

Perceptions of Professional Investors in Malaysia on the Usefulness of Quarterly Financial Reports

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ABSTRACT

This study seeks to identify the perceptions of professional investors regarding the use and usefulness of corporate quarterly reports of companies in Malaysia. The findings show that quarterly reports are used and are useful, although the reports are not the most sought-after source of information. This paper provides evidence that the purpose of quarterly financial reports goes beyond forecasting the forthcoming annual results. The reports are also utilised, among other things, to predict results beyond the current period and to provide feedback information concerning financial performance for comparison with earlier expectations. This paper suggests that the relative usefulness of quarterly financial reporting would depend on the type of investors. Also, the findings may be useful to policy makers in preparing regulations on quarterly financial reporting as well as to provide opportunities for more research on the subject.

ABSTRAK

Kajian ini cuba mengenalpasti persepsi pelabur profesional berkaitan kegunaan dan tahap penggunaan laporan suku tahunan syarikat-syarikat di Malaysia. Penemuan kajian menunjukkan laporan suku tahunan ini diguna dan berguna walaupun ia bukanlah sumber maklumat yang diutamakan. Kertas kerja ini menunjukkan bahawa kegunaan laporan suku tahunan bukanlah setakat meramal keputusan kewangan pada tahun akan datang sahaja. Laporan ini juga digunakan untuk meramal keputusan selepas tempoh semasa dan untuk menyediakan maklumbalas berkenaan prestasi kewangan untuk dibandingkan dengan jangkaan-jangkaan awal. Kertas kerja ini merumuskan bahawa kegunaan laporan suku tahunan bergantung kepada jenis pelabur. Hasil laporan ini menyediakan input bagi pembuat dasar untuk menggubal peraturan terhadap pelaporan kewangan dan untuk membuka peluang supaya lebih banyak penyelidikan dijalankan berkaitan bidang ini.

INTRODUCTION

Quarterly financial reporting has become an important subject of financial reporting in Malaysia since 1999 when the Kuala Lumpur Stock Exchange (KLSE or currently known as Bursa Malaysia) announced the requirement on quarterly reporting of financial statements by companies listed on the Exchange. Essentially, quarterly reporting replaces half-yearly reporting. Among other things, the objectives of quarterly financial reporting are to aid investors in making informed investment decisions, to reduce the investment risk for investors, to increase the accountability of companies and to enhance corporate governance among companies.

The introduction and enforcement of financial reporting requirements in Malaysia, including that of quarterly reporting, are primarily the decisions of the regulatory bodies. In most instances, the need for reporting does not originate directly from market participants (Rahman 1998), but arises from economic disorders. The introduction of quarterly reporting for example, was essentially a consequence of the outbreak of the Asian financial crisis of 1997/1998, and the formulation of the requirements adopted in other jurisdictions such as the US and Australia.

A review of the literature shows that very few studies have been conducted to examine the usefulness of interim reporting in Malaysia. A majority of Malaysian studies focused on annual reporting. One research by Ku Nor Izah and Chandler (2004) examined the timeliness of quarterly reporting. Other studies by Ku Nor Izah and Zuaini (1995) and Abdul Rahman (1998) examined the usefulness of various sources of information, including interim reports, to the analysts.

This study contributes to the body of knowledge related to interim reporting by examining the perceptions of professional investors on the use and usefulness of quarterly reporting. It differs from most other studies because the views of professional investors were observed with respect to their perceptions of using quarterly reports. Since companies in Malaysia have just shifted from half-yearly to quarterly reporting, this will be the appropriate time to conduct this study.

Although standard setters (e.g. FASB) in their standard setting frameworks believe that investors and creditors are the primary users of financial statements, this study focuses solely on the investors, particularly the professional investors. This is because the information flow from a firm to the investors and creditors differs. While investors normally depend on the general purpose financial reports (including interim reports) provided by a firm for general circulation, some creditors may require information that is more specific and may have enhanced access to internal information (Beattie 1999).

In this study, professional investors include fund managers and financial analysts. The professional investors are chosen over individual investors for several reasons. First, this group of investors has been the one that voiced

their needs for interim reporting since the 1930s (Taylor 1965). Secondly, their work requires that they have the accounting knowledge to enable them to analyze the reports and make decisions. Thirdly, individual investors' decisions worldwide are greatly influenced by the opinions held by professional investors.

Based on the foregoing discussion, this study seeks to examine the perceptions of professional investors on the purpose and usefulness of quarterly reports and the usefulness of key information items disclosed in the quarterly reports. As this is one of the first few studies that examine the usefulness of quarterly reporting perceived by professional investors in Malaysia, it should make a significant contribution to the field of financial accounting in the country. In particular, this study will increase the awareness and provide some insights to researchers, financial reporting regulators, users and preparers of quarterly reports on quarterly reporting in Malaysia. It is also hoped that this study will act as a basis for more studies on interim reporting.

The rest of the paper is organized as follows. The literature review will be presented in the next section followed by a section on research methods and a section on results and discussion. A final section will present the conclusions of the study.

LITERATURE REVIEW

Studies on the usefulness of interim reporting for investors are limited compared to those of annual reporting. A number of evidence on the usefulness of interim reporting could be gathered from annual report studies. Cerf (1961) provided evidence on the usefulness of interim reporting in the US. In his study on the major sources of financial information used by 215 analysts, Cerf found that analysts named the interim report as one of the main sources of information, alongside with the annual reports, direct contact with management, and brokers' studies of corporations and industries. Table 1 provides a summary of relevant studies that investigated the importance of interim reports as a source of information.

In Malaysia, at least two studies, that is, Ku Nor Izah and Zuaini (1995) and Abdul Rahman (1998) provided evidence on the use of interim reports by investors. Ku Nor Izah and Zuaini (1995) showed that interim reports were, on average, rated third by the financial analysts in making investment decisions, after the annual reports and contacts with the management of a company. Abdul Rahman (1998) provided evidence that financial analysts, on average, rated interim reports as the third most important source of information after visits to companies and prospectuses. The annual reports were rated sixth most important source of information by the analysts.

TABLE 1. Summary of previous studies on the perceived importance of interim reporting as a source of information

Researcher(s) and year	Country studied	Respondents	Importance (Rank) of interim reporting
Cerf (1961)	US	Analysts	Main source
Lee and Tweedie (1981)	UK	Analysts	Third
Chang and Most (1981)	US and UK New Zealand	Analysts Analysts	Fourth Second
Arnold and Moizer (1984)	UK	Analysts	Second
Vergoossen (1993)	Netherlands	Analysts	Third

Not many studies that surveyed individual investors had included interim reports as an important source of information. This may indicate that researchers had presumed that interim reports are of little importance to this type of investors. Interviews conducted by Hussey and Woolfe (1994) on individual investors in the UK give little evidence that interim reports are of any use to the latter. In their survey of individual investors in the UK, Bartlett and Chandler (1997) however, found that 70 percent of respondents at least read the interim reports briefly. The survey nevertheless does not give any indication on how useful the interim reports are to the individual investors.

Although the above findings showed that interim reports were not the primary source of information used in decision-making, they were among the more important sources of information. In most of the studies, interim reports were found to be less useful than the annual reports. It has been argued that because an interim report is not audited and is subjected to seasonal fluctuations, it is less useful than the annual report (Givoly and Ronen 1981). The inconsistent results with regard to the importance of interim reports could be due to the fact that the studies were conducted in different countries, at different times and among different groups of respondents. Also, the timeliness and frequency of reporting differ between countries. Some countries, like the US, require quarterly reporting while some countries (like UK) require half-yearly reporting. The use of terms also differed among studies. For instance, the term 'analysts' might be used to include fund managers in some studies. Barker (1998) argued that the relatively low ranking given by analysts on the financial reports and accounts (compared to the fund managers) was because

the information was not timely and thus did not satisfy the analysts' short-term 'news' orientation.

This does not imply that financial reports were not important, but their usefulness was already reflected by the results' announcement. Furthermore, financial reports might also be used as a basis for discussion during contacts, visits and presentations with management. The above studies also give the impression that interim reports are more beneficial to professional investors than to individual investors.

One of the earliest studies that focused on the usefulness of interim reports was by Taylor (1965). He surveyed financial analysts in the US and showed that analysts found interim reports very important. In another study, Edwards, Dominiak, and Hedges (1972) interviewed the professional investors, creditors and providers of interim reports. Several interesting findings of this study are: 1) interim reports were found useful although the reports did not usually represent the most important source of information; 2) the study did not support the single-purpose theory that interim reports are used to predict current year results. Instead, the respondents indicated that interim reports are used to forecast results for quarters in current and future years as well as to forecast current and future annual results; 3) analysts complained that interim reports lack detail because of over-condensation; and 4) analysts ranked textual materials second in importance to income statement data. However, many providers of interim reports interviewed did not favour the reporting of information about the prospects of the company. They contended that it was the responsibility of investors to develop their own expectations.

In its analysis of users' needs for information, the AICPA (1994) included a research that examined the attitudes of users towards interim reporting. The analysis was mainly based on the group interviews conducted by the Association for Investment Management and Research (AIMR) in 1991. On the issue of usefulness, users need more information than is currently provided but not necessarily as much as is provided in a full set of financial statements. In particular, they would like to see more interim segment information and an interim cash flow statement.

In the UK, Lunt (1982) undertook a comprehensive study of interim financial reporting in the country. One part of the study sought respondents' opinions on interim reporting using the interview approach. The interviews conducted by Lunt revealed the respondents' negative reactions towards quarterly reporting. Respondents (preparers, users, auditors and regulators) felt that quarterly reports were costly and not reliable. However, providing more information in half-yearly reports was thought to be beneficial, provided it came at no additional cost and would not work to the disadvantage of the company.

In a study in Ireland, the Financial Reporting Commission of the Institute of Chartered Accountants in Ireland (1992) invited users of financial statements

to submit their views on published financial statements. Responses from fifteen organizations and individuals were received. On the subject of interim reporting, some argued for the publication of quarterly reports while others favoured a more formal half-yearly reporting. The Commission agreed with the publication of half-yearly reports.

Using a questionnaire survey, Al-Bogami (1996) sought users' and preparers' perceptions of quarterly financial reporting in Saudi Arabia. Financial managers represented the preparers while institutional investors and private investors represented the users. The survey indicated that a majority of the investors used quarterly statements and they felt that the reports were useful in making investment decisions. The quarterly reports were ranked as second most important source of information after the annual reports. Where the content of the report was concerned, it was felt that the interim statements did not provide sufficient disclosure. Users required more items as well as detailed information. In particular, they would like to see information about companies' shares and financial ratios.

In Malaysia, perception studies on the usefulness of quarterly reports are still lacking. In one study, Ku Nor Izah and Chandler (2004) examined the reporting lag of quarterly reporting in Malaysia. The study provided evidence that almost all companies report within the allowable period of two months after quarter-ends. Thus, the usefulness of quarterly reports is not jeopardized as far as timeliness is concerned. However, the study also noted that most of the companies published their reports close to the deadlines.

In view of the limited number of studies on quarterly reporting, in this study we examined the usefulness of quarterly reporting using a cross-sectional survey of a sample of professional investors.

TYPES OF PROFESSIONAL INVESTORS

Barker (1998) put forth the notion that there is an information flow from analysts to fund managers because the supply of information from the preparers is inadequate. Fund managers rely on analysts to provide, among other things, the independent interpretation of company-based information. Accordingly, the intensity of using a company's financial report is higher for analysts as compared to fund managers. This therefore suggests that among the professional investors, there may be differences in their perceptions toward the use and usefulness of quarterly reporting.

Fund managers and financial analysts are the subjects of this study. However, by looking at their designations, a clear distinction of the flow of information could not be made because, as suggested by Moizer and Arnold (1984), analysts could also act as fund managers and vice-versa. As there might be conflicting interpretation, the designation is not used to segregate users in this study. Instead, professional investors were classified into three groups, namely; *scanners*, *trackers*, and *sophisticates* as suggested by Edwards

et al. (1972). *Scanners* are whose primary effort is to make a cursory review of the interim period activities of the firms. "They (*scanners*) have a general interest in particular companies sufficient to warrant a reading of annual and interim reports for mental comparisons and evaluation" (Edwards et al. 1972: 22). *Trackers* are those who would normally maintain a systematic record of the operating results and the financial activities of companies. Tracking is done on an interim basis and comparison between the actual and forecast results will be made. *Sophisticates* normally conduct a thorough analysis of the operation of the firm. Users in this group will normally conduct a continuous analysis that requires substantial familiarity with the industry. Generally, the analysis will be followed by a written report, a recommendation or a decision, later to be used by other users. Thus, *sophisticates* has a large influence on the decisions made by other users.

This classification is important because it gives an indication of how intensive the analyses of quarterly reports are made by the users. Varying degrees of analysis are expected to affect their attitudes towards quarterly reporting and will help answer the question of whether there are differences in the perceptions of different types of investors towards the usefulness of quarterly reports.

RESEARCH METHOD

Several techniques have been conducted to determine the usefulness of interim financial reporting. They include studies that examined capital market values (see Kiger 1972, Foster 1977, and Hopwood and McKeown 1985), prediction of forthcoming annual results (see Abdel-Khalik and Espejo 1978; Allen, Cho and Jung 1999), questionnaire surveys (see Lunt 1982; Nickerson, Pointer, and Strawser 1975; Al-Bogami 1996), and analysis of the interim reports (see Al-Bogami 1996; Tan and Tower 1997; Schadewitz and Blevins 1998). This study adopts the questionnaire survey method to seek respondents' views, particularly to gather opinions upon the release of new accounting regulations or standards (see Nickerson et al. 1975 and Lunt 1982 in the case of interim reporting).

QUESTIONNAIRE

Questions were designed to first ask respondents whether they use the quarterly reports as a basis for making decisions about a company. Respondents who use the reports were asked to identify themselves either as scanners, trackers or sophisticates. The definitions of each of the classifications as used by Edwards et al. (1972) were given to assist the respondents in making a right choice. To determine the perception of respondents with respect to the use of quarterly reporting, a list of six purposes of quarterly financial reporting was

presented in the questionnaire. Respondents were asked to indicate the extent to which they agree with each of the six purposes of quarterly reporting, based on a Likert scale of 1=strongly disagree, 2=disagree, 3=undecided, 4=agree and 5=strongly agree.

The next question this study seeks to address is how useful are quarterly reports to investors. In this regard, this study first seeks users' perceptions on the usefulness of quarterly reporting and the importance of nine other sources of information in making their decisions. Next, this study investigates users' perceptions towards the usefulness of each of the 38 key mandatory items provided in the quarterly reports. The selection of the 38 key items is based on the *Listing Requirements* of the KLSE and review of the literature. Users were asked to state their perceptions regarding the usefulness of quarterly reporting using a Likert-scale of 1=not useful at all, 2=not useful, 3=undecided, 4=useful, and 5=extremely useful. For each item, the means of the responses were calculated for each group of investors. The mean scores act as a basis for comparison between the investors and for ranking the usefulness of each item of information.

DATA COLLECTION

Stock broking firms, unit trust fund companies, fund management companies, investment advisory firms and large public fund organizations were the target organizations for respondents in this study. As at the end of 2001, 223 of such firms were identified. Questionnaires were mailed to each of the head of analysts and head of fund managers of these companies. They were requested to distribute the questionnaires among their fellow analysts or fund managers.

A total of 94 questionnaires from 62 organisations were returned but only 78 (14 percent) were usable for further analysis. Although the response rate is quite low, this level is acceptable as the average response rate for postal surveys in Malaysia is around 16 percent (PricewaterhouseCoopers 2002).

DETECTING NON-RESPONSE BIAS

The low response rate may give rise to a problem of non-response bias thus there is a need to check on this bias in our study. Oppenheim (1966) suggested that one practical way to detect non-response bias is to compare the responses by early respondents with those of late respondents. We tested for non-response bias using t-tests and found no difference in the responses provided by the first 30 early respondents and the 30 late respondents. Thus non-response bias was not detected in our data.

RESULTS AND DISCUSSION

Based on the 78 questionnaires completed by active users of interim reports, 21 of them are scanners, 25 are trackers and 32 are sophisticates. Table 2 shows the distribution of respondents.

PERCEPTIONS OF INVESTORS ON THE PURPOSE OF QUARTERLY REPORTING

Table 3 shows the ranking for six purposes of quarterly financial reports according to the three types of investors identified in the study. The purposes reflect how quarterly financial reports are used in making their investment decisions among investors. The table also shows that investors generally agree that quarterly reports are used for all six purposes, as the average

TABLE 2. Distribution of respondents according to type of investor

Respondent	Frequency	Percent
Scanners	21	26.9
Trackers	25	32.1
Sophisticates	32	41.0
Total	87	100.0

scores are all greater than 3.

The results in Table 3 show that investors regard the main purpose of quarterly reports is 'to estimate the forthcoming annual results'. The second important purpose is 'to provide feedback information concerning financial performance for comparison with earlier expectations' and the least important purpose of quarterly reporting is perceived to be 'to determine the appropriate discount and growth rates for use in evaluating security prices'.

Table 3 also shows that there seems to be some disagreement among investors concerning what the main purpose of quarterly reporting should be. Among trackers and sophisticates 'estimating the forthcoming annual results' is the main purpose of quarterly reports while among scanners, the main purpose of quarterly reports is to provide feedback information concerning financial performance for comparison with earlier expectations.

Further analysis shows that 65 percent of the sophisticates and trackers are analysts. In carrying out their jobs, analysts are expected to give emphasis on making earnings per share (EPS) forecasts (e.g., Previts, Bricker, Robinson, and Young 1993). Therefore, as analysts, sophisticates and trackers would be more interested in using the interim reports to estimate the forthcoming annual results. As scanners are assumed to be dependent on the analysis produced by trackers and sophisticates, it is expected that estimating forthcoming annual results is not the scanners' main purpose of using quarterly financial reports.

TABLE 3. Purpose of quarterly reporting according to type of investors

Purpose of quarterly reporting	Scanners Mean (Rank)	Trackers Mean (Rank)	Sophisticates Mean (Rank)	Overall Mean (Rank)	K-W Sig.
To estimate the forthcoming annual results	4.21 (2)	4.22 (1)	4.66 (1)	4.41 (1)	0.007**
To provide feedback information concerning financial performance for comparison with earlier expectations	4.32 (1)	4.13 (2)	4.56 (3)	4.36 (2)	0.014*
To ascertain turning points in earnings trend or liquidity	3.84 (3)	4.09 (3)	4.59 (2)	4.24 (3)	0.001**
To predict results for period beyond the current annual period	3.58 (6)	3.65 (5)	4.09 (4)	3.82 (4)	0.097
To evaluate management performance	3.84 (3)	3.74 (4)	3.78 (5)	3.78 (5)	0.887
To determine the appropriate discount and growth rates for use in evaluating security prices	3.68 (5)	3.35 (6)	3.78 (5)	3.62 (6)	0.173

*p<0.05; **p<0.01.

In order to compare whether there is any difference in perceptions among the investor groups for each of the identified purposes of quarterly reporting, Kruskal-Wallis (K-W) tests were conducted. Results of the tests show that there are significant differences among the three investor groups for the first, second, and third purposes of interim reports.

The findings also suggest that estimating the forthcoming annual results is not the sole purpose of quarterly reporting as argued in previous literature on quarterly reporting (Shillinglaw 1961; Green 1964 and Bollom 1973). However, this study supports the viewpoints of the FASB (1978), Lunt (1982) and Lambert, Cartwright, O'Connor, and Walsh (1991) that the purpose of quarterly reporting goes beyond forecasting the forthcoming annual results.

QUARTERLY REPORTS AS SOURCE OF INFORMATION

Table 4 presents the findings on the use of quarterly reports in comparison with other sources of information known to be useful to users in making their investment decisions. The overall mean score of 4.01 shows that quarterly reporting is useful as a source of information to the users. However, quarterly reporting is ranked as the sixth most important source of information by sophisticates, fifth by trackers and eighth by scanners. The relatively lower ranking of quarterly reports shows that these reports were relatively less important source of information among investors compared to other sources of information such as 'visits to companies', 'communication with management', 'advisory services', 'annual reports' and 'company prospectus'.

Although not as important as the few top sources, quarterly reports are reasonably useful to professional users, particularly to sophisticates. The mean scores show that the perceived usefulness of quarterly reporting would depend on how intensively a respondent makes use of the reports. As the main users of quarterly reports (mean score of 4.19), sophisticates value quarterly reporting more than do the other users. Results of the Kruskal-Wallis tests show that the opinions of the investors did not differ with respect to all the sources of information.

Although one might argue that quarterly reports should be more useful than the annual reports due to the timeliness in reporting, this study finds that users generally perceive annual reports to be more useful than the quarterly reports. This appears to support the contention that quarterly reports are less useful than the annual reports because the former is more susceptible to random fluctuations, incorporates seasonal elements and is not audited (Givoly and Ronen 1981). Another reason that could explain this finding is that quarterly reporting has only been introduced in July 1999, which is 18 months before the survey for this study was conducted. Users might take some time to familiarise themselves with the nature and role of quarterly reporting, as previously they were used to half-yearly reporting. Also, due to the economic uncertainty arising from the 1997/98 financial crisis, investors

TABLE 4. Investors' perceptions on the importance of different sources of information

Source of information	Scanners Mean (Rank)	Trackers Mean (Rank)	Sophisticates Mean (Rank)	Overall Mean (Rank)	K-W Sig.
Visits to companies	4.48(1)	4.20(3)	4.69(1)	4.47(1)	0.374
Communication with management	4.33(2)	4.24(1)	4.59(2)	4.41(2)	0.451
Advisory services	3.95(4)	4.24(1)	4.38(3)	4.22(3)	0.257
Annual report of companies	4.14(3)	4.20(3)	4.22(5)	4.19(4)	0.950
Prospectus	3.95(4)	3.80(7)	4.25(4)	4.03(5)	0.186
Quarterly reports of companies	3.76(8)	4.00(5)	4.19(6)	4.01(6)	0.101
Stockbrokers' advice and reports	3.86(7)	3.92(6)	3.94(8)	3.91(7)	0.958
Other announcements by the KLSE	3.95(4)	3.68(8)	4.03(7)	3.90(8)	0.348
Corporate press release	3.71(9)	3.64(9)	3.66(9)	3.63(9)	0.950
Company information other than annual and quarterly reports available on its webpage	3.05(10)	3.28(10)	3.63(10)	3.34(10)	0.101

may have relied more on first hand or direct information more than financial reports. Direct contact with management of the respective companies might offer more confidence and the information could be used to confirm their initial analysis which is based on the financial reports.

USEFULNESS OF ITEMS OF DISCLOSURE IN THE QUARTERLY REPORTS

To determine the usefulness of each item of disclosure, users were asked to rate the usefulness of 38 key items of information disclosed in the quarterly reports. Table 5 ranks the usefulness of the items of information according to their mean scores although there is little variation between the scores. There seems to be little variation between the mean score of one item to the next item in the rank. The mean scores, ranging from 3.91 to 4.54, indicate that all items are useful to the users.

Among the most useful items are: 1) segmental information, 2) breakdown of borrowings, 3) net profit, 4) profit or loss before finance cost, depreciation and amortisation, exceptional items, income tax, minority interest and extraordinary items, and 5) net tangible assets per share. The 10 most useful items comprise of items from all the three main sections of the quarterly reports - income statement, balance sheet and explanatory notes.

Among the least useful items are: 1) A statement that the same accounting policies and methods of computation as used in the recent annual reports, 2) A statement whether the report is audited or not, 3) Breakdown of tax for the financial year-to-date, and 4) income tax. The ten least useful items of information are all explanatory note items, except for income tax, and depreciation and amortisation expenses, which belong to the income statement.

The importance of net profit and other performance measures, and segmental reporting to the professional investors, as shown in this paper, were also documented (Previts, Bricker, Robinson & Young 1993). Analysing the content of the analysts' reports, Previts et al. (1993) showed that income statement and performance-related discussions dominated analysts' reports, followed by segmental reporting. Previts et al. (1993) reported that analysts often estimate future EPS by disaggregating the company into its constituent operating units and/or geographic regions, developing forecasts of the performance of individual units, and reaggregating segment forecasts to estimate a company's EPS.

Besides performance indicators, results in Table 5 also show that data on liabilities, cash and net tangible assets per share are among the highly valued items of information. The finding thus underpins the claims made by managers that they have been paying more attention to the strength of the balance sheet since the financial crisis. Before the crisis, the focus was typically on the income statement (Cheah 1999), and after the crisis, data on liabilities have become more essential than before. A broker in Malaysia

TABLE 5. Overall perceptions on the usefulness of items of disclosure

Items of disclosure	Section in Quarterly report	Mean Score	Rank
Segmental information	Notes	4.54	1
Breakdown of borrowings	Notes	4.54	1
Net profit	Income stmt.	4.53	3
Profit/loss before finance cost, depreciation and amortisation, exceptional items, income tax, minority interest and extraordinary items	Income stmt.	4.51	4
Net tangible assets per share	Balance sheet	4.49	5
Amount and breakdown of long term liabilities	Balance sheet	4.46	6
Cash	Balance sheet	4.45	7
Earnings per share	Income stmt.	4.44	8
Amount and breakdown of current liabilities	Balance sheet	4.42	9
Review of performance	Notes	4.42	9
Turnover	Income stmt.	4.40	11
Interest expense	Income stmt.	4.40	11
Net profit from ordinary activities	Income stmt.	4.38	13
Issuances and repayment of debt and equity securities	Notes	4.36	14
Profit before tax, minority interest and extraordinary items	Income stmt.	4.35	15
Amount and breakdown of current assets	Balance sheet	4.35	15
Profit/loss after income tax before minority interest	Income stmt.	4.35	15
Amount and nature of exceptional items	Notes	4.35	15
Investments in quoted securities at cost, at carrying value, and at market value	Notes	4.34	19
Current year prospects	Notes	4.33	20
Amount and nature of extraordinary items	Notes	4.33	20

was reported as saying that now that a balance sheet is required (in quarterly reports), loans become much more visible because it is more difficult to hide this information (Montagu-Pollock 2001).

The breakdown of the analysis of results according to the three investor groups is given in Table 6. Comparison of mean scores among investor groups shows that sophisticates value most of the information items (26 out of 38) more than do other investors.

Table 6 also indicates that there is little consensus among investors as to the most useful information. Sophisticates regard segmental reporting as the most useful item while scanners regard net profit as the most useful item. Trackers perceived cash, amount and breakdown of long-term liabilities, profit/loss before finance cost, depreciation and amortisation, exceptional items, income tax, minority interest and extraordinary items, and working capital as the four most useful pieces of information.

Results of the Kruskal-Wallis tests show that although sophisticates tend to value the information more than the other types of users, the perceptions of investors on the usefulness of most of the items of disclosure do not differ at a 5 percent significant level. There are significant differences between the perceptions of investors as far as three items are concerned: cash, amount and breakdown of current assets, and working capital. The results show that sophisticates and trackers attach the importance of liquidity more than do the scanners. Consistent with the nature of their work, that is to estimate the forth-coming annual results, sophisticates and trackers would regard cash and other working capital items more highly compared to the scanners. For the rest of the 35 items, their perceptions do not differ significantly.

CONCLUSION

The study provides evidence that quarterly financial reports were used by professional investors but their usefulness varies across types of investors – scanners, trackers, and sophisticates. Different groups of investors perceived usefulness based on their respective needs.

Although investors regard quarterly reports as the sixth most useful source of information, usefulness of quarterly reporting remains significant. Annual reports appear to be more useful than quarterly reporting despite the fact that the latter is more timely. One explanation is that quarterly reports are not audited thus perceived to be less reliable and susceptible to income manipulation. Another reason is that investors may take some time to familiarise themselves with the nature and role of quarterly reporting, as they have just shifted from half-yearly reporting.

This paper also provides evidence that the relative usefulness of quarterly

TABLE 6. Investors' perceptions on the usefulness of items of disclosure

Items of disclosure	Scanners	Trackers	Sophisticates	K-W Sig.
	Mean (rank)	Mean (rank)	Mean (rank)	
Segmental information	4.48 (2)	4.40 (13)	4.69 (1)	0.231
Breakdown of borrowings	4.43 (6)	4.52 (5)	4.63 (2)	0.566
Net profit/ loss	4.52 (1)	4.44 (8)	4.59 (5)	0.478
Profit/loss before finance cost, depreciation and amortisation, exceptional items, income tax, minority interest and extraordinary items	4.48 (2)	4.56 (1)	4.50 (11)	0.877
Net tangible assets per share	4.48 (2)	4.32 (17)	4.63 (2)	0.305
Amount and breakdown of long term liabilities	4.19(20)	4.56 (1)	4.56 (7)	0.165
Cash	4.05 (32)	4.56 (1)	4.63 (2)	0.031*
Earnings per share	4.33 (9)	4.44 (8)	4.50 (11)	0.746
Amount and breakdown of current liabilities	4.14(24)	4.48 (7)	4.56 (7)	0.110
Review of company performance	4.29(15)	4.44 (8)	4.50 (11)	0.460
Turnover (sales)	4.33 (9)	4.32 (17)	4.50 (11)	0.349
Interest expense	4.38 (7)	4.28 (21)	4.50 (11)	0.381
Net profit/loss from ordinary activities	4.38 (7)	4.28 (21)	4.47 (17)	0.429
Issuances and repayment of debt and equity securities	4.19(20)	4.28 (21)	4.53 (10)	0.116
Profit before tax, minority interest and extraordinary items	4.48 (2)	4.32 (17)	4.59 (5)	0.318
Amount and breakdown of current assets	3.90 (34)	4.44 (8)	4.56 (7)	0.014*
Profit/loss after income tax before minority interest	4.33 (9)	4.36 (15)	4.34 (23)	0.922
Amount and nature of exceptional items	4.29(15)	4.20 (27)	4.50 (11)	0.270
Investments in quoted securities at cost, at carrying value, and at market value	4.29(15)	4.42 (12)	4.31 (25)	0.772
Current year prospects	4.33 (9)	4.36 (15)	4.31 (25)	0.969

(Continued)

Table 6 (cont.)

Amount and nature of extraordinary items	4.08(31)	4.50 (6)	4.00 (35)	0.155
Working capital	3.95(33)	4.56 (1)	4.38 (20)	0.049*
Comparison with preceding quarter's results	4.19(20)	4.24 (26)	4.47 (17)	0.267
Profit/loss on sale of investments and/or properties	4.19(20)	4.28 (21)	4.34 (23)	0.603
Material subsequent events	4.33 (9)	4.28 (21)	4.25 (30)	0.988
Details of dividend declared	4.29(15)	4.32 (17)	4.22 (33)	0.807
Amount and breakdown of long term assets	3.86(36)	4.40 (13)	4.44 (19)	0.097
Contingent liabilities	4.33 (9)	4.16 (30)	4.25 (30)	0.782
Effect of changes in the composition of the group	4.10(26)	4.20 (27)	4.31 (25)	0.739
Comment on seasonality or cyclicalty of operations	4.10(26)	4.20 (27)	4.28 (29)	0.668
Off balance sheet financial instrument	4.14(24)	4.04 (33)	4.31 (25)	0.399
Depreciation and amortisation expense	4.10(26)	3.88 (37)	4.38 (20)	0.124
Description of the nature and effect of any change in accounting policies and methods of computation	3.90(34)	4.16 (30)	4.25 (30)	0.404
Details of pending litigation	4.29(15)	4.08 (32)	3.91 (37)	0.392
Income tax	4.10(26)	3.88 (37)	4.38 (20)	0.097
Breakdown of tax for the financial year-to-date	3.76(37)	3.96 (36)	4.03 (34)	0.470
A statement whether the report is audited or not	4.10(26)	4.00 (34)	3.72 (38)	0.601
A statement that the same accounting policies and methods of computation as used in the recent annual reports are followed	3.76(37)	4.00 (34)	3.94 (36)	0.751

*p<0.05.

financial reporting would depend on the type of professional investors. The sophisticates seem to have the greatest need for information, rating the usefulness of most of the information sources higher than trackers and scanners.

In summary, this study shows that quarterly reports are useful to Malaysian professional investors in making investment decisions. This shows that the move made by the KLSE to introduce corporate quarterly reporting as one of the reform measures to enhance transparency shortly after the financial crisis has generally achieved its objective. The findings of this paper would also help preparers of quarterly reports understand the importance of each item of the information to the investors. Hence, preparers could tailor their quarterly reports to the needs of the users. We hope that this study will open up avenues for more studies on quarterly reporting not only in Malaysia, but also in other countries where this area of study still lacks empirical research. We also hope that this study will increase the awareness of the investing community (users, preparers, regulators and researchers) towards quarterly reporting.

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