Finally, all of the interviews lasted for approximately 30 to 45 minutes.

5.9 THE QUESTIONNAIRE & INTERVIEW TRANSLATION

After considering a number of different translation methods (McGorry, 2000), it was decided to adopt the following approach. The questionnaire was initially written in English and then translated back into Arabic. Respondents were also given the choice of either completing the questionnaire in Arabic or English, according to their preference. Providing respondents with a choice in this way was thought to be sensible because although English is widely used in Kuwait, especially, amongst educated people, Arabic is still the main primary language. Accordingly, some of the respondents responded in English and others in Arabic.

In order to avoid ambiguities the researcher adopted the double translation approach advocated by Marin and Marin (1991) and decided to translate the English version of the questionnaire back into Arabic himself. A copy of the final draft was then given to

some of the faculty staff at the university in order to get additional feed back on the translation. This pre-testing of the questionnaire was extremely useful and only used university staff who were familiar with the sort of accounting and business terminology contained in the questionnaire. Finally the researcher took a copy of the translated questionnaire to a certified translation office to make sure that the translation was done correctly. These exact same procedures were adopted in preparing the interview schedule, which was also completed in both Arabic and English.

5.10 PILOT STUDY (PRE TESTING STRUCTURE)

Once a questionnaire has been written a pilot study is extremely important in order to test each of the questions.

Sekaran (2003) stated, “It is believed that a pilot study prior to the actual research investigation is critical and has many advantages. It is important to pre test the questionnaire to ensure that the questions are understood by the respondents and to establish that there are no problems with the wording, ambiguity or measurement”.

The pilot study typically involves the use of a small number of respondents (experts in the field) to test the appropriateness of the questionnaire for its stated purpose. As such it helps to identify and correct any inadequacies, before circulating it to respondents. To some extent, it also helps the researcher generate new ideas and opinions.

According to Sekaran (2003) questionnaire design should focus on three main principles. The first relates to the wording of the questions and the second refers to the planning of the issues, and how variables will be categorised and coded. The third and

final design principle relates to the general appearance of the questionnaire. The questionnaire in this study went through a number of pre testing stages before it got to the final stage. First of all, a draft of the questionnaire was piloted by testing it on some of the academic staff in the Business School at Loughborough University. They were asked to express their opinions on the wording, structure, appearance and length of the questionnaire. Based on the feedback several modifications were made to the questionnaire. For example, some questions were deleted, others were added, and some questions were combined. A draft of the pre-tested questionnaire was then examined to ensure that a meaningful statistical analysis could be based on the responses. For example, this pilot suggested adding the questions about the usefulness of QFRs and some factors such as dividend payments which might affect the attitude to purchasing shares.

A further pilot study test was undertaken by the researcher taking the questionnaire to the Statistics Consulting Unit at Kuwait University. This unit provides research services to staff at Kuwait University. This unit suggested that the researcher should distribute a copy of the questionnaire to a targeted group prior to distribution to the sample population. This resulted in a number of further improvements, especially, in relation to the translation. Having made the necessary corrections and changes the questionnaire was finally administered to the target groups.

A pilot study was also undertaken for the interview schedule. Accordingly, the researcher initially designed the interview questions and topics, and then conducted test interviews with two volunteers who were employed in Kuwaiti investment companies and had experience with financial statements and the KSE.

This pre-testing resulted in a number of improvements to the interview schedule, especially, in terms of its organisation and duration. In addition, valuable advice was obtained on how to start the interview, how to choose the questions, how to move to other questions smoothly and how to motivate the interviewees to answer the question properly. The second draft of the interview schedule was then submitted to faculty staff at Kuwait University. After receiving feedback on the second draft, the researcher made the final corrections. By this time, all of the interview topics were agreed and were regarded as germane to the main research questions.

5.11 RELIABILITY & VALIDITY

The appropriateness of the questions as valid measures is assessed through the tests of validity and reliability.

According to Sekaran (2003) validity establishes how well a technique or instrument, measures a particular concept; while reliability indicates how stable it is. Neuman (1997) defined reliability as “Reliability deals with an indicator’s dependability. If you have a reliable indicator or measure, it gives you the same result each time the same thing is measured. In other world reliability means that the information provided by indicators (e.g. questionnaire) does not vary as a result of characteristics of the indicator, instrument, or measurement device itself”.

With the interviews the researcher prepared a list of questions and topics for the respondents, which were based on the questionnaire. All of the interviewees were selected on the basis of their expertise and knowledge in this area. Approximately one week before each interview the researcher introduced himself and the research topic, and provided the interviewees with a copy of the interview schedule. This preparatory

work was important because it gave the interviewees time to prepare and reflect on the main issues prior to the interview. Moreover, it increased the reliability, validity, credibility and quality of the data provided by the interviews

5.12 SAMPLING TECHNIQUES

Sampling is the selection of a smaller number of units from among a larger population. A proper sampling method should ensure the sample is representative of the whole population. The awareness of sampling principles is essential for the researcher in order to carrying out the correct research method. When undertaking any survey, it is essential that the researcher obtain data from sources that are as representative as possible of the studied population. Results from a questionnaire will only be regarded as useful if the sample used is considered to be representative of the population as a whole.

According to (Sekaran 2003) there are two major types of sampling designs, probability and non probability sampling. A probability sampling method is any method of sampling that utilizes some form of random selection. In order to have a random selection method, the researcher must set up some process or procedure that ensures that the different units in their population have equal probabilities of being chosen (usually by using a table of random numbers, computer generated random numbers or some suitable mechanical way to chose the selected sample). However, non probability sampling does not involve random selection, in other words the elements do not have a known or predetermined chance of being selected as subject of the study.

In probability (random) samples, each member of the population has a known (non-zero) probability of being selected. Probability methods include random sampling and stratified sampling. These methods are suitable for populations that have a sampling frame for example agency records, tables or computer lists. Also those frames should be complete and include all the information required to draw a sample.

Random sampling: under this method each member of the population has an equal and known chance of being selected, in other words each person has the same chance of being selected. This method is suitable for populations when the sampling frame (tables, agency records or computer list) is complete and updated recently. The advantage is this method represents a fair way to select a sample because each person has an equal opportunity to be in the sample. However this method may include some bias because it depends on the luck of the draw and so some groups in the population may be under or over represented. This method also requires up to date information that may not be available every time.

Stratified sampling: This method is used when the population can be split on the basis of at least one important characteristic, for examples males and females, or managers and non-managers. The researcher first identifies the relevant characteristic and then random sampling is used to select a sufficient number of subjects from each category. This method (same as random sampling) requires the sampling frame for each category to be complete and up to date. The advantage of this method is it gives more assurance that the sample will represent the population. However, the main disadvantage for this that it requires more detailed sampling frames (tables and records) and hence is more time consuming.

In non probability sampling, members are selected from the population in some non random manner. These include convenience sampling, quota sampling, and snowball sampling.

Convenience sampling: under this method the selection of units from the population is based on availability and accessibility. This method refers to the collection of information from members of the population who are conveniently interested to provide such data. For example if the researcher wants to survey tourist opinion on a specific area then they might interview people in the nearest town centre because they are convenient (easy to interview). The advantages of this method are the low cost and it allows the researcher to get the results quickly. The major disadvantage of this technique is that we have no idea of how representative the information collected about the sample is about the population as a whole. The information could provide some fairly significant insights, and be a good source of data. However there is no guarantee of this because there is no guarantee that the data is representative of the population.

Quota sampling: this method is used when the population can be divided into distinct subgroups. Like stratified sampling, the researcher first identifies the characteristics of the distinct subgroups and their proportions as they are represented in the population. The main difference from stratified sampling is that convenience or judgment sampling is used to select the required number of units from each subgroup (non- random sample). The advantages of quota sampling are the speed with which information can be collected, the lower cost of collecting the data and the convenience it represents. The main disadvantage is the sample may not be representative of the whole population because not everybody has the same chance of selection.

Snowball sampling, snowball sampling is a method in which a researcher identifies one or some members of a population of interest, speaks to them, and then asks them to identify others in the same population that the researcher interested in. The other person or group is then asked to refer the researcher to further members of the group, and so on. The sample group appears to grow like a rolling snowball hence the name of this sampling method. For example studying the key investors in a stock exchange, you are not likely to find a good list of key investor. However you may know four or five of them and they can refer you to others because they know each other very well. The advantage of this technique is the low cost and quick results. The main disadvantages are the sample need not represent the whole population and the sample may include some bias in the data provided.

For the current study, the researcher decided to use a non-probability sample because there are no complete sampling frames for the target population (QFRs users). Also, the current study is an exploratory study trying to get some ideas about responses to aspects of QFRs. Finally through the interviews the research wants to find what the proper explanations behind the results are. For the interviews the people need to be particularly knowledgeable.

5.12.1 SAMPLING TECHNIQUES IN THIS STUDY

For this study the population is all possible users of QFRs. This population consists of financial analysts, portfolio managers and individual investors. Any sampling technique must make sure that all of these three groups are included in the final sample.

The research sample refers to individuals who are representative of the universal population and from whom the empirical data is collected (Burns and Bush, 2000). Moreover, determining the research sample is very important because asking the right question of the right people is critical to the success of the research. In this study a convenience sample was used. This is a non-probability sample and involves the researcher using the most accessible population to obtain information. A convenience sample can provide useful information to the researcher provided it is reasonably representative of the universal population. Here the sample is reasonably representative because it includes people from each of the three groups. Specifically the research sample in this study includes investors who trade in stocks on the Kuwait stock market. In order to make the research sample representative, investors were divided into three categories (see below), and respondent to the questionnaire and the interviewees were selected from each of these groups. The groups consisted of the following:

1. Individual investors
2. Financial Analysts
3. Institutional portfolio investors

The first group consist of individual investors who buy and sell shares on the stock market. This group represents a large proportion of investors on the Kuwait Stock Exchange. The background of this group is, however, variable in terms of experience and education.

Financial Analysts were selected as the second group. The main functions of this group are interpreting and explaining financial accounts, and providing professional opinions and recommendations. Financial Analysts have the necessary knowledge

regarding a company's financial status due to their accounting and financial experience. They are also an important source of information on company valuations. In addition this group have high levels of business experience and are therefore well qualified to answer the issues raise by the questionnaire.

The third group consists of portfolio managers whose main role includes buying, selling and holding shares. They have significant amounts of money to invest and have large share holdings on the stock market. The main part of their job is concerned with maximising their portfolio returns. Including such experienced managers in the sample was important because they are familiar with the fundamental requirements of good investment and the rules and regulations of the KSE.

A list of company addresses was obtained from the KSE and the researcher handed the questionnaire to all of the listed investment firms, banks and insurance companies in the Kuwait Stock Exchange. The eventual sample consisted of 350 individuals drawn from the three categories mentioned above. In this way the sample was thought to be representative of the universal population in terms of educational qualifications, number of years of stock investment experience etc. Similarly, the 10 interviews were conducted with key figures from the three main groups mentioned above.

5.13 STATISTICAL METHODOLOGY

The statistical methodology should be adapted to the nature of the questionnaire questions and the objectives of the study. As already alluded to, most of the questions used Likert scales and the respondents had to indicate their level of agreement with a

series of statements or assertions by indicating whether they agreed with them and thought they were important or disagreed with them and thought they were unimportant. To facilitate the statistical analysis, number 5 was assigned (using the SPSS Package) to 'very important', number 4 to 'important', number 3 to 'neutral', number 2 to 'of little importance' and number 1 to 'not at all important'. The statistical analysis consists of descriptive statistical techniques and incorporates frequency distribution, overall means, ranking, ANOVA and tests of significance.

5.14 CONCLUSION:

Having discussed the research methods that will be used in the research, the next two chapters (chapters 6 and 7) analyse the research findings from the questionnaire and interviews. The results and research findings are discussed following the order in which the issues appear in the questionnaire and the analysis is divided between the three groups of investor as discussed in this chapter. In discussing the findings, the interviews are used to provide additional insight into the findings of the questionnaire. In particular, the interviews proved to be extremely useful in explaining unexpected responses or understanding better the Kuwaiti perspective on the issues raised by the questionnaire.

CHAPTER 6

AN EXAMINATION OF THE MAJOR SOURCES OF INFORMATION, CONTENT AND USAGES OF QFRs

6.1 INTRODUCTION:

Research into financial reporting is essential in order to resolve controversy over the objectivity and usefulness of such reporting. When considering the information provided by financial statements, professionals are divided into two groups: some consider them to be one of the major sources of financial information whilst others argue that there is a decline in their relevance due to rapid economic growth and also because of the electronic information revolution. These contrasting viewpoints make it difficult to draw conclusions regarding the usefulness of financial statements. This chapter, accordingly, attempts to provide answers to questions about the attitude of users of quarterly financial reports in the Kuwait Stock Exchange.

The analysis in this chapter is based on a questionnaire survey conducted with three main groups of financial users (individual investors, financial analysts and institutional portfolio managers), in addition supportive interviews were conducted with some experts in this field. The chapter consists of the following sections: section 6.2 (Part I of the Questionnaire) discusses the background, characteristics and demographic features of the respondents; section 6.3 (Part II, section 1 of the Questionnaire) deals with the major sources of information and discusses the extent to which quarterly reports are used by users; section 6.4 (Part II, section 2 of the Questionnaire) covers the content of quarterly financial reports and describes how each part of the report provides useful information when making financial decisions; section 6.5 (Part II, section 3 of the Questionnaire) deals with the use of quarterly

reports and examines how intensively respondents read the various parts of the report. In the final section, a brief summary is provided of the main findings from the analysis.

6.2 BACKGROUND INFORMATION

The first section of the questionnaire examines background information relating to the users of Kuwaiti quarterly financial reports. This section reports on the personal and general information provided by questionnaire respondents. These questions were useful in getting the respondents into the swing of completing the questionnaire and also provided useful data on their background. The background information is important because socio-economic and demographic features can provide deeper insight into variations and different responses to the questions.

The background characteristics in this section include:

- Investor (user) category group
- Place of work
- Education level
- Major subject of degree
- Years of experience in the Kuwait Stock Market

As stated above, the main objective of this section was to provide the information needed for finding out if different socio-economic and demographic backgrounds affected the respondent's answers to the questions. In later sections, differences in opinion between the various categories of investors will be studied using analysis of variance (ANOVA). This section will provide a profile of the questionnaire respondents who participated in this study.

The first part of this section deals with the “investment category group”. As we can see from table 6.1, the sample includes different groups of major users of financial information: individual investors, institutional investors (also referred to as portfolio managers) and financial analysts. As all of these respondent groups deal directly with quarterly financial reports (also known as quarterly financial statements) they were considered to be appropriate for identifying the key issues in the research.

Table 6.1: THE INVESTOR GROUP CATEGORIES.

Group	Individual Investors	Financial Analysts	Institutional Portfolio Investors	Total
Frequency	156	114	80	350
Percentage	44.6 %	32.6 %	22.9 %	100 %

Table 6.1 shows the distribution of the respondents according to the three user groups. In total the sample consisted of 350 respondents: individual investors represented almost half of the sample (45%), financial analysts, represented almost one-third (32.6%) and the remainder comprised portfolio investors (22.9%). As there are typically far more individual investors in the market, compared to institutional investors and financial analysts, the respondent profile was thought to be fairly representative of the universal population.

Table 6.2: PLACE OF EMPLOYMENT

Work Place	Government	Private Sector	Investment Company	Total
Frequency	76	127	147	350
Percentage	21.7 %	36.2 %	42 %	100 %

Table 6.2 shows the place of work for individual respondents to the questionnaire. The findings indicate that the majority (42%) work in investment companies, whilst 36% work in the private sector and 22% work for the government. It is presumed that people who work in investment companies have more experience of the Kuwait stock market because that is part of their job. For example, they typically provide advice on investment opportunities and manage investment portfolios on behalf of clients.

TABLE 6.3: EDUCATIONAL LEVEL

Educational Level	Less than Bachelor Degree	Bachelor Degree	Higher Qualifications	Total
Frequency	30	243	76	349*
Percentage	8.3 %	69.6 %	21.6 %	100 %

* The missing values, representing unanswered questions, will be ignored in the statistical analysis. The SPSS program used to calculate the statistics disregards any missing data values.

Table 6.3 shows the distribution of respondents according to their highest level of educational achievement. Almost the entire sample (slightly in excess of 90%) had a bachelor degree or better and less than 10 % stated that their highest qualification was below first degree level. The findings, therefore, suggest that the majority of the research sample were well educated and had at least a bachelor degree. This was interesting because the purpose of examining the level of education was to determine whether this characteristic influences respondent's views on the usefulness of quarterly financial reports. However, the profile indicates that there was very little difference within the sample in terms of level of education.

Table 6.4: MAJOR SUBJECT OF STUDY OF RESPONDENTS

Major subject of study	Accounting and Finance	Business Studies	Economics	Other	Total
Frequency	183	85	35	46	349*
Percentage	52.4 %	24.4 %	10 %	13.2 %	100 %

The fact that most of the sample was highly educated was not surprising and, therefore, in order to be more discerning regarding the educational profile, respondents were asked to provide the major subject of their qualification. However, Table 6.4 indicates that 87% of respondents majored in either accounting or other business-economics related subjects. This is important because it shows that the vast majority of respondents had majored in accounting and business-economics related subjects. In this respect they can be considered to be knowledgeable and, therefore,

sophisticated users of quarterly reports. To some extent, this profile (once again) was not entirely unexpected because most of the sample is employed in investment companies, banks and insurance companies (even if they are not employed specifically as portfolio managers etc). These companies typically require employees to be highly qualified in accounting and finance, and business-economics related subjects.

**Table 6.5: YEARS OF EXPERIENCE IN THE KUWAIT STOCK MARKET
OF RESPONDENTS**

Years of experience	Less than 2 years	2 – 4 years	5 – 9 years	10 years or more	Total
Frequency	77	95	110	61	343*
Percentage	22.4 %	27.7 %	32.1 %	17.8 %	100 %

Table 6.5 shows the years of experience of the individuals involved in the sample. Years of experience in the Kuwait stock market is presumed to be an important factor affecting the respondent's perception and evaluation of the usefulness of quarterly financial reports. Almost 22% of the sample had less than two years experience in the Kuwait stock market. People who had 2-4 years of experience represented almost 28% of the whole sample. 32% of the total sample had 5-9 years of experience and 18% had more than 10 years of experience. This indicates that 50 % of the sample had more than 5 years experience in the KSE and to this extent the sample was regarded as being fairly experienced.

6.3 FINANCIAL USERS AND DIFFERENT INFORMATION SOURCES

As was mentioned in chapter 5, the second section of the questionnaire, which consisted of seven parts, was designed to focus on the opinions of users of financial information regarding the importance of different sources of information.

Part one addressed the following research questions:

1. How do Kuwaiti financial user groups rank the importance of QFRs compared to other sources of information and how important are these other sources of information to financial users?
2. How important is the QFR as a source of information for investors and analysts in the Kuwait stock market?

In order to determine the respondent's attitudes, they were given 8 sources of information and asked for their opinion on them when making investment decisions (see appendix 1). The selected sources of information were as follows:

- Annual financial reports
- Quarterly financial reports
- Direct contact with a company's management
- Contact with brokers or trading units
- Financial analysis & advisory services
- The advice of friends and relatives
- Market rumours
- Business & specialist publications.

The respondents were asked to rate the importance of these different sources of information using the Likert scale, where 5 indicated “very important” and 1 indicated “not important at all”. Table 6.6 presents the outcome of this analysis and reveals the usefulness of quarterly financial reports with respect to the seven “other” sources of information. These other sources of information were chosen because they are known to be helpful when making investment decisions.

Table 6.6: THE IMPORTANCE OF DIFFERENT SOURCES OF INFORMATION WHEN MAKING INVESTMENT DECISIONS.

Sources of information	Not At All Important	Of Little Importance	Neutral	Important	Very important	Overall Mean	SD
Annual financial reports	0.9 %	0.9 %	2.6 %	18.4 %	77.3 %	4.71	0.645
Quarterly financial reports	0.6 %	2.3 %	4.0 %	34.1 %	59.0 %	4.49	0.734
Direct contact with company's management	4.7 %	11.9 %	24.9 %	27.9 %	31.0 %	3.69	1.163
Contact with brokers or trading units	6.6 %	17.9 %	26.8 %	32.6 %	16.0 %	3.34	1.143
Financial analysis & advisory services	2.0 %	4.1 %	18.6 %	48.0 %	27.3 %	3.94	0.898
The advice of friends and relatives	10.1 %	15.6 %	35.2 %	24.5 %	14.7 %	3.18	1.168
Market rumours	15.7 %	20.3 %	36 %	19.8 %	8.1 %	2.85	1.156
Business & specialist publications	2.3 %	6.9 %	27.2 %	46.0 %	17.6 %	3.70	0.920

- The low standard deviation reflects a high degree of consistency among respondents.

According to the data in table 6.6 above, more than three quarters of the respondents believed that the annual financial report is “very important” as a source of information when making investment decisions and 59% considered quarterly financial reports to

be “very important”. Other sources of information were of less importance and advice of friends and market rumours were of least importance. For example, only 14.7% regarded the advice of friends and relatives as “very important” and 25.7% rated it as either “not important” or of “little importance”. Similarly, only 8.1% regarded market rumours as “very important”, and 40% thought it was “not important” or “of little Importance”.

The ordering of the various sources of information is confirmed by the overall means. Looking at the overall mean for each group in Table 6.6, respondents ranked annual financial reports as the most important source of information with a mean score of 4.71 and quarterly financial reports were ranked as the second most important with an overall mean of 4.49. As we can see the Kuwaiti investors rely extensively on annual and quarterly financial reports for making their investment decisions compared to other sources of information. This result supports the findings of several academic studies such as Lee and Tweedie (1975 & 1981), Almubarak (1997), Alrazeen (1999), Almahmoud (2000), Al-Qenae (2001), Alhajji (2003), Nuseibeh (2003) and Almutairi (2004).

Financial analysis and advisory services were ranked in third position with an overall mean of 3.94. Business publications came fourth with an overall mean of 3.7 followed by direct contact with company’s management at 3.69. Although these sources are not as important as annual and quarterly reports they are, nevertheless, considered fairly useful and important by respondents. Conversely, the least important source of information was market rumours with a mean of 2.85. Nevertheless, an overall mean of 2.85 shows that this source of information is considered reasonably important, at

least by some of the respondents. This response probably reflects the fact that the importance of market rumours is dependent on the seriousness and the source of the rumours.

In summary, the percentage distribution and the mean score of each source of information indicate that users of financial information in Kuwait regard annual and quarterly financial reports as very important sources of information. Other sources of information, such as, financial analysis and advisory services, business and specialist publications, and direct contact with a company's management were, however, also considered fairly important by financial users.

6.3.1 RANKING THE INFORMATION SOURCE

In the second part of the questionnaire respondents were asked to rank the same sources of information according to their importance. The objective was to seek an alternative method of determining the respondent's opinions regarding the usefulness of quarterly financial compared to other sources of information. Users were, therefore, asked to rank the sources of information in term of their usefulness. The respondents were asked to rank all of the information sources in terms of their importance when making decisions. In this respect, 1 signified the highest and most important source of information and number 8 indicated the least important.

Table 6.7 shows that most of the respondents (57.4%) rated annual financial reports as the most important source of information and almost half rated quarterly financial reports as the second most important. Sorted by rank order, as indicated by the end

column in Table 6.7, financial analysis and advisory services was in third place and 11.7% rated it in second place.

**Table 6.7: THE RANKING OF SOURCES OF INFORMATION WHEN
MAKING INVESTMENT DECISIONS
(PERCENTAGE DISTRIBUTION)**

Sources of information	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Mean	Rank
Annual financial reports	57.4	19.2	9.6	5.2	3.5	1.7	1.5	1.5	1.98	1
Quarterly financial reports	18.4	48.2	12.6	9.9	5.5	2.9	1.5	1.5	2.57	2
Direct contact with company's management	10.3	7.1	17.9	14.7	16.5	11.8	11.8	7.4	4.54	4
Contact with brokers or trading units	3.3	4.8	10.1	13.4	16.7	18.8	14.9	16.4	5.44	6
Financial analysis & advisory services	3.8	11.7	26.9	24.6	14.0	10.2	6.1	2.3	4.02	3
The advice of friends and relatives	5.1	4.8	8.6	8.0	12.2	16.4	27.4	14.9	5.68	7
Market rumours	1.5	0.9	3.0	6.6	6.6	13.4	21.5	37.3	6.84	8
Business & specialist publications	0.3	3.8	9.9	16.1	24.0	21.1	9.9	14.3	5.37	5

The overall means based on ranking (as shown in Table 6.7) confirm and support the results of the previous section. For example, user groups ranked annual financial reports as the most important source of information with an overall mean of 1.98 and quarterly financial reports were ranked second with an overall mean of 2.57. Financial analysis and advisory services were ranked in third position with an overall mean of 4.02, followed by direct contact with company's management with an overall mean of 4.54. Business & specialist publications were ranked fifth (5.37); contact with brokers or trading units was in sixth position (5.44); advice from friends and relatives was ranked in seventh position (5.84); and finally, market rumours were regarded as least important (6.84).

6.3.2 COMPARISON WITH SIMILAR STUDIES

One of the common ways of determining the relative usefulness of quarterly financial reports is to ask users to rate their usefulness in making investment decisions compared with other sources of information. The research results show that all of the different groups of investors in the Kuwait Stock Exchange attached the highest importance to corporate annual reports followed by quarterly financial reports.

These results support several other studies, especially, those involving emerging or developing markets and the Gulf area. However, we have to recognise that the comparison is not an exact one because each study is distinctive and has its own methods of measuring users' perceptions about the usefulness of different sources of financial information. For example, some studies concentrate on certain groups of investors, while others take different factors into consideration.

In Kuwait and the GCC countries, as well as other countries worldwide, many studies found that the majority of respondents considered annual and quarterly financial reports to be useful for decision-making. Lee & Tweedie (1975 & 1981), for example, found that financial reports were considered to be the most important source of information for shareholders and were used more than any other source of information. Change and Most (1981) found that user groups in the USA, UK and New Zealand placed great importance on corporate annual reports followed by quarterly and half yearly (semi annual) reports. Anderson (1981) found that corporate reports were the most important source of information for investors. Albaqmi (1996) found that quarterly financial statements were ranked the second most important source of information after the annual reports in Saudi Arabia and Almubarak (1997), similarly, found that analysts regarded corporate reports as the most important source of information. Almahmoud (2000) found that annual and quarterly reports were highly used in the Saudi Arabian stock market. Other studies, including those by Almutairi (2004), Alhaji (2003), Nasser & Nuseibeh (2003), Al-Qenae (2001) and Alrazeen (1999), also found that annual and quarterly reports were useful for decision-making and ranked financial statements (annual & quarterly) as their primary sources of information. On the other hand, Ismael (2003), Nasser & Al-Hussaini (2003), Bartlett & Chandler (1997), etc found interim reports to be less important compared with other sources of information. Nevertheless, these studies considered interim reports to be useful, even though they were not the most important sources of information.

Table 6.8 compares the results of the current study with studies in other parts of the world, as well as the Gulf Co-operation Council (GCC) countries, which include Kuwait and Saudi Arabia.

**Table 6.8: A COMPARISON OF THE FINDINGS OF THE CURRENT STUDY
WITH PREVIOUS STUDIES REGARDING USERS' RATING OF THE
IMPORTANCE OF INFORMATION SOURCES.**

Information Sources	Current study Kuwait (2005)	Ismael 2003 (Malaysia)	Al- Hussaini 2003 Kuwait	Al- Mahmoud 2000 (Saudi Arabia)	Bartlett and Chandler 1997 (U.K.)	Albaqmi 1996 Saudi Arabia	Al- Mubark 1997 (Saudi Arabia)
Corporate Annual Reports	1	4	1	1	7	1	1
Corporate Quarterly Reports	2	6	5	2	4	2	2
Contact with company's management	4	1	2	4	-	-	6
Contact with brokers & trading units	6	8	-	3	-	4	4
Financial analysis & advisory services	3	2	-	5	-	3	5
Advice from friends & relatives	7	-	7	8	-	6	8
Market rumours	8	-	6	7	-	-	-
Business & specialist publications	5	-	4	-	1	-	-

Overall it is clear that for studies of the Gulf countries, corporate annual reports are the most important information source for investors and QFRs are usually the second most important.

6.3.3 REASONS BEHIND THE RELIANCE ON QUARTERLY AND ANNUAL REPORTS

The previous section showed that the different groups of investors in the Kuwait Stock Exchange and the Gulf States attach the highest importance to the corporate annual and quarterly financial reports and this section of the thesis will focus on the main reasons for this.

The main reasons behind the reliance on the quarterly and annual reports can be summarised as follows. All of these reasons were suggested by the interviewees and where appropriate these reasons are substantiated by specific quotes from the interviews:

1. In developed countries there are specialist financial advisory services, which provide consultation services for investors. These advisors usually visit the company, gather relevant information and write reliable reports, which make decision making easier. However, in most emerging markets, such as Kuwait, this service does not exist and, therefore, greater reliance is placed on financial reports (annual & quarterly). Financial reports are regarded as transparent and provide users with reliable facts and figures. This fact was borne out by the comments of one interviewee (# 1), who is Director of Financial Analysis in

Global Investments Company, "The system is different in emerging markets, such as Kuwait or Saudi Arabia, compared to developed markets such as the U.K. and the U.S. I think in the developed markets there are many qualified analysts and they do their job to a high standard and provide research services to users. In the U.K. and the U.S. they take the majority recommendations of 10 or 15 reliable research companies. However, because the number of research companies in Kuwait is limited, we take this type of service more as a back up simply because it is inappropriate to generalise on the basis of one or two points of view."

2. Kuwait does not have a large number of good business and specialist publications. In fact, special studies and research publications are just beginning to emerge on the Kuwait stock market. Interviewee # 7 who is a Financial Analyst for the AREF Investment Group said "The lack of information for the investor from other resources and the limited amount of specialist publications leads us to concentrate on the quarterly and annual financial reports. There is also a lack of analytical studies and research to help the investor build his decision on a solid basis."
3. Brokerage firms in the developed countries usually offer advice about future expectations; however, this is another service not currently available in Kuwait. In this respect, Interviewee # 1 said that, "If you have an account with any reliable company, such as, Merrill Lynch or Morgan Stanley they will provide you with research and valuable summary information. Therefore, as an investor, why should I waste my time reading and analysing quarterly or

annual reports, all I need to do is to read the analysts' report regarding my investments. However, in Kuwait, these services are very limited even though in the last few years some companies are trying to provide them.”

4. Contact with management is sometimes considered to be ineffective. Some managers try to put barriers between investors and management. In Kuwait, some companies consider certain types of information to be secret while in other countries you will find it freely available. In most western countries portfolio managers can arrange an appointment with the company and either get more information or clarify certain points. This generally does not happen in Kuwait and if it did, it is unlikely that satisfactory information would be obtained. Interviewee # 4, who is a portfolio manager in Al-Watanyah Investments Company, made this exact same point when he claimed that: “Lower transparency and contact with management is one of the main reasons why annual and quarterly financial reports are so important. If these other resources provided more credible information you would find that financial reports would be less important.”
5. Some users believe that annual and quarterly reports are the only sources of information, which provide transparent information. Even though they can come sometime be late, these reports do provide facts and real numbers regarding a company's activities. However, unlike advisory services, annual and quarterly reports generally do not provide information about the future expectations of the company.

6. Some investors, especially non-sophisticated or elderly investors, have traditionally not used the recommendations of specialist advisors, therefore, market practice in Kuwait has been to rely almost exclusively on financial statements. However, this could change in the near future as investors become more sophisticated and search out additional sources of information.
7. Some Kuwaiti investors, especially the elderly, have a mentality unsuited to modern investment practices. Their basis for decision-making is simply how much profit the company made, what the dividends for this year are likely to be and how they compare with last year. This sort of information is typically included in annual and quarterly accounts.
8. Financial statements (annual & quarterly) are reviewed and audited by an independent auditor, therefore they are considered to be reliable sources of information.

In essence, financial reports are important in emerging economies because they are usually the only reliable sources of published information, which provide investors with facts and figures on corporate activities. In contrast, investors in developed countries normally have more than one source of information, i.e. specialist publications, analytical and advisory services, and contact with a company's management. Not surprisingly, therefore, consultants and specialist advisors play a major role in advising investors in developed countries.

6.3.4 SIGNIFICANCE LEVEL BETWEEN SUBJECT GROUPS

Table 6.9 examines the levels of importance attached to alternative sources of information by the different users of financial information

Table 6.9: THE IMPORTANCE RATING OF ALTERNATIVE SOURCES OF INFORMATION BY DIFFERENT USERS OF FINANCIAL INFORMATION (ONE-WAY ANOVA TEST)

Source of information	F Test	Significance
Annual financial reports	4.651	0.010 *
Quarterly financial reports	0.041	0.960
Direct contact with the company's management	5.930	0.003 *
Contact with brokers and trading units	2.019	0.134
Financial analysis & advisory services	3.805	0.023 *
The advice of friends and relatives	10.770	0.000 *
Market rumours	0.120	0.887
Business & specialist publications	1.261	0.285

Table 6.9 shows that there are significant differences in the rating of alternative financial information sources by the various users. These differences are discussed on the following page but in the first instance this information is useful in addressing the first null hypothesis of the research:

H1: The different groups of investors in Kuwait have no significant differences of opinion regarding the sources of information about listed companies.

The One-way ANOVA test has been applied and the results in table 6.9 show that there were several significant differences between the user groups. To determine where the true differences lie, Tukey's W test was applied.

Regarding annual reports, the F value was 4.65, which is significant at the 0.01 level. This implies that the null hypothesis should be rejected. Although all users ranked annual reports first in terms of importance, the mean value assigned by individual investors was significantly lower than the mean values of rates given by financial analysts and institutional managers. For example, the results show that the mean for individual investors was 4.6 but for financial analysts it was 4.84 and for institutional managers (also referred to as portfolio managers) it was 4.71. This confirms that financial analysts and portfolio managers rely significantly more on annual reports than individual investors. This might be explained by the fact that portfolio managers and financial analysts generally have responsibility for larger amounts of money than individual investors and typically represent a wide range of clients. In both respects, therefore, they would appear to be under more pressure than individual investors to perform well. Moreover, bonuses and remuneration are typically related to performance. According to interviewee # 3 (a manager of an Investment Company): "Investment companies have financial analysts and their main job is to dig through the financial information. They look through annual, quarterly and economic reports, and utilise other sources of information. They also put all of the information into a database."

In contrast to annual reports, quarterly financial reports were equally important to all categories of user. There was no significant evidence that the assigned mean value

was different for each of the different groups. This indicates that the different user groups hold the same opinion on the value and importance of quarterly financial reports. However, interviewee # 3, whilst supporting this finding, also claimed that short and medium term investors (as opposed to long term investors): “rely on quarterly financial reports more than annual reports”. Interviewee #3 also went on to state that: “there is a large group of investors who fall into this category” and that quarterly reports are popular with investors because they: “contain summarised information and are, therefore, small and easier to read compared with annual reports.”

With regard to direct contact with a company’s management, the F value was 5.93, which is significant at the 0.003 level. The slightly higher mean value at 3.89 for portfolio managers, compared to 3.45 for individual investors and 3.87 for financial analysts, could be reflecting the possibility that because they control large funds and have significant share holdings, they can negotiate more strongly with the company compared to an individual investor with relatively few shares. In fact, it is not unusual for portfolio managers to have seats on the Board of Directors or be in a position to influence the yearly election of the Board of Directors. This interpretation was succinctly captured by interviewee #4 when he claimed that: “Your weight in the market lets you put some pressure on the company and the company knows about that so the relationship with the company will be better with the portfolio managers. The size of your ownership can let you go to the management and ask for the information you need. Also the management is keen to provide an answer to your question to avoid any disagreement in the board meeting.”

Financial analysis and advisory services with an F value of 3.805 indicated that financial analysts, with a mean of 4.07 and portfolio managers with a mean of 4.05, placed more importance on this source of information than individual investors, with a mean of 3.80. A possible explanation for this finding might be because financial analysts and portfolio managers are professional investors and, therefore, are generally more sophisticated than individual investors.

Regarding advice from friends and relatives, with an F value of 10.770, it was interesting but not surprising to find that individual investors, with a mean of 3.50, found this source of information more important than financial analysts (2.90) and portfolio managers (2.96). It is to be expected that individual investors will rely on friends and relatives more than institutional investors. In Kuwait, for example, most of the families have family gatherings on a weekly basis and usually speak about the stock market and great emphasis is, therefore, placed on information received from family and friends. However, this finding also supports the interpretation that individual investors are relatively unsophisticated. Apart from the high cost of advisory services, the information provided can be complicated and difficult to interpret. Just as important it can also be non-committal in the sense that it sets out the pros and cons for making an investment without giving a definitive buy or sell decision

6.4 CONTENT OF THE QUARTERLY FINANCIAL REPORTS

An examination of the importance of different parts of the quarterly financial report

The previous section discussed the relative importance of quarterly financial reports and other alternative sources of information. However, this part of the thesis examines the content of QFRs and assesses their relative importance.

In section 2, part 2 of the questionnaire, respondents were asked to rate and rank the importance of six sections in the corporate quarterly financial report and describe how important was the information in each section for investors in making investment decisions (see appendix 1). In this respect this part of the questionnaire addresses the following research question:

- What is the most important section of a corporate QFR and how does this vary according to user groups?

To answer this question, corporate quarterly financial reports were categorised as follows:

- Income statement
- Balance Sheet
- Cash flow statement
- Board of Directors' report
- Auditor's report
- Financial disclosures & accounting policies

The respondents were asked to specify which sections of the quarterly financial report were more important than others when making investment decisions. Again this

question used the Likert Scale where 5 means “very important” and 1 means “not important at all”.

Table 6.10: THE USAGE OF PARTS OF QUARTERLY FINANCIAL REPORTS (PERCENTAGE DISTRIBUTION)

Part of the QFR	Not At All Important	Of Little Importance	Neutral	Important	Very important	Overall mean
Income statement	1.1 %	0.3 %	3.7 %	17.1 %	77.1 %	4.70
Balance Sheet	1.1 %	0.0 %	2.6 %	26.9 %	69.4 %	4.64
Cash flow statement	1.7 %	3.2 %	10.2 %	28.2%	56.7 %	4.35
Board of Directors' report	4.3 %	9.8%	23.7 %	38.7 %	23.4 %	3.67
Auditor's report	4.6 %	8.0 %	24.6 %	35.8 %	26.9 %	3.73
Financial disclosures & accounting policies	2.6 %	2.9 %	15.6 %	35.4 %	43.5 %	4.15

Note: The Board of Directors Report is not always found in the QFR

The responses to this question, as presented in Table 6.10 above, showed that all sections of the QFR were perceived as being important to financial users, but the income statement and the balance sheet were ranked as the most important. From Table 6.10, it can be seen that the majority of respondents (94.4%) think that the income statement is important or very important. In fact, 77.1% believed that it is very important. For the balance sheet, 96.3% believed that it is important or very important with 69.4% believing that it is very important. Considerations such as the cash flow statement, the Board of Directors' Report, the Auditor's report and financial disclosures & accounting policies, albeit less important than the income statement and the balance sheet, were still quite important from the user group perspective.

This finding is also confirmed by the means shown in Table 6.10 and both income statements (4.70) and the balance sheet (4.64) had the highest overall means. These

results are virtually identical to the findings of Lee and Tweedie (1975), Almubarak (1997), Alrazeen (1999), Almahmoud (2000) and Alhajji (2003). All of these studies found that the income statement and the balance sheet were very important in relation to investor activities. However, Ismael (2003) found explanatory notes to be the most important section in the quarterly financial reports followed by the income statement and the balance sheet. Nasser & Al-Hussaini (2003) attached less importance to the balance sheet and more importance to the income statement and cash flow.

Even though the income statement is ranked as the most important source according to its mean and percentage it is only slightly more important than the balance sheet. In general all sections of the QFR were important and this is probably because the user groups regard them as being complimentary. For example, the balance sheet shows the position of the company on a certain day and the income statement shows the net revenue up to this point, the cash flow shows what has been spent and what has been obtained during the last year. Moreover, there is a great deal of other information that cannot be properly understood without reading the disclosures, which play a significant role in providing detailed information about the current financial condition and performance of the company.

Table 6.10 also shows that the board of directors and the auditors' reports were ranked the least important by the user groups. Modern auditors typically work as part of an international group and perform their duties to internationally recognised standards. However, the auditor's role with QFRs is relatively limited as they are only reviewed in a cursory way. The board of directors provides information regarding what has happened to the company and what will happen in the near future. However,

the board of director's report, unlike that contained in the annual reports is generally brief and does not always appear.

In summary, when evaluating the importance of the various parts of quarterly financial reports, although there was some variation, all of the items were considered important by the respondents.

6.4.1 RANKING

Part 2 of the questionnaire also asked the respondents to rank the different parts of the QFR according to their importance to them. The objective was to seek the respondents' point of view regarding the use of quarterly financial statements when making investment decisions and to be more specific regarding the importance of these sources of information.

The respondents were asked to rank all the sections of the QFR in terms of their importance to the decision making process by assigning numbers i.e. 1 to the highest and most important source and number 6 to the least important.

**Table 6.11: THE RANKING BY IMPORTANCE OF THE CONTENTS OF
THE QUARTERLY FINANCIAL REPORT (PERCENTAGE DISTRIBUTION)**

Parts of QFR	First	Second	Third	Fourth	Fifth	Sixth	Mean	Ranking
Income statement	50.3 %	27.5 %	13.3%	5.0 %	2.0 %	1.8%	1.87	1
Balance Sheet	25.4 %	42.9 %	21.3 %	7.9 %	2.1 %	0.9 %	2.20	2
Cash flow statement	14.2 %	15.1 %	37.7 %	18.1 %	9.2 %	5.9 %	3.10	3
Board of Directors' report	4.3%	4.3%	6.8%	25.4 %	29.9%	29.3%	4.73	5
Auditor's report	4.6%	4.1%	8.0%	14.9%	34.2%	34.2%	4.82	6
Financial disclosures & accounting policies	2.7%	8.9%	13.1%	27.3%	21.1%	27.0 %	4.43	4

Note: The Board of Directors report is not always shown in the QFR

From table 6.11, it is clear that the income statement is ranked first with 50.3% and the balance sheet was ranked second with 42.9%. Next came the cash flow (37.7%), which was ranked third most important, followed by Financial disclosures & accounting policies (27.3%), followed by the Board of Director's Report (25.4% in the fourth rank) and (29.9% in the fifth rank). The Auditor's Report was ranked in sixth and last place, having the highest percentage level in both the fifth (34.4%) and sixth ranks (34.4%).

Looking at the means in Table 6.11, the income statement was ranked the most important section in the QFR for all financial users with an overall mean of 1.87 followed by the balance sheet with an overall mean of 2.2. These findings confirm the results in the previous section. Cash flow came in third position and financial disclosures in fourth. Finally, the Board of Director's Report was in fifth position and the Auditor's Report in last position. These results confirm the findings in the last

section and show that the user groups rank the income statement as the most important part of the QFR followed by the balance sheet, the cash flow statement and financial disclosures.

6.4.2 DISCUSSION OF THE FINDING

The last section shows that all parts of the QFR are useful and relate to each other. However, the income statement and the balance sheet have higher ratings than the cash flow and financial disclosures. There are many reasons that can be postulated to explain these findings:

1. Users may have more experience of the income statement and the balance sheet compared to other parts of the report. The income statement and the balance sheet are more popular and easier to understand, and this makes them an easier starting place for the investor. In this respect the traditional approach of investors is to look first at the revenue or income statement and then the basic information from the balance sheet. Once this information has been fully understood the cash flow and financial disclosures are examined. According to interviewee # 2 (a portfolio manager), “The traditional idea in Kuwait is to look for the revenues then the balance sheet then the cash flow. But all parts are important and they are connected to each other, the income statement and the balance sheet are easier to understand, which makes it easier to start with especially for unsophisticated investors.”
2. In Kuwait, many investors are not very sophisticated and, therefore, they rely on summaries of the financial information. According to interviewee # 10, “The way that quarterly reports are provided is considered easy but in some

sectors you need special experience to understand what is happening. For example, in the banking sector or in the insurance sector, you need to look for certain ratios and make some adjustments to the figures to understand the reports properly.”

3. Large numbers of investors in the Kuwait Stock Exchange (KSE) are considered to be short and medium term investors. Short-term investors do not need to stay in the market for long periods; therefore, they look at the revenue accounts and the performance of companies. Accordingly, they do not devote a lot of time to cash flows and financial disclosures. According to interviewee # 8, a fund manager in the public investment authority: “If strategy is short to medium term, the investor places emphasis on revenue and the underlying quality of the revenue”.
4. Cash flow statements are relatively new and are not always easy to understand. Only sophisticated professionals can, therefore, generally use this statement properly. Individual investors are more likely to be unsophisticated compared with financial analysts or portfolio managers. This was borne out by interviewee # 2, who claimed that: “Usually the investment companies have a group of expert people whose main job is to dig into the financial information. However, the individuals cannot have this service because it is very expensive for them.”
5. Accounting procedures are such that companies can manipulate their financial reports and this cannot be ascertained or the implications fully understood

without a detailed examination of the financial disclosures. However, not everybody can analyse financial disclosures properly and, therefore, fully understand the details contained in the revenue accounts.

It is clear that not everybody in the market fully understands the information contained in quarterly financial reports, otherwise the Kuwaiti market would be more developed. Investors need to have high accounting and financial skills to really understand the financial reports. In a sense it is not just a question of knowing what total assets or the net profit for a company was for last year. Just as important is the ability or sophistication to understand how these figures were calculated and what assumptions were made.

6.4.3 COMPARISON WITH SIMILAR STUDIES

Table 6.12: FINDINGS OF THE CURRENT STUDY COMPARED TO PREVIOUS STUDIES

Source of information	Current study	Ismael 2003 (Malaysia)	Al-Mahmoud 2000 (Saudi Arabia)	Al-Razeen 1999 (Saudi Arabia)	Al-Mubark 1997 (Saudi Arabia)	Bartlett and Chandler 1997 (U.K.)	Lee & Tweedie 1975(UK)
Income statement	1	2	1	2	1	3	1
Balance sheet	2	3	2	1	2	7	2
Cash flow	3	NA	3	5	3	9	NA
Directors' report	5	NA	7	8	7	5	4
Auditors' report	6	NA	6	3	6	11	7
Financial disclosures & accounting polices	4	1	5	4	5	-	5

Many studies have compared the different sections of financial statements but, as we mentioned in the last section, we have to recognise that each study has its own unique characteristics. For example, studies use different measurements and different methodologies and this can affect the findings.

Table 6.12 compares the results found in the current study with previous studies regarding perceptions of users about the importance of various sections of quarterly financial reports. As alluded to previously, the results of this study concur with several academic studies such as Lee & Tweedie (1975), Anderson (1984), Almubarak (1997), Alrazeen (1999), Almahmoud (2000) and Alhajji (2003), etc. These studies found that the income statement and the balance sheet were the most important parts of in financial statements. However Ismael's (2003) examination of QFRs in Malaysia, found financial disclosures and accounting polices to be the most important parts of the QFR, followed by the income statement and the balance sheet. Bartlett and Chandler 1997 (U.K.) study, which focussed on the U.K., was slightly different in so much as the income statement was ranked in third position and the balance sheet in ninth. To some extent Bartlett and Chandler's findings were reflecting the greater sophistication of users in the U.K. and the availability of more sources of financial information compared to Gulf countries.

6.4.4 SIGNIFICANCE LEVELS BETWEEN DIFFERENT USER GROUPS

Table 6.13: THE RATING OF DIFFERENT PARTS OF QUARTERLY FINANCIAL REPORTS BY IMPORTANCE (ONE-WAY ANOVA)

Source of information	F Test	Significance
Income statement	3.558	0.030*
Balance sheet	0.687	0.504
Cash flow	10.633	0.000*
Directors' report	0.291	0.747
Auditor's report	0.263	0.796
Financial disclosures & accounting polices	1.808	0.165

A further step in the analysis is to find out if there are significant differences between the user groups in rating the content of quarterly financial reporting. This section will, therefore, use one-way ANOVA to ascertain whether the perceptions of different user groups are similar.

The null hypothesis was:

H2: The different investor groups in Kuwait have similar views about the importance of various sections of QFRs.

Table 6.13 shows that there were two significant differences between the investor groups. These related to the mean and the significance of the usefulness of two items of information contained in quarterly financial reports (QFR):

- Income statement and
- Cash flow

Although the income statement was perceived as the most important section in the quarterly financial report, the statistics reveal that there is a significant difference of opinion between individual users and financial analysts. The F value for the income statement was 3.56, which is significant at the 0.03 level. The mean value rate assigned by individual investors was 4.62, compared to 4.83 for financial analysts. This strongly suggests that financial analysts rely more on income statement than individual users.

With regard to the cash flow the results reveal an F value of 10.6, which is significant at the 0.00 level. Individual users also assigned a lower importance to the cash flow than the financial analysts, as reflected in the mean for individual investors at 4.13, compared to 4.64 for financial analysts. This result seemingly confirms that financial analysts rely on the cash flow more than individual investors. This makes sense because the financial analysts' job is to dig deep and so we should expect them to use more information than individual investors. Also, financial analysts have more responsibility and invest larger sums and so (again) we should expect them to use more information than individual investors.

6.5 USE OF QUARTERLY FINANCIAL REPORTS

This section reports on the results concerning the use of quarterly financial reports by users in Kuwait. The main objective is to report on the extent to which the respondents use quarterly financial reports. The analysis is based on six questions from Section 2, part 3 of the questionnaire, which asked respondents to comment on their usage of different parts of the QFR. The six questions use a five-point Likert scale where 5 indicates strongly agree and 1 indicates strongly disagree.

This section, therefore, addresses the following research question:

- Does the users' financial and accounting background affect their use, analysis, understanding and evaluation of a corporate QFR?

The results are reported in Table 6.14 and the first question relates to the extent to which respondents use Quarterly Financial Reports published by listed companies in the Kuwait Stock Exchange when making investment decisions. Most of the respondents (88.4 %) either agree or strongly agree that quarterly financial reports are used for their investment decisions.

Table 6.14: THE USE OF QUARTERLY FINANCIAL REPORTS**(PERCENTAGE DISTRIBUTION)**

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Overall mean	SD
I use quarterly financial reports for my investment decisions	1.4 %	2.3 %	7.8 %	42.3 %	46.1 %	4.29	0.834
I read carefully almost all information published in the quarterly financial reports	1.4%	5.2%	21.7%	42.5%	29.1%	3.93	0.920
I analyse the published information in the quarterly financial reports	1.2 %	4.4 %	22.5 %	41.5 %	30.4 %	3.96	0.902
It is easy to understand the information contained in the company's quarterly reports	0.9 %	7.3 %	25.3 %	49.7 %	16.9 %	3.74	0.854
I depend on the quarterly reports for my investment decisions	2.0 %	7.6 %	21.1 %	46.6 %	26.6 %	3.84	0.970
Quarterly financial statements published currently by Kuwaiti listed companies are useful when making investment decisions	1.7 %	5.1%	24.6 %	42.3 %	25.5 %	3.84	0.930

The second question aimed to find out how carefully the respondents read the published information in QFRs. Most of the respondents (71.6%) agreed or strongly agreed that they carefully read almost all information published in the quarterly financial reports. The third question aimed to ascertain if the respondents do any type of analysis based on the QFR. The results revealed that 71.95% of respondents either agreed or strongly agreed that they conducted some form of analysis based on the QFR.

Question 4 was essentially a further check on whether respondents understood the information contained in quarterly financial reports. The question resulted in approximately two thirds of the respondents (66.6%) agreeing that the information

contained in the company's quarterly reports was easy to understand, (19.6% strongly agree). Question five investigated the extent to which respondents rely on QFRs when making financial decisions. Nearly three quarters (73.3%) of the respondents either agreed or strongly agreed that they depend on the quarterly reports when making investment decisions. Finally the sixth question, which ascertained the overall usefulness of QFRs, indicated that user found it extremely useful. As Table 6.14 shows two thirds (67.8%) agreed or strongly agreed that the QFR was useful when making investment decisions.

These results are supported by the evidence based on the overall means. In other words, the overall mean for each question in table 6.15, reveals that a large majority of respondents use quarterly reports for their investment decisions. This finding was succinctly captured by the overall mean for question 1 (4.29) and somewhat reassuring was the fact that it confirms Ismael's (2003) and Albaqmi's (1996) findings. For example, Albaqmi found that 92% of institutional investors and 76% of private investors use published QFRs in Saudi Arabia.

The next step in this part of the thesis is to examine the extent to which users understand QFRs. This was ascertained by posing questions on the understanding of the accounts, the care taken in reading them and the degree of analysis they were subjected to. The results revealed that the overall mean for understanding the accounts was 3.74, care taken in reading the accounts was 3.93, and the mean for the analysis was 3.96. The relatively low overall mean for understanding QFRs is interesting and indicates that some users do have difficulty in understanding the information contained in the reports.

However the overriding impression from these findings is that QFRs are extensively used by the different user groups. In this respect the results are to be expected because QFRs are essentially a summarisation of more comprehensive data. Nevertheless, the reports relating to some industries need special skills and particular treatment before they can be relied upon.

6.5.1 DISCUSSION OF THE RESULTS

The findings have established that a high percentage of Kuwaiti investors use quarterly financial reports. However, the results have also shown that there is some variation in investor ability to fully understand and analyse the accounts. This part of the chapter, therefore, attempts to explain the rationale behind these results. Again all of these suggestions came from the interviews.

1. In Kuwait, some investors are not sophisticated as investor and, therefore, they are looking for a basic summary of the financial information. Interviewee # 4 argued that, "... not all investors understand the detail contained in quarterly reports. Only investors with a high level of experience may handle what happens in the reports properly."
2. Investors need fairly high accounting and financial skills to really understand what happens in the financial reports. According to interviewee # 2, "Usually the investment companies have a group of expert people whose main job is to dig into the financial information. However, the individual cannot have this service because it is very expensive. As a

financial analyst or portfolio manager I can make more interpretations than the normal investor.”

3. The portfolio managers and the analysts manage large amounts of money on behalf of clients. In this respect they have a greater degree of accountability, compared to individual investors.
4. Long-term investors usually plan for the future and review their financial results accordingly. Their approach to financial planning will be quite different to the approach adopted by short term investors and speculators.

6.5.2 SIGNIFICANCE LEVEL BETWEEN DIFFERENT USER GROUPS

By applying the One-way ANOVA Test, it is possible to show if there is any significant correlation between the targeted groups of respondents and the different responses to the questions relating to the use of quarterly financial reports.

The null hypothesis was:

H3: The different investor groups in Kuwait have no difference of opinion regarding the use of QFRs.

The ANOVA indicated that there are significant differences in the reading and analysis of QFRs. The F value for use of QFRs was 4.29 and Tukey’s test revealed that financial analysts use QFRs more than the individual investors. The mean value assigned to financial analysts was 4.46 compared with 4.16 for the individual investors. With regard to reading and analysing financial statements the F value was 2.80 and Tukey’s test revealed that financial analysts read and analyse QFRs more

than individual investors do. The mean value assigned for individuals' reading of the QFR was 3.81 and 3.78 for analysing the QFR. However; the mean value assigned for financial analysts was 4.07 for reading QFRs and 4.16 for analysing them. It can be concluded, therefore, from Table 6.15 that financial analysts analyse the published information data more than individual investors. This is consistent with the comments in section 6.4.4 about financial analysts and individual investors.

Table 6.15: THE LEVEL OF SIGNIFICANCE BETWEEN SUBJECT GROUPS REGARDING THE USING AND HANDLING OF QUARTERLY INFORMATION (ONE-WAY ANOVA)

Statement	F Test	Significant
I use quarterly financial reports for my investment decisions	4.286	0.015*
I read carefully almost all published information in the quarterly financial reports	2.793	0.062*
I analyse the published information in the quarterly financial reports	6.065	0.003*
It is easy to understand the information contained in the company's quarterly reports	0.365	0.695
I depend on the quarterly reports for my investment decisions	0.749	0.473
Quarterly financial statements published currently by Kuwaiti listed companies are useful when making investment decisions	0.950	0.338

The socio-economic background of the respondents also had an influence on the investors' use of QFRs. In this respect the results suggest that there was a significant correlation between education level and analysing the quarterly reports. Specifically,

the higher the level of education is, the greater the analysis of quarterly reports. Similarly, reading and analysing quarterly reports is at a lower level for those who have less than two years' experience compared with those who have five or more years' experience.

6.6 PREFERRED PREFERENCE FOR DIFFERENT TYPES AND FREQUENCY OF FINANCIAL REPORT

This section examines users' preferences regarding the type and frequency of financial reports. Respondents were given five different types of reports and asked to rank them according to preference. Accordingly, they were asked to assign 1 to the most important and 5 to the least important.

The selected reports were as follow:

- Annual reports
- Semi-annual reports
- Quarterly reports
- Monthly reports
- Seasonal reports

Note: Monthly and seasonal reports are not always available to users on the Kuwait Stock Exchange

Table 6.16 presents the results relating to respondent preferences regarding the frequency and type of financial report and shows that most users prefer annual reports, which were ranked in first place. Semi annual reports were ranked second,

followed by quarterly financial reports, monthly financial reports and seasonal reports.

TABLE 6.16: THE PERCENTAGE DISTRIBUTION AND RANKING OF DIFFERENT TYPES OF FINANCIAL REPORT

Source of information	First	Second	Third	Fourth	Fifth	Mean	Mode	Rank
Annual reports	59.4 %	7.5 %	16.4 %	12.5 %	4.2 %	1.94	1	First
Semi-annual reports	1.5 %	51.6 %	32.2 %	13.1 %	1.5 %	2.23	2	Second
Quarterly reports	25.1 %	31.4 %	39.2 %	3.6 %	0.6 %	2.61	3	Third
Monthly reports	14.1 %	6.9 %	8.4 %	62.5 %	8.1 %	3.44	4	Fourth
Seasonal reports	0 %	2.7 %	3.9 %	8.1 %	85.3 %	4.77	5	Fifth

This ranking is also confirmed by the overall means for each report. Accordingly, annual financial reports received a ranking mean of 1.94; semi annual reports had a ranking mean of 2.23; and, quarterly financial reports had a ranking mean of 2.61. Monthly and seasonal reports were ranked fourth and fifth and had ranking means of 3.44 and 4.77 respectively. These high means suggest that respondents did not regard them as important, compared to the other types of report.

These results, therefore, indicate that investors prefer annual reports, semi annual reports and QFRs as a basis for investment decision making. In this respect the findings accord with similar research in this area. For example, Ismael (2003) found users and preparers of financial reports preferred quarterly reports as a basis for evaluating Malaysian listed companies. However, Lunt (1982) showed in his study

that users and preparers prefer half-yearly rather than quarterly reports. Albaqmi (1996) also found that users and preparers preferred interim reports on a quarterly basis.

6.6.1 THE SIGNIFICANCE LEVEL BETWEEN THE DIFFERENT USER GROUPS REGARDING THE PREFERRED FREQUENCY OF REPORTS

TABLE 6.17: THE LEVEL OF SIGNIFICANCE BETWEEN SUBJECT GROUPS REGARDING THE PREFERENCE FOR DIFFERENT TYPES OF REPORTS (ONE-WAY ANOVA)

Source of information	F Test	Significance
Annual reports	2.13	0.120
Semi annual	0.337	0.714
Quarterly reports	1.19	0.306
Monthly reports	0.898	0.408
Seasonal reports	0.179	0.836

The one way ANOVA test reveal no significant difference between the different user groups. In other words, the different user groups had similar views on the type of reports they preferred.

6.7 CONCLUSION

The main objective of this chapter has been to examine the usefulness of quarterly financial reports to financial users. Three groups were selected (individual investors, financial analysts and institutional portfolio managers) for the survey and a number of follow up interviews with experts in the field were conducted.

The chapter used four alternative methods to examine the use and usefulness of quarterly financial reports. The first method tried to evaluate the importance of several sources of information and how corporate quarterly reports featured amongst them. The second approach tried to examine the users' evaluation of various sections of corporate financial reports. The third approach tried to ascertain the extent to which respondents used quarterly financial reports and the fourth approach tried to examine users' preferences regarding the type and frequency of financial reports.

The result of this chapter shows that Kuwaiti investors ranked quarterly financial reports as the second most important source of information after annual reports. In terms of the content of quarterly reports, respondents perceived all sections to be important and useful but the income statement and the balance sheet were ranked as the most important parts of quarterly reports. With regard to the use of quarterly reports, almost all of the users used quarterly reports for their investment decisions.

Table 6.18 Link the main finding of each section in chapter six with the related literature and the main contributions for each section

Section	Research Question	Main Finding	Main Contribution	Related literature
6.3 The importance of different sources of information for investment decisions	RQ1- How do Kuwaiti financial user groups rank the importance of QFRs compared to other sources of information and how important are these other sources of information to financial users? RQ2- How important is the QFR as a source of information for investors and analysts in the Kuwait stock market?	Users of financial information in Kuwait regard annual and quarterly financial reports as very important sources of information.	It confirms the results of previous studies that deal with the importance of quarterly reports and financial reports in general.	Sections 4.3, 4.4 4.5 & 4.6
6.4 content of the quarterly financial reports	RQ3- What is the most important section of a corporate QFR and how does this vary according to user groups?	The income statement and the balance sheet have higher importance than other sections However, all parts of the QFR are useful and relate to each other.	It confirms the results of previous studies about the importance of income statement and balance sheets for the main users of QFRs and financial statements in general.	Section 4.3 & 4.5
6.5 Use of QFRs	RQ8- Does the users' financial and accounting background affect their use, analysis, understanding and evaluation of a corporate QFR?	a large majority of respondents use quarterly reports for their investment decisions	It provides a knowledge that Financial users can use the QFRs when making financial decisions	Section 4.2, 4.3, 4.5
6.6 Users' preferences regarding the type and frequency of financial reports	RQ2- How important is the QFR as a source of information for investors and analysts in the Kuwait stock market?	Most users prefer annual reports, which were ranked in first place. Semi annual reports were ranked second, followed by quarterly financial reports,	It indicates that financial users prefer annual reports as a base for financial decision making followed by semi annual and QFRs	Section 4.3 & 4.6

RQ= Research Question number

CHAPTER 7

AN EXAMINATION OF THE ATTITUDE OF FINANCIAL USERS OF QUARTERLY FINANCIAL REPORTS

7.1 INTRODUCTION

The previous chapter showed that quarterly financial reports (QFRs) are (i) used by financial investors for their investment decisions; (ii) they are ranked by investors as one of the most important sources of information; and (iii) that all the parts of quarterly reports are important. The next step is to examine other factors that might make quarterly reports useful. Accordingly, this chapter attempts to provide answers to questions about the attitude of financial users of quarterly financial reports in the Kuwait Stock Exchange. The chapter will also analyse some other related issues.

The chapter is organized as follows: section 7.2 (Part II, section 4 of the Questionnaire) examines the respondent's views on the usefulness of quarterly reports and the extent to which users find the information contained in them useful in making investment decisions. Section 7.3 (Part II, section 5b of the Questionnaire) investigates some fundamental characteristics of an "ideal report", whilst section 7.4 (Part II, section 7 of the Questionnaire) examines a number of related issues, such as, market sensitivity to the issuance of quarterly reports, the timeliness of financial reporting, whether financial reporting requires more financial disclosures and whether the auditor's involvement in quarterly financial reporting enhances their standing. Section 7.5 (Part II, section 8 of the Questionnaire) examines the different user group's views on the importance of mandating certain information items, which might enhance the usefulness of quarterly financial reports. Section 7.6 (Part II, section 6 of the Questionnaire) investigates some factors or information sources that might

influence share prices and attitudes towards purchasing shares on the stock exchange. Finally, section 7.7 (Part II, section 5a of the Questionnaire) investigates whether information on a company's situation would make quarterly financial reports more useful.

7.2 USEFULNESS OF QUARTERLY REPORTS

One of the primary objectives of QFRs is to provide useful information to financial users. This section, therefore, utilises 13 questions (Part 2, Section 4 of the questionnaire, see Appendix 1), which were derived from the literature review to obtain the views of different user groups on the usefulness of QFRs. The questions also provide some insight into why QFRs are useful by examining the extent to which the information they provide is conducive to effective investment decision making. This part of the analysis addresses the following research question: Do financial user groups find the information provided in the QFR useful for investment activities? A Likert scale was used to calibrate the responses, where 5 indicates 'strongly agree' and 1 indicates 'strongly disagree'.

**TABLE 7.1: THE PERCENTAGE DISTRIBUTION RELATING TO THE
USEFULNESS OF QUARTERLY FINANCIAL REPORTS.**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
They provide an important source of information and data for investors to help in making informed investment decisions	0.6 %	2.3 %	4.9 %	44.0 %	48.3 %	4.37
They offer up-to-date information about the operation and financial position of the company	1.1 %	3.1 %	11.1 %	45.4 %	39.1 %	4.18
They offer up-to-date information about the financial position of the company	0.9 %	1.7 %	7.2 %	44.7 %	45.6 %	4.32
They contain information which increases confidence in investment decisions	0.9 %	4.3 %	18.1 %	48.1 %	28.7 %	3.99
They provide information that helps to make new or additional investments.	1.1 %	2.9 %	17.8 %	51.9 %	26.4 %	3.99
They provide information to investors that helps them to monitor their investments	0.9 %	3.7 %	14.9 %	50.7 %	29.8 %	4.05
They provide information that helps in the evaluation of management performance	1.1 %	4.9 %	18.1 %	46.1 %	29.8 %	3.98
They help in preparing ratios and commentaries	1.7 %	3.5 %	18.2 %	46.4 %	30.3 %	4.00
They provide information to help investors predict expected income and EPS.	1.4 %	3.7 %	21.2 %	43.8 %	29.8 %	3.97
They provide information that helps investors predict dividends	2.6 %	9.4 %	28.6 %	39.7 %	19.7 %	3.64
They provide information that aids in predicting the liquidity of the company.	1.1 %	6.3 %	21.2 %	47.4 %	24.1 %	3.87
They help in making comparisons regarding the company's performance over time	0.9 %	4.0 %	14.0 %	44.0 %	37.1 %	4.12
They help in making comparisons regarding the company's performance with other companies	1.4 %	5.1 %	14.6 %	48.9 %	30.0 %	4.01

Table 7.1 presents the percentage distribution and the means relating to the usefulness of QFRs for Kuwaiti users. The table shows that respondents overwhelmingly agreed that quarterly financial reports were useful. For example, more than 90% of respondents agreed (48.3 % strongly agreed) that they provide an important source of information and data for investors when making informed investment decisions. Some 84.5 % agreed (39.1% strongly agreed) that they offer up-to-date information about the operation and financial position of companies. When the questions focussed specifically on the financial position of companies, approximately 90% of the respondents agreed (45.6% strongly agreed) that QFRs offer up-to-date information. This is important in increasing investor confidence levels and 76.8% agreed (28.7% strongly agreed) that QFRs contain information that increases confidence in investment decisions. This is because the reports help users to make efficient investment decisions and subsequently monitor them. This was certainly borne out by the results, which indicated that 78.3 % of respondents believed that QFRs provide information that facilitates decision making when contemplating new or additional investments and approximately 80 % believed that the information helped to monitor investments

The extent to which QFRs facilitate investment decision making (and subsequent monitoring of investments) was obtained by using questions, which focussed on specific features of the reports. For example, approximately three quarters of the respondents agreed (29.8% strongly agreed) that quarterly financial reports provide information that helps to evaluate management performance. This finding was based on the fact that the quarterly reports allowed investors to get an insight into company performance. This was clearly signalled by the fact that 76.6 % agreed (30.3%

strongly agreed) that QFRs help in preparing ratios and commentaries and 73.6 % agreed (29.8% strongly agreed) that they provide information which helps investors to predict expected income and EPS. Similarly, about 60.0 % believed that the reports provide information that helps investors to predict stock dividends and 71.5 % believe that they provide information that aids in predicting the liquidity of the company. Quarterly financial reports also facilitates performance monitoring as revealed by the fact that 81.1 % of respondents agreed (37.1% strongly agreed) that they help in measuring the performance of a company over time. This comparison element of quarterly financial reports also relates to benchmarking with other companies. In this respect 78.9% of respondents believed that QFRs help in making comparisons with other companies.

Table 7.1, therefore, shows that the information provided in quarterly financial reports is considered useful to the majority of respondents and is used for a variety of purposes. This finding is reflected by the means in Table 7.1, which are around 4.0 for each of the 13 questions. Providing an important source of information was ranked as the most important use of the QFR (mean score of 4.37) followed by offering up-to-date information (mean of 4.32). The lowest three means (the lowest being 3.64) related to providing information for predicting dividends, providing information for predicting liquidity and providing information for predicting earnings per share [EPS].

A possible explanation for these last three results might be that the financial information published in QFRs is based on historical data. Indeed some investors argued that although quarterly reports are very useful for making investment decisions

some of the information is too brief and there needs to be more information on future projects and the future expectations of companies.

These findings are in alignment with Albagmi's (1996) who found that investors and the accountants, who prepare QFRs, feel that they are useful in making investment decisions. Lee and Tweedie (1975, 1981), Anderson (1981), Change and Most (1985) also found that information contained in the financial statements is very useful for making investment decisions. Almahmoud (2000) also found that the information provided in financial statements could help in making investment decisions, monitoring and predicting income and earnings per share, and helping to evaluate corporate performance over time.

7.2.1 SIGNIFICANCE LEVEL BETWEEN DIFFERENT USER GROUPS REGARDING THE USEFULNESS OF QUARTERLY FINANCIAL REPORTS:

To ascertain whether there were any significant differences of opinion between the respondent groups, the One-way ANOVA test was applied and the results are revealed in table 7.2.

H4: The different investor groups in Kuwait have similar opinions regarding the usefulness of QFR.

The analysis revealed that there was no significant difference between the different categories of respondents. All groups, therefore, equally consider the information provided in the quarterly financial reports to be useful. In other words, the results indicate that all groups are in agreement regarding the usefulness of QFRs. Therefore the null hypothesis is not rejected. This is not surprising since QFRs are summary

information and we might reasonably expect all people to find the information useful (even if their level of understanding of the information differs).

TABLE 7.2: THE LEVEL OF SIGNIFICANCE BETWEEN SUBJECT GROUPS REGARDING THE USEFULNESS OF QUARTERLY FINANCIAL REPORTS (ONE WAY ANOVA)

Statement	F Test	Significance
They provide an important source of information and data for investors to help in making informed investment decisions	1.392	0.250
They offer up-to-date information about the operation and financial position of the company	0.253	0.777
They offer up-to-date information about the financial position of the company	0.542	0.582
They contain information which increases confidence in investment decisions	0.345	0.708
They provide information that helps to make new or additional investments.	0.010	0.991
They provide information to investors that helps them to monitor their investments	0.075	0.928
They provide information that helps in the evaluation of management performance	1.438	0.239
They help in preparing ratios and commentaries	0.900	0.408
They provide information to help investors predict expected income and EPS.	0.979	0.377
They provide information that helps investors predict dividends	0.738	0.479
They provide information that aids in predicting the liquidity of the company.	2.097	0.124
They help in making comparisons regarding the company's performance over time	0.509	0.602
They help in making comparisons regarding the company's performance with other companies	0.070	0.933

7.3 CHARACTERISTICS INFLUENCING THE IMPORTANCE OF QFRs

In this section respondents were given five qualitative characteristics (See Section 2. part 5 of the Questionnaire – Appendix 1) and were asked to rank them in accordance with their importance in relation to quarterly financial reports. In this respect the study attempts to ascertain what are the fundamental characteristics of an “ideal” QFR. This section, therefore, addresses the following research question: What are the most important characteristics of QFRs?

The selected qualitative characteristics are as follows:

- **Simplicity of the presentation.**
- **Timeliness of the information.**
- **Neutrality of the information.**
- **Credibility of the information.**
- **Consistency of the information.**

In general, all of the characteristics listed in this study were perceived as important by respondents. However, from table 7.3 it is apparent that both the timeliness of information and the credibility of information are the most important. The credibility of information was ranked as the most important, followed by the timeliness of information. The neutrality of information was ranked in third position, the simplicity of the presentation was ranked fourth and the consistency of the information was ranked in last place.

TABLE 7.3: THE PERCENTAGE DISTRIBUTION AND RANKING OF THE FUNDAMENTAL CHARACTERISTICS OF QUARTERLY FINANCIAL REPORTS

Characteristics	First	Second	Third	Fourth	Fifth	Mode	Mean
Simplicity of the presentation	22.9%	9.2%	13.1%	26.3%	26.3%	4	3.30
Timeliness of the information	32.2%	28.6%	19.1%	14.2%	5.8%	2	2.32
Neutrality of the information	5.6%	17.0%	32.1%	23.1%	21.0%	3	3.41
Credibility of the information	33.3%	25.9%	18.8%	15.1%	6.5%	1	2.37
Consistency of the information	6.5%	18.8%	15.4%	19.8%	36.6%	5	3.69

An examination of the overall mean and mode for each characteristic category shows that all five are considered to be important. The modes for timeliness and credibility of information indicate that they were the most important criteria. However, the overall mean for timeliness and credibility were 2.32 and 2.37, respectively, suggesting that timeliness should be regarded as more important than credibility of information. This apart, the modes and means relating to neutrality, simplicity and consistency of information are entirely consistent with the percentage rankings.

The findings in this study relating to the timeliness and credibility of information are consistent with Albaqmi (1996), who found that issuing interim reports late, might result in some loss of value. The results are also consistent with the finding of Abu-Nasser and Rutherford (1996). Their research, which focussed on Jordan, found that timeliness was one of the most important criteria affecting users' perceptions of the quality of financial information. Similarly, Alrazeen's (1999) results, which were

based on empirical evidence from Saudi Arabia, revealed that timeliness of information and credibility of information were the most important characteristics for all groups of respondents. Likewise, Almahmoud (2000), Alhajji (2003) and Al-Hussaini (2003) all found that timeliness and credibility were regarded as very important.

7.3.1 THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT USER GROUPS REGARDING CHARACTERISTICS OF PRESENTATION,

The one-way ANOVA shown in Table 7.3 indicates that there is no significant difference between the three user groups, when evaluating the importance of the selected qualitative characteristics. Accordingly, because the different user groups seem to have similar views on the importance of these criteria, the findings support the following hypothesis:

TABLE 7.4: THE LEVEL OF SIGNIFICANCE BETWEEN SUBJECT GROUPS REGARDING THE FUNDAMENTAL CHARACTERISTICS OF QUARTERLY FINANCIAL REPORTS (ONE-WAY ANOVA)

Characteristics	F Test	Significance
Simplicity of the presentation	0.358	0.700
Timeliness of the information	0.368	0.693
Neutrality of the information	0.649	0.523
Credibility of the information	0.719	0.488
Consistency of the information	2.419	0.091

H5: The different investor groups in Kuwait have similar views on the importance of selected criteria that might affect the quality of QFRs.

7.4 CAPITAL MARKET SENSITIVITY, FINANCIAL DISCLOSURE, AUDITOR INVOLVEMENT AND TIMELINESS OF QFRs

This section (Part 2, Section 7 of the Questionnaire) examines a range of other factors relating to the usefulness of QFRs. These include *inter alia*: capital market sensitivity to the issuance of QFRs, the extent to which QFRs need additional financial disclosures, the extent to which auditor involvement enhances the quality of QFRs, and the importance of timeliness of QFRs. These issues were accordingly categorised under the following four headings.

- Effect of quarterly reports on the capital market (market sensitivity)
(Question 1-4)
- Auditor involvement (Question 5-7).
- Timeliness of QFR (Questions 8, 9).
- Financial disclosures (Questions 10, 11).

**TABLE 7.5: THE PERCENTAGE DISTRIBUTION OF RESPONDENT
VIEWS REGARDING OTHER ISSUES RELATING TO QUARTERLY
FINANCIAL REPORTS**

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Overall Mean
Capital Market Sensitivity						
Share prices on the Kuwait Stock Exchange are sensitive to financial information contained in the quarterly financial report	0.9%	4.9%	16.7%	52.6%	25.0%	3.96
The volumes of shares of Kuwaiti traded companies are sensitive to financial information contained in the quarterly financial report	0.6%	4.3%	27.7%	50.3%	17.1%	3.76
The issuance of quarterly financial statements helps in predicting the prices of other companies in the same industry	1.7%	7.2%	32.0%	44.4%	14.7%	3.63
The market index in the Kuwaiti Stock Exchange is sensitive to the issuance of quarterly financial statements	1.2%	3.5%	25.9%	48.4%	21.0%	3.84
Auditor involvement						
Quarterly financial statements should be audited by an independent auditor	0.3%	4.0%	13.8%	35.6%	46.3%	4.24
Auditor involvement in quarterly financial reporting will enhance the reliability of the reports	0.3%	2.6%	10.7%	36.0%	50.4%	4.34
Audits should be carried out by an international firm of accountants	1.7%	4.9%	28.2%	32.6%	32.6%	3.89
Timeliness						
It is considered that 45 days after the end of each quarter is an acceptable period for a company to produce and publish its financial statements	11.5%	28.0%	21.3%	25.4%	13.8%	3.16
Quarterly financial results should be published through the electronic system in the Kuwait Stock Exchange hall and the published media as soon as they are authorized and before being published in the newspapers	1.2%	2.9%	13.9%	39.9%	42.2%	4.19
Disclosures						
Quarterly financial reports published currently by Kuwaiti listed companies include sufficient disclosure to satisfy the needs of the users of these reports	3.5%	8.1%	32.8%	41.6%	14.0%	3.54
Quarterly financial statements should contain more information on the financial position of the company	0.3%	0.6%	13.7%	43.0%	42.4%	4.27

As such, this section addresses the following research questions:

- Is there a relationship between investor behaviour, share prices and the issuance of QFRs?
- Does auditor involvement in the QFR enhance its standing?
- Do financial investors want more information to be disclosed in corporate QFRs?
- What is the perception of financial users regarding the timeliness of QFRs?

The respondents were given five choices to indicate their level of agreement with the questionnaire assertions. A five point Likert scale was used, where 5 means 'strongly agree' and 1 'strongly disagree' and the results are shown in Table 7.4.

7.4.1 Capital Market Sensitivity

With regard to the effect of quarterly financial reports on the capital market, i.e. market sensitivity, respondents were asked to indicate whether they agreed with the statement that the share prices and trading volumes of Kuwaiti listed companies are sensitive to financial information contained in QFRs. An overwhelming majority of respondents believed that share prices (77.6%) and share volumes (67.4%) are sensitive to financial information contained in quarterly financial reports. Regarding the question as to whether QFRs help investors to predict the share prices of other companies in the same industry, 59.1% agreed (14.7% strongly agreed) that this was the case. Not surprisingly, therefore, more than two thirds (69.4%) of respondents

agreed that the Kuwaiti Stock Exchange market index is sensitive to the issuance of QFRs and 21% strongly agreed with this assertion.

The level of importance attached to these “other factors” was supported by the overall means, which revealed the following scores: 3.96 for share price sensitivity to financial information contained in QFRs, 3.76 for share volume sensitivity, 3.63 for the issuance effect of QFRs on the share prices of other companies, and, finally, 3.84 for the effect the issuance of QFRs has on the Kuwaiti Stock Exchange index.

These results confirm Albagmi’s (1996) findings, which revealed that 57% of respondents agreed that the price and volume of shares traded in the Saudi Arabian markets were sensitive to information contained in financial statements. Another study by Alboloshi (2000), which focussed on the United States, examined the usefulness of financial statements to analysts when making investment decisions. This study found that information contained in financial statements explained 58% of the changes which occurred in share prices and volumes immediately after the release of the statements.

7.4.2 Auditor involvement:

Investors and other users of financial statements need to have some assurance that quarterly financial statements, in addition to the annual financial statements, follow Generally Accepted Accounting Principles (GAAP) and do not contain any misrepresentations. The function of an auditor is to monitor the accounting system of the company and to provide assurance to investors and other financial statement users

that the financial condition of the company is sound. In the literature there are two arguments in favour of auditor involvement. The first argument claims that auditor involvement in QFRs adds credibility and assurance to users. However, the second argues that auditor involvement influences the timeliness of reports by delaying their publication. A review of the literature also revealed (already discussed in Chapter 4, Section 4.7) that users understand and appreciate the benefits of audited financial information.

Although, the law in Kuwait requires that two external auditors be involved in reviewing QFRs, the questionnaire, nevertheless, asked the respondents for their opinion on the effect of auditor involvement on the reliability of reports. The questionnaire asked the respondents to provide an opinion on auditor involvement and to state whether they believed it enhanced the reliability of QFRs. The questionnaire also sought respondent opinions on the choice of auditors. The findings relating to this part of the questionnaire are shown in Table 7.5 and reveal an overwhelming support for some form of auditor involvement in QFRs. Almost 82% (46.3% strongly agreed) of respondents believed that QFRs should be independently audited and 86.4% (50.4% strongly agreed) agreed that auditing would improve the reliability of the reports. However, the respondents stressed the importance of the professional standing of auditors. This was revealed by the fact that 65.2% agreed that international firms of accountants should carry out the audits.

These findings were also supported by the overall means for these questions. An overall mean of 4.24 indicated the strength of agreement with the assertion that QFRs should be independently audited. The emphasis on the professional standing of the

auditors was also underlined by the overall mean of 3.89, which related to the respondent's belief that QFRs should be audited by international firms. This was based on the viewpoint that it would enhance the reliability of the reports (mean of 4.34). Users, therefore, strongly support the involvement of auditors and their role in improving the reliability of quarterly reporting.

These results are supported by the findings of Ismael (2003) who found evidence to suggest that users have low levels of confidence in financial statements that are not audited. Specifically, Ismael found that the involvement of either internal or external auditors or an audit committee increased user confidence in QFRs.

7.4.3 Timeliness

As was mentioned earlier, the Kuwait Stock Exchange regulations require all Kuwaiti listed companies to publish QFRs in addition to their annual and semi-annual financial reports. Since 1998, the Kuwait Stock Exchange has required all companies to produce and publish their QFRs within 45 days of the end of the relevant quarter. However, the results shown in Table 7.5 show that there were a large number of respondents who either felt that the 45 day period was unacceptable or were undecided about its appropriateness. This formed the basis for the next question, which focussed more specifically on the optimum time –lag between the publication of final reports and the issuance of QFRs.

TABLE 7.6: THE TIMELINESS OF QUARTERLY FINANCIAL REPORTS

Time Interval	Less than 15 days	From 15 to 30 days	From 30 to 45 days	From 45 to 60 days	60 days or more
Percentage	39.3%	45.3%	9.17%	5.3%	0.9%

The results, reported in Table 7.6, show that a very large majority of users (94%) would prefer QFRs to be issued earlier than the current maximum time period of 45 days. Interestingly, 84.6% of investors would like to see this period to be less than one month and almost 40 % would like the interval to be less than 15 days. In contrast, only 9% were satisfied with the current allowable period. Although users want information as soon as possible, in practical terms it would be very difficult to issue QFRs in much less than 30 days, especially if external auditor involvement was expected.

What was interesting was the 5.3% of respondents who would like to see the time period extended. The thinking behind the 45 day maximum reporting period is to provide enough time for a company to prepare its QFRs. In this respect, it could be that a minority of the respondents had some form of involvement with the preparation of QFRs. This certainly could be the case where users are employed by institutions. In essence, therefore, investors want reliable, detailed and prompt information in QFRs, whereas accountants, who prepare this type of information, want more time to prepare the reports.

The questionnaire also examined respondent attitudes to issuing QFRs in an electronic format so as to speed up the availability of the reports. In accordance with the results mentioned in the previous paragraph, the majority of respondents in all of the representative groups agreed that this would be a good idea. This was clearly signalled by the high mean and percentage scores for this question. For example, Table 7.5 indicates that 82% of respondents agreed that QFRs should be made available in an electronic format and only 4% disagreed. Apart from speeding up the publication process, an electronic format also provides an opportunity for all users to access information at the same time. This finding also supports the empirical work of Albaqmi (1996) and Almahmoud (2000) who found that publishing financial reports in an electronic format was highly desirable to users in Saudi Arabia.

These findings on the timeliness of QFRs may be of some use to the Kuwait Stock Exchange authorities. For example, they might take into consideration the needs of users and reduce the permitted reporting lag. However, the authorities also need to consider the accountants point of view and allow sufficient time to prepare the financial statements properly. This basic but nevertheless, important dilemma in satisfying the conflicting needs of the various stakeholders in QFRs, succinctly captures just how difficult the policy makers job can be in practice.

7.4.4 Disclosures

This part of the questionnaire attempted to measure the level of satisfaction with the current disclosure policy and ascertain whether more items need to be included in QFRs. As mentioned in Chapter 4, although the Kuwait Stock Exchange authorities require companies to issue QFRs they do not specify which disclosures need to be included in the statements. Not surprisingly, therefore, the reliability of the information and the amount of the information can vary quite considerably from company to company within Kuwait.

As shown in Table 7.5, respondents were presented with two questions concerning current disclosures in QFRs. The table reveals that only 55.6% of respondents were satisfied with current disclosures and the overall mean of 3.54, once again, suggests that respondents were not totally satisfied with current disclosures. Not surprisingly, therefore, the majority of respondents (85.4%) believed that more information should be included in QFRs. This is also indicated by the mean for this last question, which was 4.27.

These results support the empirical findings of Ismael 2003 who found that in Malaysia, 68% of users would prefer more comprehensive QFRs. Albaqmi (1996) also arrived at similar conclusions in respect of interim reports.

7.4.5 THE SIGNIFICANCE LEVEL OF THE DIFFERENT USER GROUPS REGARDING CAPITAL MARKET SENSITIVITY, AUDITOR INVOLVEMENT, FINANCIAL DISCLOSURES AND TIMELINESS OF QFRS

TABLE 7.7: THE LEVEL OF SIGNIFICANCE BETWEEN SUBJECT GROUPS REGARDING THE RELATED TOPICS (ONE WAY ANOVA)

Statement of information	F- test	Significance
Share prices on the Kuwait Stock Exchange are sensitive to financial information contained in the quarterly financial report	0.218	0.804
The volumes of shares of Kuwaiti traded companies are sensitive to financial information contained in the quarterly financial report	1.139	0.321
The issuance of quarterly financial statements helps in predicting the prices of other companies in the same industry	0.818	0.442
The market index in the Kuwaiti Stock Exchange is sensitive to the issuance of quarterly financial statements	0.414	0.662
Quarterly financial statements should be audited by an independent auditor	0.098	0.907
Auditor involvement in quarterly financial reporting will enhance the reliability of the reports	0.891	0.411
Audits should be carried out by an international firm of accountants	2.322	0.100
It is considered that 45 days after the end of each quarter is an acceptable period for a company to produce and publish its financial statements	1.384	0.252
Quarterly financial results should be published through the electronic system in the Kuwait Stock Exchange hall and the published media as soon as they are authorized and before being published in the newspapers	3.263	0.039
Quarterly financial reports published currently by Kuwaiti listed companies include sufficient disclosure to satisfy the needs of the users of these reports	1.518	0.221
Quarterly financial statements should contain more information on the financial position of the company	2.052	0.130

The One-way ANOVA test was applied to find out if there were any significant differences between the different groups of respondent with regard to the factors

discussed in section 7.4. The ANOVA test shows that there was no significant difference in the perceptions between different groups. All groups can, therefore, be regarded as having similar points of view on auditor involvements, disclosures, timeliness and market sensitivity. Accordingly, the findings support the following hypothesis:

H6: The different investor groups in Kuwait have similar views regarding the sensitivity of the stock market to QFRs, the inclusion of additional selected disclosures in QFRs, auditor involvement in QFRs and the timeliness of QFRs.

7.5 THE USEFULNESS OF ADDITIONAL DISCLOSURES IN QFRs

This part of the chapter examines respondent opinions on the importance of mandating the inclusion of additional information items, which are not often included in QFRs, in order to enhance their quality. As such, it addresses the following research question: Do financial investors want more information to be disclosed in QFRs?

In order to examine the perception of respondents regarding the inclusion of such items, respondents were provided with the following 12 factors, which were obtained from the relevant literature (Alhajji 2003, Almubarak 1997).

1. Future investment and strategic plans of the company.
2. General economic conditions.
3. Expected sales for next year.

4. Expected profit for next year.
5. Financial policy of the company.
6. Amount of annual management remuneration.
7. Market value of company's shares.
8. Dividend forecasts for next year.
9. The percentage of government ownership.
10. Audit fees.
11. Significant shareholders.
12. Summary of the ageing of account receivables (debtors).

In order to facilitate an examination of the results, all of the respondents were asked to indicate their degree of agreement with the inclusion of the items, by using a five-point Likert scale where 5 means very 'useful' or 'strongly agree' and 1 means 'not useful at all' or 'strongly disagree'.

TABLE 7.8: THE PERCENTAGE DISTRIBUTIONS RELATING TO THE MANDATORY INCLUSION OF ADDITIONAL INFORMATION IN QFRs

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Agreement % Sum.	Mean	Rank
Future investment and strategic plans of the company	0.9%	3.2 %	7.5 %	34.6 %	53.9%	88.5	4.37	1
General economic conditions	1.5%	9.6%	39.2%	33.3%	16.4%	49.0	3.54	11
Expected sales for next period	0.3 %	5.5 %	13.3 %	40.0 %	40.9 %	81.0	4.16	5
Expected profit for next period	0.3%	4.4%	14.8%	36.3%	44.2%	80.5	4.20	3
Financial policy of the company	0.6%	2.9%	11.0%	38.1%	47.4%	85.5	4.29	2
Amount of annual management remuneration	1.5%	11.7%	37.9%	28.9%	20.1%	49.0	3.63	10
Market value of company's shares	1.2 %	7.1 %	22.4 %	40.9 %	28.5 %	69.0	3.74	8
Dividend forecasts for next period	0.9 %	5.0%	12.9%	39.0%	42.2%	81.0	4.17	4
The percentage of government ownership	0.6 %	6.4%	33.5%	37.0%	22.5%	59.0	3.74	9
Audit fees	5.2%	18.7%	41.8%	23.1%	11.2%	34.0	3.17	12
Significant shareholders	1.2%	3.5%	17.9%	45.5%	32.0%	77.5	4.04	6
Summary of the ageing of account receivables	1.7%	4.9%	18.2%	40.2%	35.0%	75.0	4.01	7

Table 7.8 shows the descriptive statistics relating to respondent ratings of the importance of mandating these twelve items. In general, financial users believed that the inclusion of more information, i.e. additional items, would improve the quality and usefulness of QFRs. The vast majority of the respondents (88.5%) agreed (53.9% Strongly agreed) that the future investment and strategic plans of a company should be published in the QFRs. Considerably less importance (49% agreed) was attached to the inclusion of general economic conditions and 11.1% disagreed with this suggestion, with 39.2 % remaining neutral.

Those items, which related to the sales performance and profitability of the company, had overwhelming support from the respondents. For example, 80.9% of the respondents agreed (40.9% strongly agreed) that expected sales for the next financial period should be published in the QFRs. Similarly, 80.5% of the respondents agreed (44.2% strongly agreed) that the expected profit for next period should be included. In fact there was broad support for the inclusion of additional financial information relating to corporate performance. Accordingly, 85.5% agreed (47.4% strongly agreed) that the inclusion of the financial policy of the company, would enhance the quality of QFRs. However, respondents were discerning enough to realise that the inclusion of annual management remuneration in QFRs might not have a direct effect on their usefulness. Slightly less than half of the respondents were in favour of this idea, 13.2% disagreed with it and 37.9% were neutral. If nothing else, this finding reveals that the respondents were discerning and not simply looking for the inclusion of additional information for information's sake

In contrast to the inclusion of information on management remuneration, additional information on shares was desirable. Consequently, almost 70% of the respondents agreed (28.5% strongly agreed) that the market value of company shares should be published in QFRs. Similarly, 81.0% agreed (42.2% strongly agreed) that the dividend forecasts for the next financial period should be included and almost 60% agreed (22.5% strongly agreed) that the percentage of government ownership should be included in QFRs. Probably because it is not relevant to investment decision making, only 34.3% agreed that audit fees should be published in QFRs. In this respect, this finding was consistent with the findings relating to management remuneration.

In contrast, information that is judged to be relevant i.e. information relating to the financial performance of the company, once again, had general support from respondents. Consequently, 77.5 % of respondents agreed (32 % strongly agreed) that the inclusion of information relating to significant shareholders should be included in QFRs. Similarly, three quarters of respondents agreed that a summary of the ageing of account receivables (debtors) should be included, with 35% strongly agreeing to this proposal.

The rankings, shown in Table 7.8, indicate that the five most important items, which would enhance both the quality and usefulness of QFRs, are:

- Future investment and strategic plans of the company.
- Financial policy of the company.
- Expected sales for next period.
- Expected profit for next period.
- Dividend forecasts for next period.

More than 80% of respondents rated each of these five items as being either ‘very useful’ or ‘useful’ and the overall means ranged from 4.16 to 4.37. As such, these findings support the general findings reported in the previous section that QFRs should contain more information on the financial position of the company.

Although not quite as important as the five items identified above, two other items were also perceived as being fairly important. Significant shareholders were ranked sixth with an overall mean of 4.04 followed directly by summary of the ageing of

account receivables (debtors), with an overall mean of 4.01. This latter item is particularly important for companies, which deal extensively on credit and deferred terms.

The findings generally support the research of Alhajji (2003), who found that investors in Islamic institutions also wanted additional financial disclosures. Alhajji found that the most important items were those relating to future profits, the market value of shares, litigations and, in contrast to this research, general economic conditions. Almubarak (1997), similarly found that future profits was the most useful item in reports, followed by future sales, anticipated dividends and the predicted situation of the company. Likewise, Anderson (1981) and Lee & Tweedie (1975) reported a need for more items to be disclosed in financial reports. Albaqmi (1996) also found that there were not enough disclosures in QFRs to satisfy the needs of users and highlighted the fact that investors wanted more information about shares and financial ratios.

Having discussed the items that users of QFRs believe are important, it is perhaps just as important to examine those items, which were regarded as not being important.

These items include:

- General economic conditions.
- Management remuneration.
- The percentage of government ownership.

- Audit fees.

The fact that these items were regarded as less important can perhaps best be explained or rationalised in the following way: general economic conditions can be ascertained from newspapers and the media. Moreover the majority of investors should have a good knowledge of the economic environment.

Management remuneration is regarded as being less relevant to the future viability of a company compared to revenue items. Moreover, managers in Kuwait normally have their bonuses set at Board level and they are typically equivalent to two or three times salaries, rather than a percentage share of sales or profits. Information relating to Government ownership is usually freely available in the market and, therefore, there is no obvious advantage in including this information in QFRs. Finally, audit fees are generally regarded as small compared to total revenues. Therefore, they have little or no impact on corporate performance.

Regarding these less important items, the results support the finding of Almubarak (1997) who found that general economic condition had the lowest priority with regard to additional disclosures. Alhajii (2003) also found that management remuneration was relatively unimportant.

There are a number of important conclusions from this section: first, the majority of users want to have more information incorporated into QFRs. Secondly, they want more specific detail rather than aggregate data. Finally, some items are not important because the information is accessible from other sources.

7.5.1 THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT GROUPS OF RESPONDENTS REGARDING THE INCLUSION OF ADDITIONAL DISCLOSURE ITEMS

To find out if there are any significant differences between the different groups of respondents in rating these additional disclosure items the one-way ANOVA test was applied. Table 7.9 indicates that there are no significant differences between the different groups of respondent. This suggests that all of the different user groups are not satisfied with the disclosures and want more information, of the sort discussed above, to be included in QFRs. The evidence, therefore, supports the null hypothesis:

H7: The different investor groups in Kuwait have no significant differences of opinion regarding the items that should be included in future QFRs.

TABLE 7.9: ONE-WAY ANOVA TEST ITEMS THAT SHOULD BE INCLUDED IN QFRs

Factors	F	Significant
Future investment and strategic plans of the company	0.412	0.662
General economic conditions	0.002	0.998
Expected sales for next year	0.038	0.063
Expected profit for next year	0.315	0.730
Financial policy of the company	1.184	0.307
Amount of annual management remuneration	0.217	0.805
Market value of company's shares	1.024	0.362
Dividend forecasts for next year	0.067	0.935
The percentage of government ownership	0.360	0.698
Audit fees	1.427	0.241
Significant shareholders	1.664	0.191
Summary of the ageing of account receivables	0.091	0.913

7.6 POSSIBLE FACTORS THAT MIGHT INFLUENCE THE DETERMINATION ATTITUDES TOWARDS PURCHASING SHARES

This part of the research provides some insight into the factors that influence share-purchasing behaviour on the Kuwait Stock Exchange. In addition, users' perceptions about the importance of QFRs in influencing share prices are ascertained.

The determination of share purchase attitude is very complex and influenced by several factors. The key question from the perspective of this research, however, is do QFRs play an important role in affecting share prices and how important are they compared to other factors?

This section, therefore, addresses the following research question:

Is there a relationship between investor behaviour, share prices and the issuance of QFRs?

Eighteen factors, which had been identified from the literature as having some influence on share prices and share purchase behaviour, were included in the questionnaire. Respondents were asked to indicate their level of agreement with the assertions by using a five point Likert scale, where five means 'strongly agree' and 1 means 'strongly disagree'.

The factors under consideration were as follows:

1. Past share price data
2. The movements in the stock market index
3. Name of the company
4. Experience of the management
5. High earnings
6. Dividend payments
7. The performance of the international stock market
8. The performance of the Gulf Cooperation Council stock market
9. Results of annual financial statements
10. Results of quarterly financial statements
11. Annual financial results of other companies in the same industry
12. Quarterly financial results of other companies in the same industry
13. Proportion of government ownership
14. Proportion of investment by large investors
15. Intensive media discussions about the company's performance
16. International oil prices
17. Interest rates at the banks
18. Market rumours.

TABLE 7.10: THE PERCENTAGE DISTRIBUTION OF FACTORS THAT INFLUENCE SHARE PRICES AND SHARE PURCHASE BEHAVIOUR

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Rank
Past share price data	0.9%	2.6%	12.1%	44.1%	40.3%	4.20	6
The movements in the stock market index	0.3%	2.3%	11.5%	49.9%	36.0%	4.19	7
Name of the company	3.8%	8.4%	21.1%	38.4%	28.3%	3.79	10
Experience of the management	0.6%	2.0%	13.3%	42.9%	41.2%	4.22	5
High earnings	0.0%	0.6%	5.4%	28.9%	65.0%	4.58	1
Dividend payments	0.0%	1.4%	6.1%	31.1%	61.4%	4.53	2
The performance of the international stock market	4.3%	16.4%	39.8%	28.2%	11.2%	3.25	17
The performance of the Gulf Cooperation Council stock market	7.2%	19.2%	43.3%	21.8%	8.6%	3.05	18
Results of annual financial statements	0.3%	1.2%	7.8%	42.1%	48.7%	4.38	3
Results of quarterly financial statements	0.3%	1.4%	12.4%	43.8%	42.1%	4.26	4
Annual financial results of other companies in the same industry	2.9%	4.3%	25.6%	45.1%	22.1%	3.80	9
Quarterly financial results of other companies in the same industry	2.9%	6.0%	27.2%	45.0%	18.9%	3.72	12
Proportion of government ownership	1.7%	12.1%	40.5%	32.5%	13.2%	3.44	15
Proportion of investment by large investors	0.3%	4.3%	24.0%	50.6%	20.9%	3.87	8
Intensive media discussions about the company's performance	3.2%	6.9%	31.7%	44.4%	13.8%	3.58	13
International oil prices	5.2%	15.9%	34.7%	30.3%	13.9%	3.32	16
Interest rates at the banks	2.0%	6.3%	26.9%	44.1%	20.6%	3.75	11
Market rumours	8.1%	13.3%	33.6%	30.1%	14.8%	3.55	14

The results in Table 7.10 indicate that high earnings reported by the company are perceived to be the most important factor determining share purchase behaviour.

Next, in terms of importance were dividends payments, followed by the results in the

annual reports, and then the results of the quarterly financial reports. In the following analysis the factors will be discussed in the same order as they appear in Table 7.10.

The majority of respondents, (84.4%), agreed that past share price data influences share purchase behaviour, and 40.3% strongly agreed with this assertion. Confidence in the state of the stock market was also very important and 85.9% agreed (36% strongly agreed) that share purchase behaviour were influenced by movements in the stock market index. Corporate reputation as evidenced by the company name was also very important. Accordingly, 66.7 % of respondents agreed (28.3% strongly agreed) that the name of the company influences purchase behaviour. Corporate reputation and investor confidence is also determined by the experience of management and 84.1% agreed (41.2% strongly agreed) that the experience of management was also important.

As already indicated, earnings are the most important consideration and this was borne out by the fact that 93.9% of respondents agreed that high earnings influence the purchase attitude. Moreover, 65% strongly agreed with this assertion. Dividend payments was also strongly emphasised by respondents with 92.5% agreeing (61.4% strongly agreed) that dividend payments were important.

In contrast, only 39.4% of respondents agreed that the performance of international stock markets influences share purchase decisions. Moreover, 20.7% disagreed with this assertion. Similarly, only 30.4% of respondents agreed that the performance of the Gulf Cooperation Council stock market was important, 43.3% were neutral and a fairly large proportion (26.4%) disagreed with the assertion.

The next set of factors, as they appear in table 7.10, relates once again to the financial performance of the company and the respondents accordingly attached a great deal of importance to them. For example, 90.8% of respondents agreed (48.7% strongly agreed) that the results of annual financial statements influence their share purchase behaviour. Similarly, 85.9% agreed (42.1% strongly agreed) that quarterly financial statements influenced their decisions. It was interesting to see that the quarterly financial results of other companies in the same industry had an influence on share purchase behaviour, with 64.9% of respondents agreeing (18.9% strongly agreed) that this was an important consideration.

The proportion of government ownership does not appear to have much influence on share purchase behaviour. This was reflected in the fact that only 45.7% of respondents agreed with this assertion and 40.5% were neutral (13.8% strongly agree). In contrast, however, the proportion of investment by large investors has a considerable influence and 71.5% agreed (20.95% strongly agreed) that this was important.

Approximately two thirds of respondents agreed that intensive media discussions about the company's performance were important and only 13.8% strongly agreed. Despite the importance of oil to the Kuwaiti economy only 44.2%, agreed that international oil prices influence share purchase behaviour. The penultimate item in Table 7.10 relates to bank interest rates and, perhaps not surprisingly, 64.7% of respondents agreed (20.6% strongly agreed) that this was important. In contrast only 44.9% of respondents agreed and 21.4% were disagreed that market rumours influence share purchase behaviour.

The percentages and overall means in Table 7.10 indicate that all of the factors under consideration are considered to be important. However, some factors are more important than others and, therefore, the researcher classified the factors into three categories (Most Important, Middle Important and Low Important) according to their mean scores. The two extremes are of particular interest, therefore, the most important factors will be discussed next, followed by the least important and the factors that come between these two extremes will be examined last.

The most important factors were identified as follows:

1. High earnings
2. Dividend payments
3. Results of annual financial statements
4. Results of quarterly financial statements
5. Experience of management
6. Past share price data
7. The movements in the stock market index.

The overall means in Table 7.10 indicate that high earnings, with a mean of 4.58, were considered the most important factor and dividend payments were ranked the second most important, with an overall mean of 4.53. The results of annual statements, (4.38) and quarterly reports (4.26) were ranked third and fourth respectively. Next came the experience of management (4.22) followed by past share price data (4.20) and movement in the stock market index, (4.19).

These results support the findings of Almahoud (2000), who found that high company earnings were considered the most important factor affecting share purchasing, followed by the experience of management. Another study by Albolooshi (2000), which focussed on the United States and examined the usefulness of financial statements to financial analysts when making decisions. This study indicated that information provided by financial statements explained 58% of subsequent decision making activity. Similarly, Albagmi (1996) found that 57% of respondents agreed that the prices and traded volumes of shares in Saudi Arabia were sensitive to the financial information contained in financial statements.

The results from this part of the research have shown that respondents attach a great deal of importance to high earnings, dividends, and annual and quarterly reports, etc. However, because a primary objective of this part of the research was to focus on the rationale behind these findings, the findings were discussed with the interviewees in order to get a better understanding of the results.

Most of the interviewees regarded management experience as the most important consideration in determining investor purchase behaviour. In this respect many interviewees expressed surprise that the experience of management was ranked fifth in terms of importance. However, some of the interviewees explained that the findings could be reflecting the essentially short and medium-term perspective of the Kuwaiti investors who formed the sample. According to interviewee # 3, "The experience of management is very important for long-term investors. The group of investors who answered your questionnaire are presumably short or medium-term investors and, therefore, they will tend to concentrate on dividends, earnings, and quarterly and annual reports. Long-term investors concentrate more on the experience of

management, predicted growth and future strategies. I suggest that in future, you should consider doing the questionnaire as a comparative study between the individual investors, and the portfolio managers and financial analysts. Also you need to compare long term and short-term investors. I am sure that each category will have its particular interests.”

The results would seem to suggest, therefore, that Kuwaiti users of QFRs care more about yield than any other factor. Nevertheless, the four most important items seem logical, especially, if investors are looking for short/medium term returns. Moreover, as indicated earlier the results substantiate the finding of other academic researchers in this area.

The items that are least likely to influence share purchase behaviour are as follows:

1. Intensive media discussions about the company's performance
2. Market rumours
3. Proportion of government ownership
4. International oil prices
5. The performance of the international stock market
6. The performance of the Gulf Cooperation Council stock market.

Table 7.10 shows that respondents ranked intensive media discussions about the company's performance in thirteenth position with an overall mean of 3.58 and market rumours followed with an overall mean of 3.55. The proportion of government ownership was ranked fifteenth (3.44) and international oil prices (3.32) were ranked

sixteenth. The performance of the international stock market (3.25) came next and the performance of the Gulf Cooperation Council stock market, (3.05) was ranked in last place.

There are many reasons, which could be postulated to explain these results but the low ranking of the oil factor was a surprise. It was anticipated that because oil is so fundamental to the performance of the Kuwaiti economy, respondents might have regarded international oil prices as one of the most important factors determining share purchase behaviour. In fact, Almahmoud (2000) found that international oil prices were considered to be one of the most important factors influencing share prices in Saudi Arabia.

However, there are some important considerations, which are unique to Kuwait and make it different from Saudi Arabia and the Emirates. First of all, the effect of the oil price on the economy and stock exchange activity is generally slower in Kuwait because of the government's expenditure strategy. The lag times in terms of delivery and payment are such that it takes time before revenues are actually earned by the government. The Government then has to direct and instigate expenditure based on the revenue. Moreover, the financial activities of most listed companies in Kuwait are not related directly to the oil industry. Another consideration is that the financing of the Gulf War created financial deficits in Kuwait and, therefore, the Government redirects a large proportion of its oil revenue into financing international debts.

According to interviewee #3: "There are some explanations for the oil price finding. One of them relates to the government need to reduce international loans, which arose from the Gulf War. The Government is also trying to repay the money it has borrowed from the Future Generations' Fund to pay for the war expenses. In addition, there are

infrastructure projects, which were delayed due to shortfalls in the government budget and the trade unions also take the opportunity to ask for better wages and more facilities when oil prices increase. Finally, we have to consider that there is a gap between the date of selling the oil and the time when the government receives the money. Therefore the relationship of oil prices to the Kuwait Stock Exchange is not a direct relationship as in some other oil industry countries.”

In some developed countries, intensive media discussions about a company's performance play a major role in ensuring the transference of information. However, this is not the case in Kuwait because most of the economic information is obtained from daily or weekly newspapers. Nevertheless, it should be pointed out that special studies and media research publications are beginning to emerge. In this respect, two or three companies have started to provide customers with detailed information but they are in their infancy and not at the same standard as in developed countries.

The findings relating to market rumours might be reflecting the possibility that Kuwaiti investors have learned the lessons from the Almannkh Crisis. Another consideration is that individual investors might be affected by market rumours more than financial analysts or portfolio managers and, therefore, this finding might be reflecting the composition of the research sample. This possibility was raised by interviewees # 6, who stated that: “As a portfolio manager, if I get a rumour I need to analyse that rumour to see if it is logical or not. For example, if I hear that company x has won a project that seems good I ask what the cost is, what is the expected profit and how long will it stay with the company? These and many other questions may need to be answered before I will take the rumour seriously”.

With regard to the performance of the international stock market, all stock markets are related to the international accounting cycle. However, the factors that change and determine the performance of international markets are quite different to those that influence local markets. That is not to say that there is no relationship because if there was a downturn in the US markets, some Kuwaiti investors would shift their money from the international market to the local market. In other words, if the local markets are out performing the international markets they will generally attract money from international portfolios. However, there is no real direct relationship between Kuwaiti companies and international companies. This is because the majority of Kuwaiti companies employ Kuwaiti nationals in Kuwait. In this respect, the Kuwaiti economy tends to be insular and this is generally reflected in the behaviour patterns of Kuwaiti investors.

The findings relating to the gulf markets, probably reflects the fact that the Kuwaiti market is regarded as the most active and most organised market in the Gulf area. For example, some of the Gulf markets are fairly small compared to the Kuwait market, others are closed to foreign investors and some do not always provide transparent information.

The remaining items, which were considered as being of medium importance in terms of their influence on investor purchased behaviour, are discussed next.

The proportion of investment by large investors was ranked in eighth position and had an overall mean of 3.87, followed by the annual financial results of other companies in the same industry, with an overall mean of 3.80. The Name of a company (3.79)

was in the tenth position, and bank interest rates (3.75) and the quarterly financial results of other companies in the same industry (3.72) were ranked eleventh and twelfth, respectively.

Out of all of these items the one, which was most surprising to the researcher was interest rates at the bank. It was anticipated that this would be regarded as far more important. This was because in 1998 the Central Bank of Kuwait stepped in to control bank margins and this had a direct effect on stock market activity. This suggests that there is a strong relationship between bank interest rates, and share prices and investor behaviour. However, there are a number of specific considerations, which apply to Kuwait and might explain the research findings. For example, individuals typically invest in the stock market because they have excess liquidity. Moreover, the practice of taking out bank loans to invest in the stock market has largely disappeared in the aftermath of the Almanakh Crash. Similarly the banks themselves have adopted a more conservative approach to making such loans. Banks now prefer to provide loans for mortgages, real estate and assets other than stocks and shares (see chapter 3). Perhaps it is also relevant to point out that when the questionnaire was distributed, interest rates were relatively low (and lower than at the present time) and investments in the Kuwait Stock Exchange were buoyant. In this respect, interest rates were not a burning issue at the time of the questionnaire.

7.6.1 THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT GROUPS OF RESPONDENT REGARDING FACTORS THAT COULD INFLUENCE SHARE PRICES AND SHARE PURCHASE BEHAVIOUR

The results of the One-way ANOVA test are shown in Table 7.11, which shows that the different user groups reveal no significant difference regarding the items that influence share purchase behaviour. The null hypothesis, which is stated below is not rejected, except for dividend payments. Since we are carrying out multiple hypotheses test, this could simply be a result of that multiple testing.

H8: The different investor groups have no significant differences of opinion regarding the effect QFRs have on share purchase behaviour.

In other words, the respondents have similar opinions about the items, which are deemed to be important in determining share purchase behaviour on the Kuwait Stock Exchange (KSE).

**TABLE 7.11: ONE WAY ANOVA TEST: ITEMS INFLUENCING
ATTITUDES TOWARDS SHARE PURCHASE ON THE KUWAIT STOCK
EXCHANGE**

Item	F test	Significance
Past share price data	0.659	0.518
The movements in the stock market index	2.160	0.117
Name of the company	0.557	0.562
Experience of the management	2.393	0.093
High earning results	0.507	0.603
Dividend payments	3.492	0.032*
The performance of the international stock market	1.654	0.193
The performance of the Gulf Cooperation Council stock market	0.218	0.804
Results of annual financial statements	1.063	0.347
Results of quarterly financial statements	0.104	0.901
Annual financial results of other companies in the same industry	0.698	0.498
Quarterly financial results of other companies in the same industry	0.395	0.674
Proportion of government ownership	0.236	0.790
Proportion of investment by large investors	1.839	0.161
Intensive media discussions about the company's performance	0.406	0.666
International oil prices	0.611	0.544
Interest rates at the banks	1.496	0.225
Market rumours	0.114	0.892

To obtain a better insight into the results relating to dividend payments, the Tukey Test was applied. This revealed that the financial analysts and portfolio managers did

not perceive dividends payments to be as important as individuals. The results showed that the overall mean for individual investors was 4.6. However, for financial analysts and portfolio managers it was 4.46 and 4.47, respectively. This seems to confirm that dividend payments are more important to individuals than the other user groups. One possible explanation for this result might be that financial analysts and portfolio managers take into consideration more factors about price determination. In addition; they might be taking a relatively longer term view of investments compared to individuals. Consequently greater emphasis will be placed on capital growth rather income, i.e. dividends.

7.6.2 KEY DETERMINANTS IN SHARE PURCHASE BEHAVIOUR

To identify the most important items in terms of their effect on share purchase behaviour, the summation of the ranks for each of the eighteen items was completed as shown in table 7.12. The five most important items were: Dividend payments, which was ranked first, with a ranks summation of 78.2%; high earnings, which was ranked second, with a rank summation of 59.7%; past share price data, which was ranked third, with a rank summation 54%; movements of stock market index 50.3% and the experience of management, which came fifth, with a rank summation of 42.7%.

TABLE 7.12: THE PERCENTAGE DISTRIBUTION OF THE FIVE MOST IMPORTANT ITEMS THAT AFFECT SHARE PURCHASE ATTITUDE OF INVESTORS

	First	Second	Third	Fourth	Fifth	Ranks Summation	Rank
Past share price data	18.4%	8.4%	8.7%	10.3%	8.2%	54.0 %	3
The movements in the stock market index	17.4%	8.4%	9.6%	7.3%	7.6%	50.3%	4
Name of the company	6.3%	6.3%	8.4%	5.2%	5.8%	32.0%	-
Experience of the management	8.3%	9.9%	6.3%	10.3%	7.9%	42.7%	5
High earning results	10.9%	17.7%	10.8%	12.4%	7.9%	59.7%	2
Dividend payments	18.4%	20.4%	16.8%	13.3%	10.3%	78.2%	1
The performance of the international stock market	5.1%	7.8%	9.0%	9.1%	8.2%	39.2%	-
The performance of the Gulf Cooperation Council stock market	4.5%	4.8%	8.1%	6.4%	7.3%	31.1%	-
Results of annual financial statements	4.5%	3.6%	4.5%	5.2%	7.0%	24.8%	-
Results of quarterly financial statements	1.8%	4.2%	5.1%	2.7%	5.2%	25.0%	-
Annual financial results of other companies in the same industry	0.3%	2.1%	3.0%	2.7%	4.0%	12.1%	-
Quarterly financial results of other companies in the same industry	0.3%	0.6%	1.5%	1.8%	1.8%	6.0%	-
Proportion of government ownership	0.3%	0.3%	0.9%	1.8%	2.1%	5.4%	-
Proportion of investment by large investors	0.6%	2.1%	2.4%	2.7%	5.5%	13.5%	-
Intensive media discussions about the company's performance	0.3%	0.3%	0.6%	1.2%	0.9%	3.3%	-
International oil prices	0.5%	0.6%	0.9%	1.2%	1.2%	1.4%	-
Interest rates at the banks	0.9%	0.6%	2.4%	4.2%	4.6%	12.7%	-
Market rumours	1.2%	0.6%	0.9%	2.1%	4.6%	9.4%	-
Total	100%	100%	100%	100%	100%		

7.7 FACTORS THAT MIGHT INCREASE THE DEMAND FOR QUARTERLY FINANCIAL REPORTS

This section (Part II, 5a of the Questionnaire) investigates the relationship between some changes in a company's situation or circumstances, which if reported in QFRs might make them more useful. In this way the research attempts to provide some causal relationships between the occurrence of change in a company and the demand for QFRs.

The research question for this part of the study is: Are there specific factors, situations or changes in a company that, if incorporated in QFRs, might make them more valuable? Changes in these fundamental factors obviously affect both a company's performance and its value but the research question attempts to ascertain whether they also increase the need/demand for QFRs?

The factors that are presumed to affect the demand for QFRs are as follows:

- Type and complexity of the industry
- Change in CEO
- Leverage
- Possible conflict between management and share holders
- Concentration of ownership
- Size of the firm
- Firm risk.

Respondents were requested to state their level of agreement to assess the effect of these factors on the demand for QFRs and, as before, a five point Likert scale was used, where 5 means 'strongly agree' and 1 means 'strongly disagree'.

TABLE 7.13: THE PERCENTAGE DISTRIBUTION OF FACTORS THAT MIGHT INFLUENCE THE DEMAND FOR QUARTERLY FINANCIAL REPORTS

Factor	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Mode
Type and complexity of the industry	1.5 %	5.6%	22.0%	38.7%	32.3%	3.94	4
Change in CEO	2.9 %	11.4%	32.9 %	32.7 %	20.1 %	3.56	3
Leverage	0.9 %	4.4 %	15.4 %	40.9 %	38.3 %	4.11	4
Possible conflict between management and share holders	3.3 %	14.2 %	27.8 %	30.5 %	24.3 %	3.59	4
Concentration of ownership	3.5 %	10.5 %	28.4 %	34.5%	23.1 %	3.64	4
Size of the firm	2.1%	6.8%	22.4%	40.9%	27.9%	3.86	4
Firm risk	1.8%	3.2%	18.8%	41.3%	34.9%	4.04	4

Table 7.13 shows the descriptive statistics relating to the factors that influence the importance of QFRs. In examining each of these factors in the order in which they appear in the table, it can be seen that almost 70% of respondents agreed (32.3% strongly agreed) that the type and complexity of the industry increases the demand for QFRs. Somewhat surprising was the fact that only 52.8% agreed (20.1% strongly agreed) that a change of CEO might similarly determine demand. However, there was strong support (79.2% agreed and 38.3% strongly agreed) for the assertion that leverage increases the demand for QFRs. More than half of the respondents (54.8%) believe that possible conflict between management and shareholders increases the

demand for QFRs and 57.6% think that the concentration of ownership could similarly influence demand. What was interesting about these last two factors was that although the proportion of respondents agreeing with the assertions was relatively low, the proportion of respondents strongly agreeing was fairly high at 24.3% and 23.1%, respectively. Slightly in excess of two thirds (68.8%) agreed that the size of the firm could increase demand (27.9% strongly agreed) and approximately three quarters of respondents agreed that firm risk might similarly influence the demand for QFRs, with 34.9% strongly agreeing.

Looking at the overall means in Table 7.13, leverage is the most important factor with an overall mean of 4.11, followed by firm risk (4.04) and the type of industry (3.94). These results agree with Alrazeen's (1999) findings that companies with higher leverage need to provide more disclosures in their reports. This is because a high ratio of debts to total assets increases the probability of a firm failing. However, Ismael (2003) found that higher leveraged companies in Malaysia tend to report more slowly compared with low leveraged companies. This is believed to reflect the extra time needed to incorporate the additional disclosures in reports.

By definition firms with high risk have riskier assets and this also increases the risk of company failure. The results seem to be suggesting that investors attempt to control and monitor their investments by seeking more information. With regard to the type of industry, the more complex a company's business the more likely that users of QFRs will seek more financial information. This finding accords with Almahmoud (2000) research who found that some industries were more sensitive to the issuance of financial reports than others.

With regard to the other factors such as change in the CEO, management conflict, concentration of ownership and size of the firm. The results show that the average overall means of these factors was approximately 3.5. This indicates that there is a relationship, but not a robust relationship, between these factors and the demand for QFRs. Therefore, these variables do have some positive influence on the demand for QFRs. This was also confirmed by Ismael (2003) who found that in Malaysia there was a relationship between the size of the company and reporting times. Specifically, the larger the company the earlier the reporting time, compared to smaller companies (Ismael 2003).

7.7.1 THE SIGNIFICANCE LEVEL BETWEEN DIFFERENT GROUPS OF RESPONDENTS REGARDING FACTORS THAT INCREASE THE DEMAND FOR QFRS

Applying the One-way ANOVA Test, no significant difference was found between the three groups of respondent regarding those factors that could increase the demand for QFRS. Accordingly, hypothesis 9 is supported by the research findings.

H9: The different investor groups have the same views regarding the factors that could increase the demand for QFR.

TABLE 7.14: THE LEVEL OF SIGNIFICANCE BETWEEN SUBJECT GROUPS REGARDING THE FACTORS THAT MAY INCREASE THE DEMAND FOR QFRs (ONE WAY ANOVA)

Factors	F- test	Significance
Type and complexity of the industry	2.073	0.127
Change in CEO	0.778	0.460
Leverage	0.2354	0.097
Possible conflict between management and share holders	0.390	0.667
Concentration of ownership	1.414	0.245
Size of the firm	0.881	0.415
Firm risk	0.596	0.551

7.8 CONCLUSION

The objective of this chapter was to explore in-depth some factors and characteristics that could make quarterly reports more useful to financial users.

The chapter used six approaches to examine the usefulness of quarterly financial reports and provided answers to the research questions about the attitude of financial users.

The first approach examined the respondent's views on the usefulness of QFRs and the extent to which users found the information useful when making investment decisions, while the second approach investigated some fundamental characteristics of an "good report". The third approach examined some related topics of quarterly reports such as, market sensitivity to the issuance of quarterly reports, the timeliness of financial reporting, auditor involvement and disclosure requirements. The fourth

approach examined the need for additional information to be included in QFRs, while the fifth approach investigated some factors which might influence share prices and attitudes towards purchasing shares. Finally, the sixth approach investigated the relationship between changes in a company's CEO, which if included in QFRs, might make them more useful to users.

The results of this chapter show that the information provided in quarterly financial reports is considered useful to the majority of respondents and is used for a variety of purposes by investors. In addition, all of the characteristics listed in this study were perceived as important by respondents. However, it is apparent that both the timeliness of information and the credibility of information are the most important characteristics.

With regard to the related topics of quarterly financial reports, the results revealed that an overwhelming majority of respondents believed that share prices and share values are sensitive to financial information contained in quarterly financial reports. There was also overwhelming support for some form of auditor involvement in QFRs on the basis that this would improve their reliability. Furthermore, a large majority of users would prefer QFRs to be issued earlier than the current maximum time period of 45 days.

Regarding financial disclosures, the majority of respondents believed that more information should be included in QFRs. In fact all three groups prefer additional information to be included in the quarterly financial reports. This included information on the future strategies, future investments and future profit and performance of a company.

With regard to the factors that might affect the determination of the share prices, the results indicated that most of the factors under consideration were considered to be important. In particular, the results of the company and dividend payment were regarded as being very important. Finally, the last section, which investigated changes in a company's situation, found that this sort of information was important, especially for high leveraged companies.

Table 7.15 Link the main finding of each section in chapter seven with the related literature and the main contributions for each section

Section	Research Question	Main Finding	Main Contribution	Related literature
7.2 usefulness of QFRs	RQ4- Do financial user groups find the information provided in the QFR useful for investment activities?	The information provided in financial statements could help in making investment decisions, monitoring and predicting income and earnings per share, and helping to evaluate corporate performance over time.	It assure the results of previous studies and give a guidance that main financial users overwhelmingly agreed that quarterly financial reports provide useful information that help making financial decisions	4.2, 4.3,4.5 & 4.6
7.3 The qualitative characteristics	RQ11- What are the most important characteristics of QFRs?	In general, all of the characteristics listed in this study were perceived as important by respondents however, timeliness and credibility of information were appear to have higher importance	It help the authority at the KSE to improve the usefulness of QFRs and financial reports in general especially according to the timeliness and credibility factors	4.2 & 4.7
7.4 some of the related issues to the QFRs	RQ6- Is there a relationship between investor behaviour, share prices and the issuance of QFRs? RQ7- Does auditor involvement in the QFR enhances its standing? RQ10- Do financial investors want more information to be disclosed in corporate QFRs? RQ9- What is the perception of financial users regarding the timeliness of QFRs?	The majority of respondents believed that share prices and share volumes are sensitive to financial information contained in quarterly financial reports. The main financial users support for some form of auditor involvement in QFRs The majority of respondents (85.4%) believed that more information should be included in QFRs. Users would prefer QFRs to be issued earlier than the current maximum time period of 45 days.	It give guidance for KSE to support the involvement of an auditor in QFRs because it enhances their credibility and usefulness It gives guidance to the KSE authorities in continuing to adopt (IAS). This would ensure that QFRs in Kuwait would include the minimum international agreed disclosures	4.2 & 4.7

Section	Research Question	Main Finding	Main Contribution	Related literature
7.5 the inclusion of additional information items	RQ10- Do financial investors want more information to be disclosed in QFRs?	Financial users believed that the inclusion of more information and some additional items, would improve the quality and usefulness of QFRs.	It is very beneficial for the financial users to include some additional items in QFRs. Such disclosures would improve the quality and usefulness of QFRs.	4.7
7.6 Factors could influence the attitude of shares purchase	RQ6- Is there a relationship between investor behaviour, purchase attitude and the issuance of QFRs?	The results have shown that respondents attached a great deal of importance to high earnings, dividends, and annual and quarterly reports, etc.	It assures that QFRs play an important role in affecting share purchase attitude compared to other sources of information. It gives a guidance to understand the reaction of investors toward some factors that affect the share purchase behaviour.	4.5 & 4.6
7.7 factors could increase the demand for QFRs	RQ5- Are there specific factors, situations or changes in a company that, if incorporated in QFRs, might make them more valuable?	Investors attempt to control and monitor their investments by seeking more information when they have firms with high leverage or firm risk.	It encourages the KSE to provide more information on companies' which suffer from high leverage.	4.5 & 4.6

RQ = research question number

CHAPTER 8

SUMMARY AND CONCLUSIONS

8.1 INTRODUCTION

This study has investigated the usefulness of QFRs in Kuwait and tried to determine a number of alternative ways for improving them from the perspective of end-user. As such, the thesis is considered to be the first comprehensive study of QFRs in Kuwait and it is hoped that it will make a valuable contribution to the existing academic literature in this area. The study will also make a significant contribution to our understanding of QFRs in developing countries, especially, in the Gulf region. The subject matter of the study was deemed to be important because in Kuwait and other developing countries, alternative sources of company information are relatively limited and insufficient compared to developed countries. Consequently, the role of company financial statements, and this includes QFRs, assumes greater importance in developing countries compared to their more developed counterparts.

Within the specific context of Kuwait and in the more general area of developing countries, the researcher believes that this study will not only make a contribution to the academic literature but will also be useful to market regulators and accounting professionals in helping them to enhance both the quality and relevance of information contained in QFRs. In this respect the, study will also help to increase overall awareness of the value and usefulness of QFRs.

The remainder of this chapter consists of three main sections: the first section (8.2) provides a summary of the preceding chapters and in so doing explains the rationale for the organisation of the thesis. The second section (8.3) re-introduces the main research questions and ascertains to what extent they were adequately addressed by the results and main findings of the study. Finally the third section (8.4) provides some pragmatic policy recommendations relating to QFRs, discusses some of the limitations of the study and makes some suggestions for future research in this area.

8.2 SUMMARY OF THE PRECEDING CHAPTERS

As mentioned in chapter one, the primary aim of the study was to examine the usefulness of QFRs to investors in Kuwait. Accordingly, it tries to measure and determine the attitude of different categories of users, i.e. investors, regarding the use and usefulness of QFRs. In the process of doing this the study highlights some of the problems investors encounter in making investment decisions and attempts to identify some of the solutions and associated benefits of addressing these problems.

In order to identify the main aims and objectives of the study, and address the research questions it was important to place the study in context. The thesis, therefore, provides an historical perspective on the evolution of the economy, financial system and stock market in Kuwait. Accordingly, the reader was provided with an essentially descriptive background on the Kuwaiti economy and financial system in chapter 2. This was necessary in order to obtain an insight into the environment or context in which the research took place and the investors operate. Accordingly, chapter 2 provides an understanding of the social, economic and political context in which the Kuwait economy and financial system operate. This is important because the

academic literature strongly suggests that socio-economic, demographic and cultural factors could determine attitudes and market practice, which in turn could affect the results of the research.

Chapter three traces the development and the structure of the KSE from the establishment of the first public shareholding company in 1952 through to the creation of the new Kuwait Stock Exchange in 1983. The chapter then reviews the development and essential characteristics of the KSE and, as such, forms the basis for the main themes of the study, which were the emergence and development of market regulations, and the effect of share performance, share volatility, alternative sources of information and insider trading on investor attitudes and behaviour. In order to give the chapter structure the development of the KSE was divided into four distinct stages. The factors behind the two crises, which affected the market in 1977 and 1982 (Almanakh), were also discussed. This facilitated a seamless move into the academic literature on the usefulness of financial reports.

Chapter 4 provides the literature review on the usefulness of financial reports in general and QFRs in particular. The chapter, accordingly, includes a discussion of the objectives and usefulness of financial reports, and identifies the users of financial reports and the characteristics of the “good financial report”. This is followed by a balanced discussion of the two polarised schools of thought on the usefulness of financial reports. The first school believes that financial reports are important to investors, whereas the second argues that they have lost a great deal of their relevance. However, both schools added value to the research by helping to broaden out the main themes of the research, which had been identified in the previous chapter. In the final part of the chapter emphasis is focussed on the importance of

QFRs and a discussion of the related issues. More important than the structure of the chapter was the fact that it was an essential step in providing a sound methodological foundation for the empirical investigation. It did this in a number of different ways but, in particular, it helped in the identification of appropriate research objectives and hypotheses, and facilitated the design of the questionnaire.

Chapter five discussed the research methods used to examine the data, and introduces the aims and objectives of the research and the research questions. A justification for the selected research methods and a description of the advantages and disadvantages associated with alternative research methods is also presented to the reader. In particular the chapter introduces the reader to the questionnaire and accordingly discusses the various sections of the questionnaire and their respective objectives. Following sound research method practices the different processes that the questionnaire was subjected to in order to maximise the response rate, and reduce ambiguity and response bias are also rationalised and explained. The methods of analysing the data using frequency analysis, means statistical ranking and ANOVA are introduced together with appropriate methods of testing levels of significance. Finally, the importance of the research to the academic community and to policy makers in Kuwait is highlighted.

The chapter also postulates several reasons for choosing the self-administrative questionnaire method, which utilised a conventional five-point Likert scale. In particular, the academic community are generally agreed that it is conducive to retaining confidentiality and anonymity and this was critical to achieving the excellent response in this study of 83.3%. Moreover, the questionnaire is a good tool for measuring the sort of opinions, attitudes, feelings and preferences that the research

sought to capture. The researcher also believed that by following the questionnaire with a series of interviews this would provide additional insight into some of the responses and, thereby, enrich the findings.

8.3 MAJOR FINDINGS

Chapters six and seven report on the major findings of the study and address the eleven research questions. Chapter six presents the research findings relating to the first four research questions and, accordingly, discusses alternative sources of financial information, the content of QFRs, the relative importance of different sections of QFRs and the usefulness of QFRs when making investment decisions. Taking each of these considerations in turn, a major finding of this study was that QFRs were regarded as a primary source of information by all of the three groups of investors. Respondents ranked them as the second most important source of information, just marginally behind Annual Reports. The results indicate that all forms of financial reports were considered good sources of information and were regarded as more useful than other sources of information, such as, specialist publications and advisory services. Annual Reports were the most important source of information because they constitute the most comprehensive set of financial information on a company. The problem with Annual Reports, however, is that they very quickly become out of date. Accordingly, investors regard quarterly reports very favourably in terms of their ability to mitigate the “historical” nature of Annual Reports and provide relatively up-to-date information.

Regarding the content of QFRs, the results show that all sections are considered important. However, the parts of the QFR which have a direct relationship with Annual Reports, i.e. income/revenue statements and balance sheet information were regarded as being far more important than the other sections. The rationale behind this finding is that investors and users of QFRs have more experience of income statements and balance sheets compared to projected cash flows and other forms of management accounting information. In addition it is easier to compare and contrast balance sheet and income statement information contained in QFRs with Annual Reports and make sensible and meaningful conclusions

The findings also seem to be suggesting that investors need only a basic or elementary summary of the financial position of a company to make informed investment decisions. This may reflect differences between short term and long term investors. Short term investors by definition do not stay in the market for long periods of time and, therefore, they may look for revenue and capital information that is conducive to conventional ratio analysis, when making investment decisions. This was suggested by the interviewee and is a possibility for future research.

Concerning the usefulness of QFRs, the majority of respondents stated that although they routinely use QFRs when making investment decisions, their understanding of the information contained in them is not very comprehensive. Respondents generally claimed to understand the basic information contained in QFRs but they did not always have the requisite skills to interpret and utilise the more sophisticated information. Consequently, only the more sophisticated users, i.e., the financial analysts and portfolio managers felt comfortable with the more complicated

information. In contrast, individual private investors tended to ignore this information when making decisions.

In addressing the remaining seven research questions, the analysis in chapter seven reinforces the findings in chapter six and further emphasises the usefulness of QFRs to investors when making investment decisions. Specifically, the chapter establishes that QFRs increase investor confidence when making and subsequently monitoring investments. In this respect, the respondents emphasised the importance of information that allowed them to evaluate management performance, make predictions about the future performance of companies, and predict the future values of dividends and share prices.

The findings in chapter seven also revealed that respondents believed that the prices and volumes of shares traded on the KSE are sensitive to financial information contained in QFRs. In this respect, this result is consistent with the finding that QFRs are extensively used in making investment decisions. In view of the importance attached to information contained in QFRs, it was perhaps not surprising, that the majority of respondents believed that auditor involvement in QFRs improved their reliability. In fact there was general consensus that this was a positive development, despite the implications that it might have for the timeliness of QFRs.

With regard to the timeliness of QFRs, most of the users expressed dissatisfaction with the current reporting lag of 45 days and would ideally like to see this reduced to less than 30 days. However, as intimated in Chapter 7, there was a clear conflict between the desire to have audited accounts and the need for up to-date information as

quickly as possible. In this respect, all of the respondents agreed that the publication of QFRs via an electronic system in the KSE would be highly beneficial.

With regard to financial disclosures, respondents are generally dissatisfied with current disclosures and want more information relating to the financial position of companies incorporated into QFRs. However, bearing in mind the lack of sophistication amongst some investors, especially individual investors, the consensus was that this need for more information should relate to future predictions about sales, profits, and dividends for the next trading period. Other disclosures, particularly, those relating to general economic conditions, audit fees, management remuneration and the extent of government ownership in companies, were not regarded as important. Consequently, the consensus of opinion was that these items should not be incorporated into QFRs.

Having established that QFRs influenced attitudes to share purchase chapter seven examined some of the specific factors that determine purchasing attitude. The results indicate that the earnings of the company, dividends payments, annual reports, quarterly reports and management experience were the most influential factors affecting purchasing attitudes. In general, these factors were all representative of the sort of additional information/disclosures that respondents wanted to see incorporated into QFRs. Continuing this theme, the chapter concludes by examining the value of incorporating information into QFRs, which would provide additional insight into a companies changing situation and increase the demand for QFRs. The thinking behind this part of the research was to ascertain if QFRs could somehow be made more dynamic by incorporating information that allowed users to monitor and compare companies with similar businesses. The results indicate that information on the

financial and capital leverage (or gearing) of the company; an assessment of the risk exposure of the firm and an insight into the type of industry in which the business operates were the most likely factors to increase the demand for QFRs.

8.4 RECOMMENDATIONS

The following recommendations stem directly from the findings of the study and are primarily aimed at improving the quality and usefulness of QFRs and overall standards in the KSE.

1. The study has shown that QFRs were ranked as the second most important source of information for Kuwaiti investors. Therefore, the authorities in the KSE should seriously consider enhancing the status of these reports and improving their usefulness to investors. This should have a direct and beneficial impact on the quality of investment decision making in the stock market
2. The findings (section 6.3.3) indicated that alternative sources of company information in Kuwait were not as readily available or as reliable as in more developed countries. In this respect the role of the brokers should be expanded to include the provision of consulting and financial advice services to investors. This should increase investor awareness of the factors that could affect investment performance on the KSE.

3. Continuing this theme of additional information, (section 6.3.3) the authorities in the KSE need to develop other sources of information by encouraging new, independent companies that specialise in providing specialist business advice in the form of business publications and consultancy work for investors. In this respect, the KSE could attract international advisory companies such as Merrill Lynch or Morgan Stanley to provide these services. Such an initiative will eventually make financial users more professional and sophisticated in terms of making investment activities and also lead to greater transparency of financial information.
4. In order to develop and enhance the skills of investors in Kuwait, the authorities should provide more training courses on accounting and financial skills. Although almost all investors had a good educational background some investors/ respondents in this research (mostly individual investors) had problems in understanding financial information and, therefore, this initiative would directly tackle the problem of financial illiteracy amongst investors.
5. The prompt availability of financial information can help to eliminate market rumours and insider dealing. Therefore, by reducing the time between the closing date of the accounting period and the publication of financial reports, the quality of information is increased. In turn this should lead to better decision making and increased levels of investor confidence.
6. The study shows that users support the involvement of an auditor in QFRs because it enhances their credibility and usefulness. Accordingly, the KSE authorities should continue to advocate the involvement of auditors in QFRs.

7. All of the different groups of investors who responded to the questionnaire agreed that the content of QFRs was relevant and important. However, they did raise concerns about certain “qualitative” aspects, such as, the timing of the reports, and the need for consistency of information in terms of its content and quality. This would facilitate an increase in the overall quality and usefulness of QFRs by helping investors make comparisons with other companies and benchmark company performance
8. The importance placed on QFRs by investors suggested that the KSE authorities should continue to adopt International Accounting Standards (IAS). This would ensure that QFRs in Kuwait, comply with internationally agreed rules on reporting.
9. The KSE authorities should provide information on corporate leverage and changes in senior management structure or encourage this type of information to be divulged by the companies themselves in QFRs.
10. The majority of users would like to see more information included in QFRs, therefore, the minimum requirement for disclosures should be clearly stipulated by the authorities. In particular, this requirement should cover not only basic requirements but also relate to information about future corporate investment strategies and plans, anticipated sales and profits and dividend forecasts for the next trading period.

8.5 FUTURE RESEARCH

During the course of completing the thesis a number of limitations of the study became apparent (as reported in Chapter 1). Some of these limitations were the result of time constraints on the researcher and others were regarded as peripheral to the main purpose of the researcher. However, all of the ideas for future research came as a direct result of this research. In this respect the thesis provides several opportunities for conducting future in-depth research on QFRs and financial statements in general. The final part of this chapter, accordingly, examines some of the researcher's ideas for undertaking future research in this area.

An examination of the Stock market's reaction to the release of QFRs: this research would study the effect publication of QFRs have on share prices and traded volumes on the KSE. The primary objective would be to ascertain if there was a measurable direct causal relationship between QFRs and the stock market. The research would also need to take into account the possibility of lagged effects and other possible factors (so called "noise") that could affect this relationship.

A study could be undertaken to compare and contrast QFRs in different Gulf countries: the study would concentrate on both the content and usefulness of QFRs to end users. Additional insight could be obtained by comparing the Gulf countries with the experiences of a developed country, such as, the United Kingdom or the United States.

A study of the usefulness of QFRs to user other than investors: this study has focused on the usefulness of QFRs and has shown how they affect the investment decision

making of three groups of Kuwaiti investor. An alternative to this approach would be to investigate the usefulness of QFRs (or any other type of financial information) for other categories of user, such as, company management, creditors, banks and regulators. Closely aligned to this approach would be a comparison between financial and non-financial information and how it influences the decisions of different user groups.

Finally, a future study could compare the differences between short and long term investors: the usefulness of QFRs and financial reports, in general, could vary according to the different perspectives of the users, i.e. whether the investor is looking for short term or long term gains, or whether the investor is looking for capital appreciation or return in the form of income. Accordingly a rigorous comparative analysis between short term and long term investors as well as between individual investors, portfolio managers and financial analysts might be worthwhile. Conversely a comparison between the interests of users of financial reports and the professionals who prepare them could be quite revealing.

Appendix 1

Questionnaire

This survey is an important part of my research; therefore your participation in answering these questions will be very valuable. The questionnaire will take around 15 minutes to complete. All information obtained from this questionnaire will be used for research purposes only and will be treated in the strictest confidence.

The objective of this questionnaire is to obtain your opinions regarding the use and the usefulness of quarterly financial statements [QFS] issued by listed companies in the Kuwait Stock Exchange. If you have any questions, please do not hesitate to contact me on my mobile.

(965) 6502326 Abdullah.

The questionnaire survey attempt to answer the following questions:

- 1. How do Kuwaiti financial user groups rank the importance of the QFS among all other sources of information and what is the importance of other information sources for financial users?**
- 2. What is the most important section of a corporate QFS for the various user groups?**
- 3. How important is the QFS as a source of information for investors and analysts in the Kuwait' stock market?**
- 4. Do financial user groups find the information provided in the QFS useful for their investment activities?**
- 5. Are there specific factors, situations or changes in a company that might make the QFS more valuable than usual?**
- 6. Is there a relationship between the share price purchase attitudes and the issuance of quarterly financial statements?**
- 7. Does auditor involvement in the QFS enhance its standing?**
- 8. Does the users' financial and accounting background affect their understanding and evaluation of a corporate QFS?**
- 9. What is the perception of financial users regarding the timeliness of the QFS?**
- 10. Do financial investors need more information to be disclosed in a corporate QFS?**
- 11. What are the most important characteristics of the quarterly financial reports?**

Part one: Background information:

1. Are you (please tick one box only)

An individual investor

A financial analyst

Institutional Portfolio investor

Other, Please specify _____

2. Please indicate your main place of work

Government

Private sector

Investment Company

Other please specify _____

3. Please indicate the highest educational qualification you have obtained.

Less than bachelor

Bachelor

Higher qualification

Other please specify _____

4. Please state the major subject of your degree.

Accounting & finance

Business studies

Economics

Other please specify _____

5. Please state the sectors in which you prefer to invest.

All sectors

Industry

Real estate

Banking

Service

Insurance

Investment

Food

Non-Kuwaiti sector

6. How many years of stock investment experience in the Kuwaiti stock market do you have?

Less than two years

2-5 years

6-10 years

More than ten years

7. Please describe briefly this experience.

Part Two:

1- How do you rate the importance of the following sources of information when you make your investment decisions?

Please indicate the degree of importance of the following sources in making investment decisions by placing a circle around the appropriate number where 1 is very important and 5 is not at all important.

	Very Important	Important	Neutral	Of little Importance	Not at all Important
Annual financial reports	1	2	3	4	5
Quarterly financial reports	1	2	3	4	5
Direct contact with the company's management	1	2	3	4	5
Contact with brokers or trading units	1	2	3	4	5
Financial analysis & advisory services	1	2	3	4	5
The advice of friends and relatives	1	2	3	4	5
Market rumours	1	2	3	4	5
Business & specialist publications	1	2	3	4	5
Other sources. Please specify	1	2	3	4	5

Please rank by order of importance the following source of information using the numbers 1 to 9, where 1 means the most important of all sources and 9 mean the least important.

Annual financial reports	
Quarterly financial reports	
Direct contact with the company's management	
Brokers and trading units	
Financial analysis & advisory services	
Friends and relatives	
Market rumours	
Business & specialist publications	
Other sources. Please specify.	

2- Content of the quarterly financial reports

This question aims to discover which part of quarterly financial reports is used more when making investment decisions. Some investors rely on some parts more than others; this may help the authorities in enhancing the content of the quarterly financial reports.

Please indicate the importance you attach to each of the following parts of the company's quarterly financial reports in relation to your investment decisions.

	Very Important	Important	Neutral	Of little Importance	Not at all Important
Income statement	1	2	3	4	5
Balance sheet	1	2	3	4	5
Cash flow statement	1	2	3	4	5
Board of directors report	1	2	3	4	5
Auditor report	1	2	3	4	5
Financial disclosures & accounting policies	1	2	3	4	5
Others. Please specify	1	2	3	4	5

Please rank the following reports in order of their importance by numbering these items below 1 to 7, where number 1 means the most important and 7 means the least important.

Income statement	
Balance sheet	
Cash flow statement	
Director report	
Auditor report	
Financial disclosures & accounting policies	
Others. Please specify.	

3- The use of quarterly financial reports:

Please indicate to what extent you agree or disagree with the following statements, describing the use of quarterly financial reports in Kuwait.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
I use quarterly financial reports for my investment decisions	1	2	3	4	5
I read carefully almost all the published information in the quarterly financial reports	1	2	3	4	5
I analyse the published information in the quarterly financial reports	1	2	3	4	5
It is easy to understand the information contained in the company's quarterly reports	1	2	3	4	5
I depend on the quarterly reports for my investment decisions	1	2	3	4	5
Quarterly financial statements published currently by Kuwaiti listed companies are useful when making investment decisions	1	2	3	4	5
All of the information I need is taken from other sources, I do not use quarterly financial reports	1	2	3	4	5

Please rank your preferences on the frequency of interim financial reports

Annual reports	
Semi annual reports	
Quarterly reports	
Monthly reports	
Seasonal reports	

4- The usefulness of quarterly financial reports:

Please indicate to what extent you agree or disagree with the following statements.

The Quarterly financial reports are useful in the following areas:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
They provide an important source of information and data for investors to help in making informed investment decisions	1	2	3	4	5
They offer up to date information about the operation of the company	1	2	3	4	5
They offer up to date information about the financial position of the company	1	2	3	4	5
They contain relevant information which increases confidence in investment decisions	1	2	3	4	5
They provide information that helps to make new or additional investments	1	2	3	4	5
They provide information to investors that help them to monitor their investments	1	2	3	4	5
They provide information that helps in the evaluation of management performance	1	2	3	4	5
They help in preparing ratios and commentaries	1	2	3	4	5
They provide information to help investors predict expected income and earning per share	1	2	3	4	5
They provide information that helps investors predict dividends	1	2	3	4	5
They provide useful information for predicting the liquidity of the company	1	2	3	4	5
They help in making comparisons regarding the company's performance over time	1	2	3	4	5
They help in making comparisons regarding the company's performance with other companies	1	2	3	4	5

5- This question investigates possible factors that might influence the importance of the quarterly financial reports.

Please indicate to what extent you agree or disagree that the factors indicated below increase the demand for quarterly financial reports in the Kuwait' stock exchange.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Type and complexity of the industry	1	2	3	4	5
Change in CEO	1	2	3	4	5
Leverage (ratio debt to total liabilities)	1	2	3	4	5
Possible conflict between management and share holders	1	2	3	4	5
Concentration of ownership	1	2	3	4	5
Size of the firm	1	2	3	4	5
Firm risk	1	2	3	4	5
Other (please specify)	1	2	3	4	5

Please rank in order of importance the following characteristics in relation to the quality of quarterly financial reports in Kuwait stock exchange. (Please use numbers 1 to 6 where 1 means the most important and 6 means the least important.

<i>Characteristics</i>	<i>Rank</i>
Simplicity of the presentation	
Timeliness of the information	
Neutrality of the information	
Credibility of the information	
Consistency of the information	
Others. Please specify	

**6- Is your purchase of shares influenced by any of the following factors?
Please indicate to what extent you agree or disagree that the following factors affect the determination of share purchase in Kuwait's stock market.**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Past share price data	1	2	3	4	5
The movements in the stock market index	1	2	3	4	5
Name of the company	1	2	3	4	5
Experience of the management	1	2	3	4	5
High earning results	1	2	3	4	5
Dividend payments	1	2	3	4	5
The performance of the international stock market	1	2	3	4	5
The performance of the Gulf Cooperation Council stock markets	1	2	3	4	5
Results of annual financial statements	1	2	3	4	5
Results of quarterly financial statements	1	2	3	4	5
Annual financial results of other companies in the same industry	1	2	3	4	5
Quarterly financial results of other companies in the same industry	1	2	3	4	5
Proportion of government ownership	1	2	3	4	5
Proportion of investment by large investors	1	2	3	4	5
Intensive media discussions about the company's performance	1	2	3	4	5
International oil prices	1	2	3	4	5
Interest rates at the banks	1	2	3	4	5
Market rumours	1	2	3	4	5
Others. Please specify	1	2	3	4	5

Please rank the top five items that affect your share purchase attitude where number 1 means the most important of all sources.

Item	Ranking
Past share-price data	
The movements in the stock market index	
Name of the company	
Experience of the management	
High earning results	
Dividend payments	
The performance of the international stock market	
The performance of the GCC stock markets.	
Results of annual financial statements	
Results of quarterly financial statements	
Annual financial results of other companies in the same industry	
Quarterly financial results of other companies in the same industry	
Proportion of government ownership	
Proportion of investment by large investors	
Intensive media discussions about the company's performance	
International oil prices	
Interest rates in the banks	
Market rumours	

7- Related topics

Please indicate your preference as to the time interval between the quarter end and the date of publication of the report (chose one only).

Less than 15 days after the end of the quarter	From 15 to 30 days after the end of the quarter	From 30 to 45 days after the end of the quarter	From 45 to 60 days after the end of the quarter	60 days or more after the end of the quarter

Please indicate to what extent you agree or disagree with the following statements regarding quarterly financial reports

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Share prices on the Kuwait stock exchange are sensitive to financial information contained in the quarterly financial statements	1	2	3	4	5
The volumes of shares of Kuwaiti traded companies are sensitive to financial information contained in the quarterly financial statements	1	2	3	4	5
The issuance of quarterly financial statements help in predicting prices of other companies in the same industry	1	2	3	4	5
The market index in the Kuwaiti stock exchange is sensitive to the issuance of quarterly financial statements	1	2	3	4	5
Quarterly financial statement should be audited by an independent auditor	1	2	3	4	5
Auditor involvement in quarterly financial reports will enhance the reliability of the reports	1	2	3	4	5
Audits should be carried out by an international firm of accountants	1	2	3	4	5
It is considered that 45 days after the end of each quarter is an acceptable period for a company to produce and publish its financial statements	1	2	3	4	5
Quarterly financial results should be published through the electronic system in the Kuwait Stock Exchange hall and the published media as soon as they are authorised and before being published in the newspapers	1	2	3	4	5
Quarterly financial reports published currently by Kuwaiti listed companies include sufficient disclosure to satisfy the needs of the users of these reports	1	2	3	4	5
Quarterly financial statements should contain more information on the financial position of the company	1	2	3	4	5

Disclosures: The information items in this question are not published regularly in the quarterly financial reports. Please indicate to what extent you agree or disagree that following items should be published in the quarterly financial reports.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Future investment and strategic plans of the company	1	2	3	4	5
General economic conditions	1	2	3	4	5
Expected sales for next year	1	2	3	4	5
Expected profit for next year	1	2	3	4	5
Financial policy of the company	1	2	3	4	5
Amount of annual management remuneration	1	2	3	4	5
Market value of company's shares	1	2	3	4	5
Dividend forecasts for next year	1	2	3	4	5
The percentage of government ownership	1	2	3	4	5
Audit fees	1	2	3	4	5
Significant shareholders	1	2	3	4	5
Summary of the ageing of account receivables	1	2	3	4	5
Other. Please specify	1	2	3	4	5

Please write any suggestions and comments you may have with regard to the questionnaire and any improvement you think.

Appendix II

The interview questions

Questions with experts in the stock exchange financial statements field

A- Users and different information sources:

1- In this study, which relates to Kuwaiti stock market investors, we investigate the priority given to the annual and quarterly financial statements as sources of information and explore the reasons for such prioritisation.

2- We realised in the research that portfolio managers and financial analysts put more effort into the annual financial reports than individual investors. However, in the quarterly reports do all the groups put in almost the same effort?

3- Why is the market rumour considered to be the lowest source of information?

4- Why do the portfolio managers and financial analysts have connections with company management more than with individual investors?

5- Why do individual investors rely more on the advice of friends and relatives?

B- Content of quarterly financial reports

6- According to the results of the research, the income statements and balance sheet are the most important content in quarterly financial reports. What are the reasons for that?

7- Why is the cash flow statement more important for financial analysts and portfolio managers than for individual investors?

8- Why do the financial analysts and portfolio managers concentrate more than individuals on the financial disclosure?

9- Why is the audit report and the board of director research have lower important than other sources?

C- Use of QFRs:

10- We have realized that all subject financial users read QFR as an important source of information what are the main reasons behind that?

11- Why do the financial analysts read the quarterly financial reports more than other groups?

12- According to the results of the research it is easy to understand the quarterly financial statement.

D- Usefulness of QFRs:

13- According to the results all the user groups said that QFRs were useful for decision-making, what are the rationales behind that?

E- Factors:

14- What is your point of view regarding the factors (items) that mentioned in the research, such as leverage and firm size, that may increase the demand on QFRs?

F- Characteristics of ideal reports:

15- According to the results of the research, timeliness and credibility are the most important characteristics for ideal financial reports. What are the reasons for that?

G- Buying shares decision

16- According to the research results, the market indicate that those items mentioned below have the priority in affecting the buying share decision and behaviour

1. high earnings
2. Dividend payments
3. Results of annual financial statements
4. Results of quarterly financial statements
5. Experience of management
6. Past share price data
7. The movements in the stock market index.

At the same time those items mentioned below are least likely to influence share prices and share purchase behaviour:

8. Intensive media discussions about the company's performance
9. Market rumours
10. Proportion of government ownership
11. International oil prices
12. The performance of the international stock market
13. The performance of the Gulf Cooperation Council stock market.

What are the main interpretations for such result?

H- Related topics:

17- Most of the respondents argue that 45 days is considered to be a very long period. Do you agree with that or not?

18- What is your opinion on the effect of auditor involvement on the reliability of QFRs?

19- What is your comment regarding the disclosures items mentioned below on enhancing the quality and the usefulness of QFRs?

1. Future investment and strategic plans of the company.
2. Financial policy of the company.
3. Expected sales for next period.
4. Expected profit for next period.
5. Dividend forecasts for next period.

The interview questions (Arabic translation)

Questions with experts in the stock exchange financial statements field

أهمية مصادر المعلومات المختلفة: -

وفقاً لنتائج البحث فإن 95% يعتقدون أن القوائم السنوية مهمة منهم 77% يعتقدون أنها في بالغ الأهمية بينما القوائم الربع سنوية جاءت في المركز الثاني 93% يعتقدون أنها مهمة منهم 59% يعتقدون أنها في بالغ الأهمية.

1- لوحظ في الدراسات التي تختص في الكويت أو في الخليج فإن القوائم المالية تأتي في المراكز الأولى بينما في الدراسات التي تختص في الدول الأكثر تقدماً فإن القوائم المالية تأتي في مراكز أقل فما هو السبب في رأيكم؟

2- وفقاً لنتائج البحث فإن أصحاب المحافظ والمحليين يعطون أهمية أكبر للقوائم السنوية من المستثمرين الشخصيين ولكن في القوائم الربع سنوية فإنهم جميعاً يعطون نفس الأهمية لها فما هو السبب في رأيكم؟

3- لوحظ أن الإشاعات تعد أقل مصدر من مصادر المعلومات من حيث الأهمية فما هو السبب؟

4- وفقاً لنتائج البحث فإن المحليين وأصحاب المحافظ يعطون للاتصال المباشر مع إدارة الشركة أهمية أكبر من المستثمرين الشخصيين. فما هي أسباب ذلك؟

5- عادة ما يكون المستثمر الشخصي يعتمد على نصائح الأصدقاء أكثر من المحليين الماليين وأصحاب المحافظ.

محتوي التقارير المالية الربع سنوية: -

1- لوحظ في نتائج البحث أن أهم قسمين هم قائمة الدخل والميزانية لجميع المجاميع الاستثمارية ، كما لوحظ أن المحليين الماليين يركزون أكثر على القوائم المالية

2- لوحظ أن المحليين وأصحاب المحافظ يركزون على Cash flow أكثر من المستثمرين الشخصيين.

3- لوحظ أنه عادة ما يركز أصحاب المحافظ والمحليين على الإيضاحات المالية أكثر من المستثمرين الشخصيين.

4- لماذا Board Of directors & Audit Report إن وجد يكون أقل أهمية.

- 1- لوحظ أن جميع المستخدمين يستخدمون قوائم الربع سنوية (خاصة المحللين الماليين) هل هذا راجع لأهميتها .
- 2- لماذا المحللين يقرءون أكثر تفاصيل من أي مجموعة أخرى هل هذا راجع إلى (الخبرة ، الخلفية العلمية ، التطوير المستمر) ام لأسباب أخرى.
- 3- لوحظ أنه من السهل فهم القوائم المالية من قبل جميع القطاعات. فما هو السبب في ذلك ؟
- 4- لوحظ أنه يتم الاعتماد على القوائم السنوية أكثر قبل المستثمرين الشخصيين فما هو السبب؟

الاستفادة من القوائم الربع سنوية Use fullness

- 1- نلاحظ أنه هناك إجماع من قبل جميع فئات المستثمرين على أن القوائم الربع سنوية مفيدة جداً فما هو سبب ذلك؟ (هل تقترح توصية للبورصة لتعزيز تلك القوائم)

Factors

- 1- هناك موافقة ولكن ليست شديدة على أن هذه العناصر تزيد من الطلب على القوائم الربع سنوية وخاصة في حالة زيادة نسبة الديون أو حجم المخاطرة أو طبيعة الصناعة. فما هو السبب في ذلك؟

المميزات Characteristics

- بالرغم من وجود فروقات بسيطة في درجة التقييم إلا أنه يوجد شبه إجماع على أن جميع هذه المواصفات مهمة. (هل هذا شئ طبيعي أم يوجد شئ في السوق الكويتي ، هل هي مبادئ محاسبية مهمة وكل واحد يؤيد الآخر)

قرار شراء الأسهم: -

لوحظ أن السوق الكويتي لا يتأثر تأثيراً واضحاً بالعوامل التالية :

- (1) باختلاف أسعار البترول (2) الفوائد البنكية (3) أداء الأسواق العالمية
- (4) أداء الأسواق الخليجية (5) الإشاعات

لوحظ أن السوق الكويتي قد تأثر تأثيراً واضحاً (1) في العوائد المرتفعة للشركة (2) توزيعات السنوية (3) نتيجة القوائم السنوية (4) نتيجة القوائم الربع سنوية (5) تحركات مؤشر البورصة (6) الأسعار السابقة للأسهم (7) خبرة الإدارة.

المواضيع الأخرى Related Topics : -

1- لوحظ أنه فترة السماح 45 يوم فترة طويلة كفترة فاصلة ، أكثر من 85% لم يعجبهم ذلك مع إنها تتمشي مع IAS .

2- المستثمرون يؤيدون ولكن بشكل غير قوي على أن أسعار وكميات الأسهم تتأثر بالقوائم الربع سنوية.

3- ما هو السر في تأييد انضمام المراجع الخارجي ولكن مع عدم التركيز على مكاتب الـ Big five

4- لوحظ أن المستثمرين غير راضين عن الإيضاحات الموجودة في القوائم المالية ويطالبون بإيضاحات أكثر فما هو السبب (هل تقترح توصيه لتطوير شكل التقارير الربع سنوية).

معلومات لا تنشر بشكل منتظم : -

1- هل من الطبيعي بالنسبة للمستثمرين أن يسألوا عن هذه المعلومات وهل من السهولة توفيرها للقوائم الربع سنوية أو حتى في القوائم السنوية.

2- ما هو تعليقك على العوامل التي أخذت المراكز الأولى. هل هذا طبيعي أم لا ؟

3- العوامل الأخرى الأقل أهمية ما هو تعليقك عليها.

REFERENCES

- AAA (1966). A Statement of Basic Accounting Theory. Sarasota, Florida, American Accounting Association.
- AASB (2000). Accounting standard (AASB 1029) interim financial reporting. Melbourne, Australian Accounting Standard Board: 1-20.
- AASB (2003). Request for comment on IAS 34 interim financial reports. Melbourne, Australian Accounting standard board: 1-5.
- AASB (2005). Australian Accounting Standards Board www.aasb.com.au.
- Abalkhail, M. (1999). Financial firms in Saudi Arabia: a study of informal investors' characteristics and decision making behaviour. Business School. UK, Loughborough.
- Abarbanell, J. (1991). "Do analysts' earning forecasts incorporate information in prior stock price changes?" Journal of Accounting and Economics 14(2): 147-165.
- Abarbanell, J. and B. Bushee (1997). "Fundamental analysis: future Earning, and stock prices." Journal of Accounting Research 35(spring): 1-24.
- Abdulsalam, M. (1990). "The use of corporate reports by investors in Saudi Arabia." Advanced International Accounting 3: 25-39.
- AbouElanain, H. (2003). Staff perceptions of service quality in Egyptian Commercial Banks: Business School. UK, Loughborough.
- Abu-Nassar, M. and B. A. Rutherford (1996). "External users of financial reports in less developed countries: the case of Jordan." British Accounting Review 28: 73-87.
- Ahmad, K. and j. Curtis (1999). "Association between corporate characteristics and disclosure levels in annual reports." British Accounting Review 31: 35-61.
- AICPA (1970). Basics Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises. New York, American Institute of Certified Accountants.
- AICPA (1973). Objectives of financial statements: True blood Reports. New York, American Institute of Certified Public Accountants.
- AICPA (1994). The Committee's Analysis on users' need for information. New York, American Institute of Certified Public Accountants.
- Al-Ajmi (1994). Gulf equity markets: a comparison of the structure and performance. Accounting and Finance. UK, Warwick Business School.

Al-Bogami, S. (1996). The Usefulness of Interim Financial Statements to Investors in the Saudi Stock Market. Accounting. UK, Dundee.

Albuloushi, S. (2000). Fundamental Analysis and earning forecasting: Testing the relevance of financial statements information to financial analysts. Ohio, USA, Kent State University.

Al-Darayseh, M. and J. Brown (1992). "Annual and quarterly financial data: Accuracy of Investment decisions." Journal of Applied Research 8: 22-24.

Al-Duwaihees, S. (2002). The usefulness of interim financial statements to investors in Kuwait Stock Market. College of Business Administration MBA program.

Al-Fadhli, M. (1998). Financial performance of Islamic banking in Kuwait. Business school. UK, Loughborough.

Al-Fraih, H. (1993). Government Growth the case of Kuwait. Public Administration. Alabama, USA, The University of Alabama.

Al-Hadad, H. J. (1998). A study of the financial and management performance of the Kuwait commercial banks. Business school. UK, Loughborough.

Al-Hajji, A. Y. (2003). The usefulness of annual reports of Islamic financial institutions in GCC countries to investors: The case of Kuwait. Business School. Wales, UK, Glamorgan.

Al-Hussaini, A. (2001). The quality of financial reporting practices in Kuwait. Accounting and finance. Wales, UK, Cardiff.

Alkurafi, A. (1988). The Kuwait Stock Market : Developments and Achievements. Bahrain.

Allen W. Bathke, J. a. K. S. L. (1984). "The relationship between time series models and security market's expectation of quarterly earnings." The Accounting Review No.2 (April 1984): 163-176.

Al-Mahmoud, S. (2000). The Usefulness of Annual Reports Information to Participants in the Saudi Stock Market. Wales, UK, Cardiff University.

Al-Mubarak F (1997). The Usefulness of Corporate Annual Reports to Investment analysts in Saudi Arabia. Accounting. U.K., University of Newcastle.

Al-Mutairi, A. K. (2004). Empirical testing of various aspects of investment in the Kuwait Stock Exchange (KSE). Accounting. Wales, UK, Cardiff University.

Al-Mutairi, F. (2001). Fiscal and monetary policy evaluation in simulations equation framework: the case of Kuwait. Business School. Wales, UK, Cardiff University.

Al-Omar, H. A. (1990). Oil, the financial sector, and the economy, a case study of Kuwait. Business. Miami, USA, University of Miami.

Al-Qenae, R. (2000). Financial information and regulation in an emerging market: Empirical study of the Kuwait Stock Exchange. Business School. UK, University of Essex.

Alrazeen, A. (1999). The quality of Annual financial reports of Saudi corporations: Users' perceptions and companies' practices. Accounting and Finance section. Wales, UK, Cardiff University.

Al-Sabah, Y. S. (1980). The oil economy of Kuwait. London and Boston, Kegan Paul international Ltd.

Al-Shamali, M. (1989). Weak form efficiency and factors leading to market efficiency in the Kuwait Stock market. Business School. UK, Loughborough.

Al-Shuaib, S. a. (1974). Accounting and Economic development in Kuwait Description and analysis. Business. USA, University of Missouri.

Alwatan (2005). HSBC Bank arrives to Kuwait (Arabic). Alwatan News paper, 04/10/05. Kuwait.

Amir, E. and B. Lev (1996). "Value- relevance of non financial information: The wireless communications industry." Journal of Accounting and Economics 22(August): 3-30.

Anderson, D., D. Sweeney, et al. (1996). Statistics for Business and Economics. Minneapolis, USA, West publishing company.

Anderson, R. (1981). "The usefulness of accounting and other information disclosed in corporate annual reports to institutional investors in Australia." Accounting and Business Research (Autumn): 257-265.

Annert, J., M. D. Ceuster, et al. (2002). "To be or not to be.. 'Too late': the case of Belgian semi-annual earning announcements." Journal of Business Finance 29(April-May 2002): 477-493.

Anonymounts (2000). "Auditor review of interim financial statements." CA magazine Toronto 133(10): 47.

Arnold, J. and P. Moizer (1984). "A survey of the methods used by UK investment analysis to Appraise investment in ordinary shares." Accounting and Business Research (summer): 195-207.

ASB (1991). "The objectives of financial statements and the qualitative characteristics of financial information." Accountancy (September, 1991): 99-103.

ASB (2004). Accounting standard Board www.asb.org.uk.

ASSC (1975). The Corporate Report. London, Accounting Standards Steering Committee.

Bagshaw, K. (2000). "Interim reports." Management Accounting 78(3): 40-41.

Bainman, Stanley, et al. (1996). "The Relation among Capital Markets, Financial disclosures, Production Efficiency, and Insider Trading." Journal of Accounting Research 34(spring): 1-22.

Baker, H. K. and J. A. Halsem (1973). "Information needs of individual investors." The Journal of Accountancy (November 1973): 64-69.

Balbol, A. and M. Omran (2003). Investment and the stock market: Evidence from Arab firm- level panel data. Economic Research Forum, Marrakech, Morocco.

Ball, R. and P. Brown (1968). "An empirical evaluation of accounting income numbers." Journal of Accounting Research 6(autumn): 169-178.

Bamber, I. s. (1987). "Unexpected earning, firm size, and trading around quarterly earning announcements." The Accounting Review no3 (July 1987): 510-531.

Ba-Owaidan, M. (1994). The Contribution of accounting Information to Investor Decision in the Saudi Stock Market. U.K., University of Hull.

Bartlett, S. A. and R. A. Chandler (1997). "The corporate report and the private shareholder: Lee and Tweedier Twenty years on." British Accounting Review 29: 245-261.

Beattie, V. (1999). Business Reporting: The enterable change? Edinburgh, The Institute of Chartered Accountants in Scotland.

Beaver, W. H. (1968). "The information content of annual earning announcements." Journal of Accounting Research 6: 67-92.

Bence, D., K. Hapeshi, et al. (1995). "Examining investment information sources for sophisticated investors using cluster analysis." Accounting and Business Research 26: 19-26.

Briggs, D. H. (1975). "Information requirements of users of published corporate reports-unit trusts." Accounting and Business Research (Winter): 18-20.

Brown, I. D. and M. S. Rozeff (1979). "The predictive value of interim reports for improving forecasts of future quarterly earnings." The Accounting Review liv no3(July 1979): 585-591.

Brown, P. and J. W. Kennelly (1972). "The information content of quarterly Earning: An Extension and some further evidence." The Journal of Business(July): 277-283.

- Burns, A. and R. Bush (2000). *Marketing Research*. New Jersey, Prentice Hall.
- Burrowes, A. (1986). A survey of sophisticated New Zealand users of financial statements and other interim reporting requirement. Accounting. Nebraska, Nebraska University.
- Bushee, j. s. A. a. B. J. (1997). "Fundamental analysis, future earning, and stock prices." Journal of Accounting Research 35(Spring 1997): 1-24.
- Buzby, S. I. (1974). "Selected items of information and their disclosure in annual reports." The Accounting Review xlix (July 1974): 423-433.
- Carnes, K. and N. Gierlasinski (2001). "Forensic accounting skills: will supply finally catch up to demand." Managerial Auditing Journal 16(6): 378-382.
- Carter, M. (1999). "The relevance of form 8-K reports." Journal of Accounting Research 37(spring 1999): 119 -131.
- CBK (2004). *Economic Reports, quarterly bulletins (several issues 1995-2004)*. Kuwait, Central Bank of Kuwait www.cbk.com.kw.
- Chan, L. K. and Y. Hamao (1991). "Fundamentals and Stock returns." Journal of Finance 46(December): 1739-1764.
- Chandra, G. (1974). "A study of the consensus on disclosure among public accountants and security analysts." The Accounting Review (October 1974): 733-742.
- Chang, I. S. and K. S. Most (1981). "An international comparison of investor users of financial statements." The international journal of accounting (Fall): 43-60.
- Chari, V. V. and R. Jagannathan (1988). "Seasonalities in security returns- The case of earning announcements." Journal of Financial Economics 21(1): 101-121.
- Chow, C. W. and A. Wong-Boren (1987). "Voluntary financial disclosure by Mexican corporations." The Accounting Review lxii3 (July 1987): 533-541.
- CICA (1980). *The Corporate Reporting: its future evaluation*. Toronto, Canadian Institute of Chartered Accountants.
- Colbert, J. L. (2000). "The impact of the new external auditing standards." The internal auditor 57(6): 46-50.
- Collins, D. and E. Mydew (1997). "Changes in the value-relevance of earning and book values over the past forty years." journal of accounting and economics 24(December): 39-67.

Creswell, J. W. (1994). Research design qualitative and quantitative approaches. London, SAGE publications.

Daniel W. Collins, E. L. M., Ira S. Weiss (1997). "Changes in the value-relevance of earning and book values over the past forty years." Journal of Accounting and Economics 24(1997): 33-67.

David Harvey, E. M. a. P. A. (2001). Accounting for Business.

Day, J. F. S. (1986). "The use of annual reports by UK investment analysts." Accounting and Business Research (Autumn): 295-307.

DeAnglo, L. E. (1981). "Auditor independence, low Balling and disclosure regulations." Journal of Accounting and Economics 3: 113-127.

DeVaus, D. A. (1996). Surveys in social research. London, College London.

Diamantopoulos, A. and B. Schlegelmilch (1997). Taking the Fear Out of Data Analysis. London, The Dryden Press.

Dunham, R. (1990). "High time for quarterly reports." Accountancy (Feb): 22-23.

E.R., V. (1996). "Discretionary disclosure." Journal of Accounting and Economics 5: 179-194.

EIU (2004). Country report: Kuwait 2004. London, UK, The Economist Intelligence Unit www.eui.com.

Elliott, R. K. and P. D. Jacobson (1991). "U.S. accounting: a national emergency." Journal of Accountancy (November).

Ettredge, M., D. Simon, et al. (2000). "The effect of external accountant's adjustments to quarterly earning." Journal of Accounting Research 38(Spring): 195-205.

Fama, E. (1970). "Efficient Capital Market: A review of theory and empirical work." The Journal of Finance(May): 383-423.

FASB (1978). Objectives of financial reporting by business enterprises statement No. 1. Connecticut, USA, Financial Accounting Standard Board.

FASB (1980). Statement of financial accounting concepts No. 2, Qualitative characteristics of accounting information. Connecticut, USA, Financial Accounting Standard Board.

Fetteman, D. M. (1989). Ethnography Step by Step. California, Sage Publications.

Foster, G. (1977). "Quarterly accounting data: Time series data and predictive ability results." the Accounting Review no 1(January): 1-21.

Foster, G., C. Olsen, et al. (1984). "Earning releases, anomalies, and the behaviour of security returns." The Accounting Review 4(October 1984): 574-603.

Frith, M. (1978). "A study of perceived importance of disclosure of individual items in corporate annual reports." The International Journal of Accounting 14(1978): 57-70.

Frith, M. A. (1979). "The impact of Size, Stock market listing and auditors of voluntary disclosure in corporate annual reports." Accounting and Business Research 9(Autumn): 273-280.

Fund, I. M. (2004). Kuwait: Financial sector programme. Washington, DC, International Monetary Fund www.IMF.org.

Gannon, D. J. and A. Ashwal (2004). "Financial reporting goes global." Journal of Accountancy (September 2004).

Glover, S. M., J. Jiambalvo, et al. (2000). "Analytical procedures and audit-planning decisions." Auditing: Sarasota 19(2): 27-45.

Gniewosz, G. (1990). "The share investment decision process and information use: an Explanatory case use study." Accounting and Business Research 20: 223-230.

Grame M. McNally, L. H. E. a. C. R. H. (1982). "Corporate financial reporting in New Zealand: An Analysis of user performances, Corporate characteristics and disclosure practices for discretionary information." accounting and business research (winter 1982): 11-17.

Graswell, A. and J. R. Frances (1999). "Pricing initial engagement test of competing theory." The Accounting Review 74(2): 201-216.

Gregory, J. and j. Blanchet (2000). "Assessing Quality of financial reporting." American Accounting Association 14(September 2000): 353-363.

Greswell, J. W. (1994). Research Design Qualitative & Quantitative Approaches. London, New Delhi, SAGE publications.

Gunther, J. W., M. E. Levonian, et al. (2001). "Can the stock market tell bank supervisors anything they don't already know?" Economic and Financial Review (Second quarter 2001): 2-9.

Hammersley, m. and P. Atkinson (1983). Ethnography Principles in Practice. Cambridge, Tavistock Publications.

Heffes, E. M. (2001). "FASB adds financial performance reporting." Financial Executive 17(9): 64.

Helmes, K. M. R. G. L. (2002). "CPA involvement with quarterly financial

reporting." Ohio CPA journal 61(3): 50-52.

Holmes, S. a. G. (2002). Interrupting Company Reports and Accounts, Prentice Hall Financial Times.

Howitt, D. and D. Cramer (2000). An introduction to statistics in Psychology. Essex, England, Pearson Education Limited.

Hussey, R. and S. Woolfe (1998). "The auditor' review report." Managerial Auditing Journal 13(8): 448-454.

IASB (2000). IAS 34: Interim Financial Reporting, International Accounting Standards Board (IASB).

IASB (2004). Membership of IASB and FASB international working group on performance reporting announced, International Accounting Standards Board www.IASC.org.uk. November 2004.

IASC (1989). Framework of the Preparation and Presentation of Financial Statements. London, International Accounting Standard Committee.

ICAI (2002). Proposed accounting standard interim financial reporting. India, Institute of Chartered Accountant of India: 1-12.

Ismail, K. N. I. (2003). The usefulness of quarterly financial reporting in Malaysia. Business School. Wales, UK, Cardiff.

Jenkins, E. I. (1994). "An information highway in need of capital improvements." Journal of Accountancy (May): 77-82.

Jensen, M. and W. Meckling (1976). "Theory of the firm: managerial behaviour, agency cost and ownership structure." Journal of Financial Economics 3(4): 305-360.

John Samuels, C. R. a. A. P. (1989). Advanced financial accounting. London, McGraw-Hill Book Company.

Johns, N. and D. Lee-Ross (1998). Service industry management, Cassel.

K.G.Fenelon (1978). Kuwait past and present. Kuwait, Kuwait find for Arab economic development: 1-15.

K.P.Gee and R.H.Gray (1987). "Interim reporting issues and uncertainty reduction." The British Accounting Review 19: 1-16.

KCC (2002). Kuwait clearing company: annual report. Kuwait, Kuwait Stock Exchange.

KCCI (2004). Introduction to the Kuwait Market, Kuwait Chamber of commerce www.kcci.org.kw.

Kenny, R. I. a. S. (1995). "An empirical analysis of international accounting standards, equity markets, and economic growth in developing countries." Journal of International Financial Management and Accounting 6: 130-157.

KFAED (2003). Kuwait fund for Arab economic development, www.kuwait-fund.org.

Khouja, M. W. and P.G.Sadler (1979). The economy of Kuwait: development and role in international finance.

KIA (2003). Kuwait investment authority, www.kia.gov.kw.

Kiekwood, J. M. (2001). "Timely guidance." CA. magazine Toronto 134(6): 35-36.

Kieso, D. E. and J. Weygandt (1992). Intermediate accounting. New York, John wiley & sons, Inc.

Kinger, J. (1972). "An empirical investigation of NYSE Volume and price reaction to the announcement of quarterly earning." Journal of Accounting Research: 113-125.

KPC (2005). Subsidiaries of Kuwait petroleum corporation, Kuwait Petroleum Corporation www.kpc.com.kw.

KSE (2001). Investor guide. Kuwait, Kuwait Stock Exchange Bulletins.

KSE (2005). About Kuwait Stock Exchange www.kuwaitse.com, Kuwait Stock Exchange.

Larison, R. and S. Kenny (1995). "An empirical Analysis of International Accounting Standards, Equity Markets, and Economic Growth in Developing Countries." Journal of International Financial Management and Accounting 6(No.2): 130-157.

Lee, T. A. and D. P. Tweedie (1975). "Accounting information: An investigation of private shareholder usage." Accounting and Business Research (Autumn 1975): 280-291.

Lee, T. A. and D. P. Tweedie (1976). "The private shareholder: his sources of financial information and his understanding of reporting practices." Accounting and Business Research (Autumn 1976): 304-314.

Lee, T. A. and D. P. Tweedie (1981). The Institutional Investor and Financial Information. U.K., The Institute of Chartered Accountants in England and Wales.

Lev, B. and S. R. Thiagarajan (1993). "Fundamental Information Analysis." Journal of Accounting Research 31(Autumn 1993): 190-215.

Lewis, R. and D. Pendrill (2000). Advanced Financial Accounting, Financial Times Prentice Hall.

LSE (2003). News dissemination and the EU transparency directive. London, London Stock Exchange: 11.

Lunt, M. H. C. (1982). The role of interim accounts and preliminary profit announcements in financial reporting. London, The Institute of Chartered Accountants in England and Wales.

Mallakh, R. E. and J. K. Atta (1980). The absorptive capacity of Kuwait. D.C., Lexington, Massachusetts, Toronto, Lexington Books.

Marin, G. and B. Marin (1991). Research with Hispanic populations: Applied Social Research Series. Beverly Hills, C.A., Sage Publications.

Martin, p. and A. Mersereau (2000). "Keeping up with Joneses." CA Magazine Toronto 133(Nov. 2000): 39-40.

May, R. G. (1971). "The influence of quarterly earning announcements on investors decisions as reflected in common stock price changes." Journal of Accounting Research: 119-171.

McGorry, S. Y. (2000). "Measurement in Cross-Cultural Environment: Survey Translation Issues." Qualitative Market Research: An International journal 3(No. 2): P 74-81.

Mclaney, E. and P. Atrill (2002). Accounting an introduction.

Menno, K. and D. Williams (1988). "The Insurance Hypothesis and Market Price." the accounting review(April): 327-342.

Miller, L. (2000). "What's an audit committee to do?" the internal auditor 57(2): 11-12.

Moizer, J. A. a. P. (1984). "A survey of the methods used by UK investment analysts to appraise investment in ordinary shares." Accounting and Business Research (summer): 193-207.

MOO (2002). Oil prices. Kuwait, Ministry of oil www.moo.gov.kw.

Moonitz, A. (1961). The basic postulates of accounting. Accounting research study. New York, AICPA. 1.

MOP (2004). Economic and social indicators. Kuwait, Ministry of planning www.mop.gov.kw.

Morise, D. (1981). "Price and trading volume reaction surrounding earning announcements: A closer examination." Journal of Accounting Research 19: 374-383.

Naser, K. and R. Nuseibeh (2003). "User's Perception of corporate reporting: evidence from Saudi Arabia." The British Accounting Review 35: 129-153.

Naser, K., R. Nuseibeh, et al. (2003). "Users' perceptions of various aspects of Kuwaiti corporate reporting." Managerial Auditing Journal 8: 599-617.

NBK (2002). Economic and financial review report. Kuwait, National Bank of Kuwait www.NBK.com.

NBK (2002). The story of success 1952-2002. Kuwait, National Bank of Kuwait.

Ndubizu, G. A. (1992). "Accounting disclosure methods and economic development: a criterion for globalizing capital markets'." The International Journal of Accounting 27: 151-163.

Neuman, W. L. (1997). Social research methods. Boston, Allyn and Bacon.

Opong, K. K. (1995). "The information content of interim financial reports: UK evidence." Journal of Business Finance & Accounting 22(March): 269-279.

Ou, J. A. and S. H. Penman (1989). "Financial statement analysis and the prediction of stock returns." Journal of Accounting and Economics 11(Nov.): 295-329.

PACI (2004). Social statistic information. Kuwait, The public Authority for Civil Information www.paci.gov,kw.

Page, M. (1991). "Now is the time to be more critical." Accountancy (October): 31.

Patient, M. and R. Elwell (1993). "A Question of scope and timing." Accountancy (February 1993): 107-108.

Pike, R., J. Meerijanssen, et al. (1993). "The appraisal of ordinary shares by investment analysis in the U.K. and Germany." Accounting and Business Research 23(92): 489-499.

Pizzey, A. (1997). Accounting and Finance A Firm Foundation.

Pizzey, A. (1998). Finance and Accounting for Non Specialist Students, Financial Times Pitman.

Ramish, K. and R. Thiagarajan (1995). Inter-temporal decline in earnings response coefficients. Illinois, USA, Northwest University.

Rimerman, T. W. (1990). "The changing significance of financial statements." Journal of Accountancy (April, 1990): 79-83.

Ryan, B., R. W. Scapens, et al. (1992). Research methods and Methodology in Finance and Accounting. London.

Saudagaran, S. and J. Diga (1997). "Financial reporting in emerging capital markets: characteristics and policy issues." Accounting Horizons 11: 41-64.

Schipper, K. (1991). "Commentary Katherine Schipper on analysts' forecasts." Accounting Horizons (December 1991): 105-121.

Schrand, C. (2000). "Strategic Benchmarks in Earning Announcements: The Selective Disclosure of prior-period Earning components." Accounting Review 75(April): 151-177.

Sekaran, U. (2003). Research Methods for business: A skill-building approach. New York, Wiley c 2003.

Shaoul, M. (1997). The Acrobat of Desire: Consumer Credit and its Linkage to. London, Martin's Press.

Sharif, A. (1999). An investigation into the extent and determination of banks profitability: a comparison between Kuwaiti and GCC commercial banks. Banking. Wales, UK, Cardiff.

Showeder, R. (1996). True Ethnography: The Lore, The Law, and the Lure: in R. Jessor, A. Colby and R. A. Shweder(EDS), Essays in: Ethnography and Human Developments Context and Meaning in Social Enquiry,. Chicago, The University of Chicago.

Simunic, D. A. (1980). "The pricing of audit services: Theory and evidence." Journal of Accounting Research 18: 161-190.

Spathis, C. T. (2002). "Detecting false financial statements using published data: some evidence from Greece." Managerial Auditing Journal 17(4): 179-191.

Staden, v. (1998). "The usefulness of the value added statement in South Africa." Managerial Finance 24(11): 44-59.

Stickel, S. E. (1989). "The timing of and incentives for annual earning forecasts near interim earning announcements." Journal of Accounting and Economics 11(July): 275-292.

Sullivan, A. (2001). "Minding those Ks and Qs." Network world; Framingham 18(April 2001): 1-3.

Tohmatsu, D. T. (2003). IAS plus history of IAS 34, Deloitte Touches Thomaston.

Tuckey, D. (2002). "Students: Auditing." Accountancy 129(1303): 130-131.

Tull, D. and D. Hawkins (1997). Marketing Research Measurements and method. New York, Macmillan Publishing Company.

Wallace, R. S. (1987). Disclosures of accounting information in developing countries: A case study of Nigeria. Accounting and business Research. UK, University of Exeter.

Walther, C. M. S. a. B. R. (2000). "Strategic benchmarks in earning announcements: the selective disclosure of prior-period earning components." The Accounting Review 75(April 2000): 151-171.

Watts, R. L. and J. L. Zimmerman (1983). "Agency problem, Auditing and theory of the firm." Journal of Law and Economics(October).

Weinberg, N. (2000). "Is your vendor healthy." Network World, Framingham 17(April 2000): 1-4.

Wheatley, C. m., D. Manry, et al. (2001). "What price credibility: is release of quarterly financial reports delayed by timely reviews?" Journal of Forensic Accounting II(2001): 43-66.

Wiled, K., B. Creighton, et al. (1999). GAAP 2000 UK financial reporting and accounting. London, Accountancy Books.

Wilson, R. (1983). Banking and Finance in the Arab Middle East. Surrey, England, Macmillan Publishers Ltd.

Wilson, R. (1990). Islamic Financial markets. London, Rout ledge.

Wilson, R. (1995). "Islamic Banking going global." The Banker (March): 45-46.

Woolfe, R. H. a. S. (1998). "The auditor' review report." Managerial Auditing Journal 13: 448-454.

Young, E. (2001). UK & International GAAP. London, Butterworth's Tolley.

Young, E. (2001). IAS/ UK GAAP Comparison. London, International accounting standards committee.