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PERCEPTIONS OF PROFESSIONAL INVESTORS IN PAKISTAN ON THE USEFULNESS OF QUARTERLY REPORTS

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ABSTRACT

The purpose of this study is to empirically examine the perception of professional investors in Pakistan regarding the usefulness of quarterly reports of companies. The perceptions of professional investors were solicited by using a questionnaire survey method. 150 questionnaires were distributed in order to collect data. Out of which, 129 questionnaires were received and in a position for further analysis. Hence, the response rate was 86%. Descriptive statistics and Kruskal-Wallis test were used to evaluate the results. Findings show that the quarterly reports are useful for professional investors in Pakistan for their investment decision making process. This study provides evidence that the main purpose of quarterly reports according to professional investors, is to estimate the forthcoming annual results. The quarterly reports are also utilized for other purposes such as to evaluate the management performance and to ascertain turning points in earnings trend or liquidity. Professional investors considered the quarterly reports as third important source and considered the annual reports as the most important source of information in Pakistan. Furthermore, the study also provide evidence that the relative usefulness of quarterly reports depends on the professional investor's interests and their intensity of analysis. It indicates that there is a significant difference in the perception of professional investors regarding different purposes of quarterly reports. On the other hand, there is no significant difference in the perception of professional investors regarding different sources of information.

KEYWORDS

Professional investors, Quarterly reports, Pakistan.

1. INTRODUCTION

Reliable and timely financial reports help the creditors, investors and other users in order to understand the company's capacity to produce earnings, its liquidity and financial condition. As the annual reports cover a longer time period, the quarterly reports have been introduced in order to present timely information. Quarterly reports consider as an important part of annual reports and are not consider as separate and distinct. There are certain legislative requirements on the managements of the companies regarding the preparation and issuance of quarterly reports. Section 245 of the company's ordinance, 1984 provides the provisions for transmission and preparation of quarterly accounts. Non-compliance of these requirements attracts imposition of serious penalties.

The main uses and objectives of quarterly reports are to estimate the annual earnings, to identify turning points, to supplement information presented in company's annual reports and to evaluate the performance of management. Demand of quarterly reports exists because users believe that the financial reports facilitate them in their decision-making process. Users of quarterly reports consist of shareholders, company managers, bondholders, financial analysts, lending institutions, regulatory authorities and the general public etc. Professional investors consider as important users of quarterly reports because they have more knowledge and generally, they perform more in-depth analysis as compare to individual investors.

A group researcher has categorize the professional investors as scanners, trackers and sophisticates on the basis of intensity of their analysis and their interests [1]. This classification is not intended to describe the quality of the analysis but the intensity of the analysis. Professional investors consist of fund managers and financial analysts in this study. Scanners consider as the largest of the three user groups and their major effort is a quick review of the interim period activities of the companies. They have only some general concern and interest in different companies which is sufficient to justify a reading of interim and annual reports for assessments and mental comparisons and thus do not seem particularly for other additional important information. Trackers usually keep a systematic record and documentations of financial and operating activities of the companies.

Tracking is done on the basis of interim periods and comparisons are made between the forecasts and actual results. This tracking often leads to a more deeply analysis. Financial records are maintained actively of the companies being tracked, which may serve as a link between periodic and more intensive analysis. Sophisticates typically perform a highly informed and comprehensive analysis of the company's operations. Their analysis is usually continuous which requires extensive familiarity with the industry and frequent interviews and contacts with management. Analytical procedures performed by the trackers and scanners are included in those carried out by the sophisticates. However, an individual may be in any one group or in all of the groups on a regular basis or at particular times or over different periods of time and an individual may be in all groups for different companies simultaneously.

As through the quarterly reports, companies communicate with the outsiders more frequently. That's why, quarterly reports considered as important to examine the company's activities and performance on regular basis. There is a need of proper research on quarterly reports so that more improvements and developments will be achieved. On the basis of above mentioned discussion, this study seeks to empirically examine the perception of professional investors towards the usefulness of the quarterly reports in Pakistan. The main objectives of this study are:

- To address the perception of professional investors regarding different purposes of quarterly reports.
- To address the perception of professional investors regarding different sources of information.
- To find out that whether there is a difference in perception of professional investors regarding different purposes of quarterly reports and different sources of information.

2. LITERATURE REVIEW

Studies stated that almost everyone who engaged in the analysis of company uses the annual reports up to a lesser or greater extent [2]. The investment analysts considered the most recently annual reports as their main source of information. Communications with the management and

the interim financial reports ranked as second and third respectively. The analysts considered the annual reports as a suitable medium to provide the prospective financial information because the annual reports provide the comprehensive information about the company. A group researchers stated that the analysts following, and the quarterly reports have positive relationship [3]. But, online reporting of announcements showed significant positive relationship with analysts following as compare to quarterly reports and have also positive association with liquidity and hence a strong competitor of quarterly reports.

Investors used the quarterly reports to evaluate the management performance, to estimate the annual results on the basis of information provided by the quarterly reports and to determine the turning points of earning in order to make more profits. As quarterly reports are more frequently as compare to semi-annual reports. That's why, investors used the quarterly reports to evaluate the management performance and to estimate the annual results on the basis of information provided by the quarterly reports. On the other hand, quarterly reports are unaudited, and investors considered the unaudited reports as less reliable for investment decision making as compare to the audited reports.

Some researchers indicated that the companies reported more frequently seemed as less risky [4]. It means risk associated negatively with reporting frequency. The voluntary increased in the reporting frequency improves the earnings timeliness. As annual earnings consist of collections of interim earnings of the companies, an increased in the frequency of reporting helps the investors in the estimation of annual earnings due to the enhanced predictability of current and future earnings. In others study, they are investigated the reaction of trading volume on the simultaneously announcements of interim dividend and earnings by the listed companies in Greece [5].

The trading volume reacted positively on interim announcement day and the next day. On the other hand, the volume reaction to joint final earnings and dividend announcements also reacted positively with the difference that the positive reaction to final earnings and dividend announcement starts before one day of announcement day. The reason is due to the anticipation of joint annually dividends and earnings announcements on specific dates because of the Greek corporate law. It also indicated that the market considers the final results along with final distribution of dividend more reliable for present and future position of company as compare to the jointly announcement of interim dividend and interim earnings.

Others researcher demonstrated that financial analysts preferred to more timely reports in order to make investment decisions because frequently reports help them to forecast the full earnings of the year [6]. The main reason of more frequent reports might be that the security prices reflect the newest specific information which companies disclose in their interim reports and ultimately leads to more efficiency in security pricing. Thus, greater the timeliness of quarterly reporting connected with greater responsiveness of investors to firm specific information. A researcher examined the information disclosure of interim financial reports by Malaysian companies [7]. It describes that Companies seemed to delay the submission of reports until the deadline is almost reached, especially for fourth quarter.

The possible cause is because in fourth quarter, companies present the annual reports. It also found that the majority of companies seemed as poor in disclosing the optional information as required by the disclosure requirements. They chose to disclose the information just to meet the minimum requirement. It may be because companies preferred to disclose the information through other types of communication like corporate press releases. Buskirk examined the relationship of the disclosure frequency and disclosure quantity with asymmetry information [8]. Reducing the information asymmetry among investors considered as the main objective of policy makers and regulators. It demonstrated that the quantity of disclosure associated significantly with lesser information asymmetry among investors. No evidence has been found about the disclosure frequency that the information asymmetry lowers for companies that disclose the information more frequently. It showed that not the frequency but the quantity of disclosure, associated with lower levels of information asymmetry.

A group of researchers also have examined the perception of professional investors regarding the usefulness of interim financial reports in Bangladesh and found that the interim reports considered as more useful as compare to the annual reports [9]. Bangladeshi investors considered the interim reports as the third main source of information and annual financial reports as the fifth main source of information. Stock broker advice and reports considered as the least important source of information. Furthermore, it also indicated that the importance and usefulness of interim reports depends on the type of professional

investors. For example, Scanners and sophisticate considered to make estimations about forthcoming annual results as the main purpose of quarterly reports.

On the other hand, trackers considered to make the prediction for period beyond the current annual period as the main purpose of quarterly reports. Ismail and Chandler have identified the perceptions of professional investors on the usefulness of the quarterly financial reports of listed companies in Malaysia and found that professional investors considered to estimate the forthcoming annual results as the main purpose of quarterly reports [10]. Furthermore, professional investors considered the annual reports more useful than quarterly reports. It also showed that the usefulness of quarterly financial reports varied according to the types of Professional investors (scanners, trackers and sophisticated). Sophisticated investors seemed to have the highest need of information and ranking the usefulness of most of the information sources greater than scanners and trackers.

3. RESEARCH METHODOLOGY

3.1 Survey Instrument

This study used the questionnaire survey technique for collection of responses. Questions in the questionnaire were designed to ask the respondents first to identify themselves either as scanner, tracker or sophisticate on the basis of the usage of quarterly reports for their decision-making process. The definitions of the scanners, trackers and sophisticates as described were given to help the respondents in making a right choice [1]. Next, to determine the perception of the respondents regarding the usefulness of quarterly reports, a list of six purposes of the quarterly reports was presented on the questionnaire. Based on a likert scale of strongly disagree = 1, disagree= 2, Neutral= 3, Agree= 4 and strongly agree= 5, respondents were asked to point out the degree to which they agree with each of the six purposes. The next is to address that how much useful are the quarterly reports for professional investors. In this regard, a list of seven different sources of information including the quarterly reports was presented. The previously discussed likert scale was used again in this section. Respondent were asked to indicate their perception regarding the importance of different sources of information for their investment decisions.

3.2 Data Collection

Data has been collected from the assets management companies, unit trust companies, stock brokering firms and huge public fund organizations. Questionnaires were presented to the head of these organizations. Data has been collected from the three cities of Pakistan namely as Gujranwala, Lahore and Islamabad where these organizations well flourished by using the convenient sampling technique. 150 questionnaires have been distributed among the above-mentioned organizations. Out of 150 questionnaires, 21 questionnaires were excluded because the responded showed lack of interest to fill and some questionnaires were return with unfilled responses. All the 129 questionnaires were properly filled and considered for further analysis. Hence, the response rate was 86%.

Based on the 129 questionnaires completed by the professional investors, 45 of them are scanners, 44 are trackers and 40 are the sophisticates. Following table shows the distribution of the respondents and their percentages. The percentages of scanners, trackers and sophisticates are 34.9, 34.1 and 31.0 respectively as shown in table 1.

Table 1: Distribution of Professional investors

Respondent	Frequency	Percent
Scanners	45	34.9
Trackers	44	34.1
Sophisticates	40	31.0
Total	129	100.0

The classification of the professional investors is important because it indicates the intensity of the professional investor's analysis regarding the quarterly reports and helps to indicate that whether there are differences in the perception of professional investors regarding the usefulness of quarterly reports due to the intensity of their analysis and their interests.

4. RESULTS AND DISCUSSION

4.1 Normality test

Following is the table of normality test which indicates that the sampled population does not shows the normal distribution.

Table 2: Normality test

Professional Investors		Kolmogorov-Smirnov		
		Statistic	df	Sig.
Purpose	Scanner	.110	44	.200
	Trackers	.118	44	.137
	Sophisticates	.147	40	.030
sources	Scanners	.100	44	.200
	Trackers	.166	44	.004
	Sophisticates	.111	40	.200

Table 2 shows that the sampled population is not normal as a whole at 5% significance level. As the sampled population is not normal and the responses of scanners, trackers and sophisticates are independent. That's why, the kruskal-Wallis test is used in further analysis.

Table 3 shows the ranking of six purposes of quarterly reports by using the overall mean scores. It also shows the mean scores of scanners, trackers and sophisticates separately for each purpose, the median, standard deviation and the values of Kruskal-Wallis test for each purpose.

4.2 Professional investor's perception regarding different purposes of quarterly reports

Table 3: Perception of professional investors regarding different Purposes

Purposes of quarterly reports	Scanners Mean (Rank)	Trackers Mean (Rank)	Sophisticates Mean (Rank)	Overall Mean (Rank)	Median	Std. Deviation	K-W sig.
To estimate the forthcoming annual results	3.62(2)	3.41(4)	4.55(1)	3.84(1)	4	1.158	.000
To evaluate management performance	3.56(3)	3.80(2)	3.90(3)	3.74(2)	4	.869	.517
To ascertain turning points in earnings trend or liquidity	3.73(1)	3.95(1)	3.32(5)	3.68(3)	4	1.061	.012
To predict results for period beyond the current annual period	3.00(5)	3.55(3)	4.20(2)	3.56(4)	4	1.022	.001
To determine the appropriate discount and growth rates for use in evaluating security prices	2.93(6)	3.34(5)	3.52(4)	3.26(5)	3	1.154	.139
To provide feedback information concerning financial performance for comparison with earlier expectations	3.38(4)	3.20(6)	2.70(6)	3.11(6)	3	1.120	.222

Table 4: The overall sig. value of Kruskal-Wallis regarding different purposes

Perception of Professional investors regarding different purposes of quarterly reports	K-W Sig.(overall)
Purpose of quarterly reports	.007

Table 3 shows the ranking of six purposes of quarterly reports by using the overall mean score according to the perception of professional investors. The purposes describe that why the professional investors use the quarterly reports. It reflects the perception of professional investors towards the quarterly reports when they make their investment decisions. Findings show that the professional investors are generally agreed with many of the above-mentioned purposes of quarterly reports up to some extent. The median values of top four purposes are 4 which indicate that the quarterly reports are used for these purposes normally. There is no purpose about which the professional investor responds the strongly agree. The result in table 3 shows that the professional investors are considered to estimate the forthcoming annual results as the main purpose. This is consistent with the findings presented in a studies that the professional investors considered to estimate the forthcoming annual results as the main purpose of quarterly reports in Malaysia [11-13]. To evaluate management performance and to ascertain turning points in earnings trend or liquidity are ranked as second and third respectively. To provide feedback information concerning financial performance for comparison with earlier expectations is perceived as the least important purpose among the six purposes.

Table 3 also shows that there are differences among the professional

investor's perception regarding different purposes of quarterly reports. Scanners and trackers are indicated to ascertain turning points in earnings trend or liquidity as the main purpose among the six purposes. On the other hand, Sophisticates consider estimating the forthcoming annual results as the main purpose among the six purposes. Scanners consider determining the appropriate discount and growth rates for use in evaluating security prices as the least important purpose among the six purposes. On the other hand, trackers and sophisticates are considered to provide feedback information concerning financial performance for comparison with earlier expectations as the least important purpose among the six purposes of quarterly reports. Table 3 shows that there are significant differences among the perception of professional investors with respect to estimate the forthcoming annual results, to predict results for period beyond the current annual period and to ascertain turning points in earnings trend or liquidity. These differences are due to the interests and intensity of analysis of scanners, trackers and sophisticates. The overall value of k-w significance is .007, which is less than 5% level of significance. It indicates that the significant differences exist among the perception of professional investors regarding the purposes of quarterly reports as shown in table 4.

4.3 Professional investor's perception regarding different Sources of information

Table 5 shows the overall mean score of each of the seven sources of information according to the perception of professional investors. It also shows the separate mean score of scanners, trackers and sophisticates for each source of information, the median, standard deviation and the value of Kruskal-Wallis test.

Table 5: Perception of professional investors regarding different

Sources of Information	Sources Scanners Mean (Rank)	Trackers Mean (Rank)	Sophisticates Mean (Rank)	Overall Mean (Rank)	Median	Std. Deviation	K-W sig.
Annual reports	3.96(2)	4.34(1)	4.20(1)	4.16(1)	4	.827	.179
corporate press releases	3.98(1)	3.95(3)	3.75(4)	3.90(2)	4	.975	.983
Quarterly reports of companies	3.69(4)	3.86(4)	3.85(3)	3.80(3)	4	.905	.526
Other announcements by Stock exchanges	3.69(4)	4.05(2)	3.42(6)	3.73(4)	4	.982	.371
stock brokers advice and reports	3.87(3)	3.50(5)	3.28(7)	3.56(5)	4	1.060	.530
communication with management	2.93(5)	3.39(6)	4.00(2)	3.42(6)	4	1.116	.012
Prospectus	2.89(6)	3.14(7)	3.70(5)	3.22(7)	3	1.140	.021

Table 6: The overall sig. value of Kruskal-Wallis regarding different sources

Perception of Professional investors regarding different sources of information	K-W sig. (overall)
Different sources of information	.130

Table 5 shows the ranking of seven different sources of information on the basis of overall mean scores. It shows the perception of professional investors towards the usefulness of different sources of information. Findings show that professional investors perceived some sources as useful and about some sources, they respond as undecided. The median values of top six sources are 4 which indicate that the professional investors are agreed with these six sources and utilize these sources. It means that all the above-mentioned sources of information are useful for the professional investors except the prospectus. It presents the comparison of quarterly report with other sources of information. It indicates that the quarterly reports are considered as the third useful source of information and annual reports are considered as the most important source of information according to the perceptions of professional investors. The possible reason may be as indicated by some group researchers that the quarterly reports are unaudited, and investors considered the unaudited reports as less reliable for investment decision making as compare to the audited reports [3].

Table 5 also shows that slightly differences are exits among the perception of professional investors regarding different sources of information. Scanners consider the corporate press releases as the most important source of information. On the other hand, trackers and sophisticates considered the annual reports as the most important source of information. Prospectus is considered as the least important source of information by the scanners and trackers. On the other hand, sophisticates consider the stock brokers advice and reports as the least important source of information. There are significant differences among the perceptions of professional investors just regarding the communication with management and prospectus. There are no significant differences in remaining five sources of information. Table 6 shows that the overall K-W sig. value is 0.130 which is greater than 0.05 level of significance. It indicates that these differences are may be due to the sampling errors and actually, there is no significant difference among the perception of professional investors regarding different sources of information as a whole.

5. CONCLUSION

This study is conducted to examine the perception of professional investors in Pakistan regarding the useful of quarterly reports. The first objective of this study is to examine the perception of professional investors regarding different purposes of quarterly reports. The second objective is to examine the perception of professional investors regarding different sources of information and the third objective is to find out that whether there is a difference in the perception of scanners, trackers and sophisticates regarding purposes of quarterly reports and different sources of information.

This study provides evidence that the professional investors considered to estimate the forthcoming annual result as an important purpose of quarterly reports. Quarterly reports are also used for other purposes such as to evaluate the management performance etc. Professional investors pay least attention to provide feedback information concerning financial performance for comparison with earlier expectation and considered it as the least useful purpose of quarterly reports. The usefulness of quarterly reports depends on the interests and intensity of analysis of professional investors. There is a significant difference among the perception of professional investors regarding different purposes of quarterly reports. Furthermore, the findings show that the quarterly reports are considered as the third useful source of information and annual reports are considered as the most important source of information. Professional investors considered the prospectus as the least useful source of information among the seven sources of information. Findings also indicate that there is no significant difference among the perception of professional investors regarding different sources of information.

In short, this study shows that the quarterly reports are useful for the professional investors of Pakistan in their investment decisions. It indicates that the modification made to shift the half yearly reporting to quarterly reporting in the code of corporate governance was successful. This code was issued on March 28, 2002. This study may be helpful for policy makers to recognize the perception of professional investors and the usefulness of quarterly reports while making the new policies regarding the financial reports and will also increase the awareness and knowledge of the users regarding the quarterly reports. The study can also be done on cross-national level. Researchers can compare the usefulness of quarterly reports between two or more developing and developed countries and can find the differences among the perception of professional investors of developing and developed countries regarding the usefulness of quarterly reports. This can be helpful to examine the similarities and differences among them.

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