OWNERSHIP STRUCTURE AND PERFORMANCE OF KUWAIT NON-LISTED CORPORATIONS

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Abstract— The objective of this research is to explore trends of Kuwaiti non-listed corporations in terms of ownership structure and its effect on performance. Trends of ownership structure vary among Kuwaiti corporations, but there is a tendency towards concentration of ownership rather than diffusion it. Both descriptive as well as analytical methods have been used to test for such correlation. A sample of 36 corporations was used for testing such correlation among listed firms in Kuwait. In addition, capital structure of these corporations as published during 2004-2014 was examined. The basic correlation model used in the study relates the firm's equity structure to its book value adjusted for abnormal earnings. The basic correlation model used in the study relates the firm's equity structure to its book value adjusted for abnormal earnings. Results of the multiple regressions and collinearity analysis indicated that profitability decreases with high concentration ownership and increases with high portion of equity owned by institutional investors. Also, no significant evidence was found on the relationship between profitability and foreign ownership and management ownership dimensions. Initial results were indecisive as to which parameter of ownership structure is more linked to high prized performance. Abnormal earnings per share and abnormal cash dividends per share yet are useful equity structure indicators especially if measured in terms of changes in the equity. To be more decisive, however, the model would better be expanded to measure the incremental value of performance as related to the equity structure and management style.

Key terms— Corporate Performance, Accounting Policies, Ownership Concentration, Management Styles.

I. INTRODUCTION

All financial information that effect decision making is of importance to accounting even if it relates to changes to ownership structure. Certainly, owners seek maximizing their equity value in all legitimate means. Among these are the style of management and economic decisions made by financial reports users pertain to company's performance and the assessment of efficiency to which a firm's objectives are met. Accounting, on the other hand, is not to be limited to techniques and forms related to measuring and presenting the financials of any corporations, it also has to pinpoint conditions affecting these financials. Ownership structure and changes in equity towards family control and management as it relates to performance is an issue of significance in the operational life of any business entity that surely worth exploring as trends are widely seen in the stock markets where equity changes have direct or indirect link to the value of the business entity. This study is a focus on this correlation as it has risen in recent years and reflected positively to firms' value especially among non-listed corporations controlled by families in Kuwait.

II. LITERATURE REVIEW

Across countries, researchers have demonstrated some correlation among family ownership and corporate performance. Using data for 175 Greek listed firms, Kapopoulos and Lazaretou (2007) have found that a more concentrated ownership structure positively relates to higher firm profitability and higher firm profitability requires a less diffused ownership. Similarly, using panel data for the period 2000–2003 with respect to the Italian market, Perrini et al (2008) found that the ownership concentration of the five largest shareholders is beneficial to firm valuation. Hanifa & Habib (2006) also found that board size and top five substantial shareholdings to be significantly associated with both market and accounting performance measures. Using data from privately held family firms in the United Kingdom, Westhead and Howorth (2006) detected that closely held family firms did not report superior firm performance. On the contrarily, Martínez et all (2007) concluded that public family firms perform better than public nonfamily firms, a view that is not shared with Sciascia & Mazzola (2008) as they did not find any association between family involvement in ownership and performance. The familiness phenomenon showed associations with revenue, capital structure, growth, and perceived performance (Rutherford et al, 2008) and (Jiang et al 2010).

Other findings show that governance system, measurement of performance, and control for endogeneity moderate the effect of ownership on firm performance (Sánchez-Ballesta & García-Meca, 2007) or to professional services (Nordenflycht, 2007). Other authors attributed this relationship to board members tacit knowledge of the firm (Mark et al, 2007), and that the use of dual-class shares have a negative effect on performance (Bjuggren et al, 2007).

Belkhir, M. (2009) argued that there is evidence of interdependencies between the board and ownership structures. Tam & Tan (2007) showed that different types of majority owners exhibit distinct traits of behaviour and preferences which have an impact on

firm performance, or it relates to resource-allocation dimensions (Miller & Le Breton, 2006), or to the interaction between executive characteristics and organizational variables (Adams, 2005), or ownership structure to voluntary disclosure in Ireland (Donnelly & Mulcahy, 2008).

Across countries, studies have resulted in rather compelling results. In Malaysia, *Zubaidah et al (2009)* found that board composition and board size have a positive impact on firm performance, which is consistent with *Haslindar & Fazilah (2014)* findings that duality for family and non-family ownership has a strong significant influence on firm performance. Ben-Amar & André (2006) concluded that ownership of a majority of the cash flow rights has negative impact on announcement returns in Canada, which also has been confirmed by Driffield et al (2007) and (Bozec & Laurin, 2008). Similar findings have been found in France as positive average market reaction to the repurchase announcement and corporate performance (Ginglinger & L'her, 2006). Egyptian companies, on the other hand, reflected other factors (economic, political, contextual) affecting firm's performance other than ownership structure (Abdel Shahid, 2003) as well as in Estonia (Jones et al, 2005), Poland, Hungary, Slovenia, and Slovakia in addition to Estonia (Filatotchev' et al, 2008). Korean companies exhibited an "owner-controlled" governance structure (Cho & Kim, 2007) and to some extent with (Choi & Hasan, 2005) which is consistent to almost one-third of Europe publicly listed firms (Luc Laeven & Levine, 2009) also (Claessens & Tzioumis, 2006). In China, It was found that when non-state-owned shareholdings are relatively small, they have a significantly positive effect on company performance (Gang, 2007), and ownership turnover-performance sensitivity is higher if legal entities are major shareholders (Firth et al, 2006). Similar results were also concluded in Norway (Goldeng et al, 2008). Also, McGuinness & Ferguson (2005) found that evidence is indicating higher profitability where two or more major foreign investors are present in Chinese companies, thus more enriching understanding of institutions and strategic choices (Yiu et al,, 2005) and (Jerry et al, 2011). In India, findings suggest that larger board size has a positive impact on performance and that outside directors with multiple appointments appeared to have a negative effect on performance suggesting greater control and focus (Jackling & Johl, 2009) and (Ganguli & Agrawal 2008). Insider ownership contributes both to the in formativeness of earnings and to constraining earning in Spanish corporations (Sánchez-Ballesta, & García-Meca, 2007 - 2) and (Lafuente et al, 2010).

In Consistent with existing studies, Turkish listed company has reported significantly better investment performance for companies that do not deviate from one share–one vote by using pyramidal ownership structures, dual-class shares and other devices that enhance the control power of large shareholders (Orbay & Yurtoglu, 2006). In Tokyo, Hu & Izumida (2008) have found that ownership concentration has a significant effect on contemporary and subsequent corporate performance.

This research project covers all companies listed in Kuwait stock exchange in the period 1999–2001, which represents the three most recent years, with approximately complete data, when the research project was started. The research results could be useful for at least the following three main groups of accounting information users, namely; investors in Kuwait stock exchange, policy makers at the Ministry of Commerce in Kuwait, and accounting information providers in firms since they are charge with financial reporting.

III. THE MODEL

In basic finance theory, the market value of a firm's equity should be equal to the present value of the expected stream of dividends over the life of the firm. Since the life of the firm is assumed to be indefinite (the going concern assumption), the market value of a firm's equity is modeled, under the risk aversion situation, as follows:

$$P_t = \sum_{t=1}^{t=\infty} E(d_t)/\rho$$

Where

P_t = the market value of a firm's equity at time t

d_t = the net dividend paid at time t

ρ = the risk free rate of return (discount rate), and

E = the expected value operator conditioned on time t information.

This valuation model indicates that dividends' policy determines the market value of a firm's equity. But how the dividends' policy is set? And what is the relationship between dividends' policy and accounting indicators? Lintner (1956) was among the first to establish an association between accounting variables and dividend changes. He suggested that dividend changes are based on current earnings and prior year dividends. He specifically, argued that management decision to change dividends is set based on the magnitude of earnings in the current period, in conjunction with a target pay our ratio. He further pointed out that the adjustment of pay out ratio target each year is not impartial given management's general reluctance to reduce dividends. Other studies have also confirmed the presence of a strong association between a firm's performance (earnings) and dividend changes (e.g. Hagerman and Huefner (1989)).

However, Penman and Sougiannis (1998) criticize the dividends, as well as cash flows, discount approaches to equity valuation, as they involve significant forecasting errors compared to accrual earnings. The authors arrived at these results based on U.S. data for non-financial firms with an average of 4192 firms per year over the period 1973-1987. Their analysis, however, is carried for finite periods only (1,2,5 and 8 years) with and without terminal (continuing) value calculations. Their conclusion is that equity valuation based on forecasting GAAP accrual earnings and book values have practical advantageous over forecasting dividends and cash flows. They added that the view presented in some finance textbooks, which says that cash is king (not suspect) while accounting is suspect, should be modified.

Charitou and Ketz (1990) examined the incremental valuation content of earnings and cash flows in the market place using a cross-sectional equity valuation model. The model relates the market value of the firm to three variables: permanent earnings, risk, and growth. The model takes the following empirical form:

$$P_i = \gamma_0 + \gamma_1 E_i \gamma_2 S_i + \gamma_3 G_i$$

Where

P_i = the market value of the i-th firm at the end of fiscal year

E_i = a proxy for ex ante permanent earnings for the i-th firm

S_i = a proxy for risk for the i-th firm

G_i = a proxy for growth for the i-th firm

To answer the research question, the authors used alternative accounting definitions of permanent earnings: operating income plus depreciation, working capital from operations and cash flows from operations. Their final sample consists of 70 companies in the retail industry studied for a 4-year period (1980 ~ 1983). The results indicate the following.

1) Operating cash flows do not have valuation content beyond operating cash flow.
2) Operating cash flows do not have valuation content beyond operating earnings. That is, when operating earnings' variable is in the model, no other asset flow measure has valuation content, but when cash flows variable is in the model, the various accruals do have valuation contents.
3) The accrual and cash flows components of earnings provide the same information to the market about future expected cash flows.

Amir (1993) examined the market valuation of accounting information for the postretirement benefits other than pensions. He expanded a valuation model originally derived by Ohlson (1991). The original model relates equity value to accounting earnings and book value of equity, both of which are value relevant information that assist in the prediction of the future dividends. Amir expanded the model by adding other variables to it to represent the other valued relevant information (the pension and non-pension postretirement benefits). He wrote the expanded model on a per share basis as follows:

$$P_i = \gamma_0 X_t + \gamma_1 Y_t + \gamma_2 d_t + B_0 V_t + n_t$$

Where

P_t = the market value per share of a firm's common stock at time t

X_t = the firm' earnings per share over the period (t-1 to t)

Y_t = the firm's book value per share at time t

D_t = the firm's dividends per share at time t

V_t = a vector of other value-relevant information (postretirement Benefits)

n_t = a disturbance term

Amir then substituted the clean surplus equation (which states that the change in firm's book values equals earnings minus dividends), and incorporated the pension and non-pension postretirement benefits numbers as additional value-relevant variables in the model. To correct for the heteroscedasticity problem, the author deflated all variables by the beginning book value of equity per share. The final sample size ranged from 243 to 313 firms over the study period (1984~1990). The annual results showed significant contribution to the model by the earnings variable every year and by the book value variable in three out of the seven years in the study. The earnings variable exhibited the expected (positive) sign annually, while the book value variable showed negative sign in two of the three years it was significant. However, when the author used more realistic pension liability discount rates and non-pension postretirement benefit inflation's rate, the explanatory power of the model, as well as the significance of the book value variable, have improved greatly.

Gopalakrishnan and Sugru (1993) used a balance sheet based valuation model developed originally by Landsman (1986), to assess how the investors when setting market value of equity value a firm's pension asset and obligations. The model takes the following form:

$$MVE_i = b_0 + b_1 ASSET_i + b_2 LIABY_i + b_3 PASSETI_i + b_4 PBO_i + e_i$$

Where

MVE_i = the market value of shareholders' equity of firm i

$ASSET_i$ = the book value of total non-pension assets for firm i

$LIABY_i$ = the book value of total non-pension liabilities for firm i

$PASSETI_i$ = the market value of pension assets for firm i, and

PBO_i = the pension projected benefits obligations for firm i

The final sample consists of 659 firms for 1987 and 739 for 1988. The results, for both, annual and pooled tests, show significant contribution by all variables in the model. The author then expanded the model in order to examine the contribution of the individual components of the pension PBO (as multiple independent variables instead of a combined one). The additional multiple variables include the vested benefits, non-vested benefits and future salary progression effect. The results indicated significant contribution by each component (variable) of the pension PBO, which means the market investors perceive these components as corporate liabilities when determining market value of stockholders' equity.

Ohlson (1995), building on his original work in 1991, concluded a theoretical valuation model that relates the market value of a firm's equity to its contemporaneous and future earnings, book value and dividends. Applying the clean surplus relation, the author expressed the present value of anticipated abnormal earnings. That is the abnormal earnings sequence reconciles the difference between a firm's book value and market value in lieu of the sequence of expected dividends. The model is written as follows:

$$P_t = Y_t + a_1 X^a_t + a_2 v_t$$

Where

P_t = the market value of a firm's equity per share at time t

Y_t = the firm's equity book value per share at time t

X^a_t = the present value of a firm's abnormal earnings per share in time t

Abnormal earnings per share = earning per share (EPS) – $(Y_{t-1}*\rho)$

Where

Y_{t-1} = is the beginning book value of a firm's equity per share and ρ is the Risk free rate of return. That is EPS minus a charge for the use of Capital.

v_t = other information that modifies the prediction of future profitability

The author did not empirically test the model to examine its performance in real world situation; however, his underlying work in 1991 represents the foundation for the successful use by Amir (1993) and others.

Sloan (1996) investigated whether stock prices reflect information about future earnings contained in the accrual and cash flows components of current earnings. The cash flows component is measured as cash flows from continuing operations while the accrual component is measured as the change in non-cash current asset less change in current liabilities plus depreciation and amortization expenses. He used 40679 firm-year observations for non-financial U.S. firms from the period 1962-1991. The test results indicate that earnings performance attributable to the accrual component of earnings exhibits lower persistence that earnings performance attributable to the cash flows component of earnings. He pointed out that the results also indicate that stock prices act as if investor 'fixate' on earnings, failing to distinguish fully between the different properties of the accrual and cash flow component is more exposed to this act. The author concludes by suggesting further research to establish whether earnings, management is really present and whether the intention behind it is to manipulate stock prices, or influence the cost of capital before public offerings.

The previous section on stock valuation studies indicates a controversy about which set of accounting information is more useful to market investors. While the established finance theory suggests that expected future dividends determines the firm's equity value some authors argue that earnings is a more reliable share value-setting variable than dividends or cash flows (Penman and Sougiannis 1998). Other authors showing support for the valuation-information content of earnings over cash flows include, for example, Charitou and Ketz (1990) and Cotter (1996). The argument advanced in favor of the earnings variable rests on the assumption that earning numbers are widely used by investors and creditors. They mitigate timing problems in revenue recognition and it matching revenues with appropriate costs in time. Therefore, earnings are considered less noisy than cash flows as a measure of a firm's performance.

On the other hand Sloan (1996) and Lawson (1981) suggest that cash flows are more relevant than earnings for the study of stock price behavior, but the investors may naively 'fixate' on earnings. The argument in favor of cash flows over earnings, as a better equity value indicator, rests on the premise that earnings can be subject to management manipulation for the purpose of performance measurement and other compensation issues. In addition, earnings measurement involves a lot of subjective allocation, accruals and deferrals in the process of determining income numbers. Therefore, cash flows are considered more persistent measure of performance than accrual. It better reflects firm's liquidity and

internal ability to pay dividends to investors in the future.

IV. METHODOLOGY

1- Equity Valuation Model

To start with, this study is relying on the basic Ohlson (1995) valuation model. The model relates the firm's equity market value to its book value adjusted for the present value of abnormal earnings. However, an appropriate expansion will be added to the model later, in order to examine the relative valuation content of different accounting numbers, the abnormal earnings per share, abnormal cash flow per share and the abnormal dividends per share.

As previously shown, the basic model is stated as follows:

$$P_t = Y_t + a_1X^a_t + a_2V_t$$

Where

P_t = the market value of a firm's equity per share at time t

Y_t = the firm's equity book value per share at time t

X^a_t = the present value of a firm's abnormal earnings per share in time t

Abnormal earnings per share = earning per share (EPS) – $(Y_{t-1}*\rho)$

Where

Y_{t-1} = is the beginning book value of a firm's equity per share and ρ is the Risk free rate of return. That is EPS minus a charge for the use of Capital.

v_t = other information that modifies the prediction of future profitability

2- Abnormal Income Definition

Abnormal earnings could be measured in variety of ways from the point view of market investors. Logically, if the firm doesn't earn income it couldn't generate cash flows or pay dividends from internal sources. In the long run no firm can realize all income recognized on the accrual basis in the form of cash flows. At least bad debt expense, which is a normal business risk, would make the cash flow generated from revenue less than 100% of accrued revenues.

Furthermore, no growing firm in the long run can afford to pay all of its cash flows in the form of dividends, as this would severely limit its opportunities for future expansion and survival. Such a firm may experience immediate liquidity problem in addition to a poor internal financing of growth projects. Therefore, one would expect the average firm to generate earnings per share more than cash flows per share and to pay dividends per share less than cash flows per share. But how such a firm's rational behavior would fit the objectives of diverse market investor groups remains a question to be addressed.

Financial management textbooks suggest that investors vary in their objectives of investments. Some are short term oriented. They care more about quick share price appreciation and immediate cash dividends. Others, however, are long-term oriented. They care more about future profitability and cash flows, and therefore may value more the firm's long run ability to generate revenues and positive cash flows. Concerning investors in Kuwait stock market, a study by Abdullah (1995) has revealed that among the 11 possible objectives for investment in listed companies the most important objectives are high profitability, future prospect and cash dividends distribution with very close averages (4.6, 4.5 and 4.4 out of 5). This indicates the investors may have mixed short term and long term objectives which doesn't reveal which measure of performance they use most to set share prices. Therefore, this study will use alternative definitions of equity investment income in order to examine their relative valuation-information contents.

The definitions or measures of investment income are those most often relied upon in share valuation studies. Namely, the cash dividends per share (CDPS), operating cash flows per share (OPCFPS), and earnings per share (EPS). Based on assumed firm's rational behavior discussed above, it is expected that the CDPS will be the smallest in magnitude while the EPS is the largest and the OPCFPS is in between. Now, for the purpose of operating the valuation model in this study, the present value of abnormal earnings per share of the three alternative income measures of investment will be calculated as shown below. To be consistent with the original model's structure, the risk free rate of return (ρ) will be used as the capitalization (discount) rate as well as the cost of capital rate. All model's variables will be scaled by the relative beginning book value per share to treat the data for the possible heteroscedasticity problem.

ANCDPS = the abnormal income from cash dividends per share capitalized, measured as $(CDPS-(Y_{t-1}*\rho))/\rho$. That is CDPS minus a charge for beginning book value per share divided by ρ.

ANOPCFPS = the abnormal income from operating cash flows per capitalized, measured as $(OPCFPS – (Y_{t-1}*\rho))/\rho$

ANEPS = the abnormal income from accrual earnings per share capitalized, measured as $(EPS - (Y_{t-1}*\rho))/\rho$

V. SAMPLE SELECTION AND DATA

Initially, the study sample consisted of all Kuwaiti listed companies for 1999 and after which includes 49

companies that have most complete data for the study period 1999-2001. However, if the company doesn't have a share closing price (the dependent variable) for any year in the study it is dropped out (17 company dropped). Also if the data analysis reveals that the company is an outlier relative to the remaining companies in the sample it is also dropped out (1 company dropped). This process led to maximum number of 32 companies left in the sample. Although all 32 companies have their dependent variables, not all of them have their complete independent variables. However, due to the limited overall pool of companies to draw from, if the company is missing an independent variable in just one or two years I is left in the sample to benefit from the other variables or period tests.

The main sources of data were the 1999, 2000, and fact books of Kuwait stock exchange and the listed companies' annual reports of listed companies (about 32 companies), while the missing annual reports were obtained directly from the respective companies.

If the information per share is given directly in the fact book or in the company's annual report it is verified to make sure it is computed on the same basis for all companies. However, if the data is not given on a per share basis (as in the case of operating cash flows per share), it is computed by dividing the relevant amount from the main data source by the number of year-end outstanding common shares in the fact book. Furthermore, if the company's information is available only in US Dollars all the numbers are converted back to Kuwaiti dinars at the official exchange rate (US$ = KD 0.301). The average annual risk free rate of interest is computed from the information obtained from Kuwait central bank (Banking Directorate) on Treasury bill issues. The government of Kuwait issues Treasury Bills almost on a weekly basis. The computed annual average Treasury bill rates were 5.987%, 5.543% and 5.713% in 1997, 2000 and 2001 respectively.

Due to the usual problem of heteroscedasticity in accounting information beginning book value per share, as mentioned earlier, deflated all study variables. For example, all 1997variables were deflated by the 1996 ending book value per share and so on.

VI. DESCRIPTIVE STATISTICS OF SAMPLE DATA

Table 1 presents descriptive statistics for the sample firms. The table reflects consistent annual growth in the means of firm's equity book value per share (Y), CDPS and EPS. The other variables have reflected growth in single years as follows: Closing price per share (P) in 2001 and OPCFPS in 2000.

Table 1
Descriptive Statistics of Sample Data

Variable	No.	Min.	Max.	Mean	St. Div.
P 95	32	0.05	1.15	0.2992	0.244
96	32	0.07	0.95	0.2954	0.255
97	32	0.07	1.30	0.3527	0.280
Y 95	32	0.07	1.03	0.2498	0.216
96	32	0.07	1.04	0.2521	0.216
97	32	0.07	1.11	0.2651	0.228
CDPS 95	32	0.00	0.05	0.0128	0.0123
96	32	0.00	0.04	0.0142	0.0119
97	30	0.00	0.05	0.0159	0.0128
OPCFPS 95	24	-0.14	0.13	0.0029	0.0592
96	28	-0.05	0.18	0.0300	0.0441
97	27	-0.21	0.24	0.0250	0.0781
EPS 95	32	-0.05	0.07	0.0197	0.0243
96	32	0.00	0.09	0.0233	0.0194
97	32	0.00	0.10	0.0303	0.0252

Also, as expected somewhat under the firm's rational behavior assumption, the table reflects the excess of the mean of OPCFPS over the mean of CDPS in two of the three years of the study period (2000 and 2001), and the excess of the mean of EPS over the mean of the OPCFPS in two years also (1999 and 2001).

VII. RESULTS AND DISCUSSION

Table 2a presents the results of individual use of the alternative definitions of abnormal earnings per share capitalized beside the book value per share as the main explanatory variables of stock closing prices for 1999.

It appears from the table that Y is a significant predictor variable (alone or with the presence of other variables) in every model (at 0.000 significance level) but it does not explain all the variations in closing.

Table 2a
Test Results for 1999
$P_{99} = a_0 + a_1Y + a_2$ ANearings

Model No.	a_0 Constant	a_1 Y	a_2 ANC-DPS	a_2 ANOP-CFPS	a_2 ANEPS	F Score	Adjusted R^2
1	0.525 (0.018)	0.814 (0.000)				64.394 (0.000)	0.672
2	0.395 (0.0140)	0.885 (0.000)	0.590 (0.000)			78.546 (0.000)	0.833
3	0.739 (0.008)	0.754 (0.000)		0.0648 (0.222)		27.4 (0.000)	0.688
4	0.501 (0.014)	0.757 (0.000)			0.207 (0.014)	41.78 (0.000)	0.725

Notes :
P99 = Closing Price Per Share 1999
Y = Book Value Per Share 1999
ANearings = Abnormal Earnings Capitalized as Defined Below:
ANCDPS = Abnormal Income from Cash Dividends Per Share for 1999 Capitalized
ANOPCFPS = Abnormal Income from Operating Cash Flows Per Share for 1999 Capitalized
ANEPS = Abnormal Income from Earnings Per Share for 1999 Capitalized prices that are possibly explained.

Used alone in model No.1, the adjusted R^2 is only 0.672. The ANCDPS in model No. 2 is significant (at 0.000 level) and its addition to the model enhances its explanatory power significantly. As shown in table, the adjusted R^2 increased from 0.672 to 0.833 (approximately 24% up). However, when this variable is replaced by the other alternative measures of abnormal earnings per share in models 3 and 4, the alternative is not successful in the case of ANOPCFPS (p=0.222), but is successful in the case of ANEPS (p=0.014). Therefore, it appears that EPS is a competing stock valuation variable to the CDPS, although less valuable to market investors. It is less valuable because with it in the model the F score is smaller (41.78 Vs 78.546) and the adjusted R^2 is lower (0.725 Vs. 0.833). The constant variable is always significant however.

Table 2b presents the results for 2000. These results appear to be consistent with those of 1999. The ANOPCFPS is not a significant valuation variable (p=0.244), while the ANCDPS and ANEPS are competing share valuation variables with close results. Their significance level is the same (0.000), the models' F scores are 35,01 and 36,579 respectively and their adjusted R^2 values are 0.687 and 0.679 respectively. Also, the constant variable is not significant when either one of them is in the model.

Table 2b
Test Results for 2000
$P00 = a_0 + a_1Y + a_2$ ANearings

Model No.	a_0 Constant	a_1 Y	a_2 ANC-DPS	a_2 ANOP-CFPS	a_2 ANEPS	F Score	Adjusted R^2
1	0.115 (0.017)	0.715 (0.000)				26.882 (0.000)	0.455
2	0.018 (0.642)	1.803 (0.000)	0.530 (0.000)			35.010 (0.000)	0.687
3	0.115 (0.008)	0.703 (0.000)		0.049 (0.244)		11.929 (0.000)	0.438
4	0.038 (315)	0.809 (0.000)			0.350 (0.000)	36.579 (0.000)	0.697

Notes:
P00 = Closing Price Per Share 2000
Y = Book Value Per Share 2000
ANearings = Abnormal Earnings Capitalized as Defined Below:
ANCDPS = Abnormal Income from Cash Dividends Per Share for 2000 Capitalized
ANOPCFPS = Abnormal Income from Operating Cash Flows Per Share for 2000 Capitalized
ANEPS = Abnormal Income from Earnings Per Share for 2000 Capitalized

Table 2c shows the results for 2001. The results are also consistent with the previous years' results in terms of the significant contribution of Y, ANCDPS and ANEPS variables is significant while it is not so with either the ANCDPS or the ANEPS. Beside the model's F score and R^2 are much higher with either

the ANCDPS or the ANEPS than with the ANOPCFPS.

Table 2c
Test Results for 2001
$P01 = a_0 + a_1Y + a_2$ ANearings

Model No.	a_0 Constant	a_1 Y	a_2 ANC-DPS	a_2 ANOP-CFPS	a_2 ANEPS	F Score	Adjusted R^2
1	0.173 (0.012)	0.677 (0.001)				12.997 (0.001)	0.279
2	0.0168 (0.722)	1.238 (0.000)	0.836 (0.000)			40.591 (0.000)	0.719
3	0.183 (0.016)	0.659 (0.002)		0.0718 (0.042)		7.780 (0.002)	0.334
4	0.0204 (0.595)	0.728 (0.000)			0.500 (0.000)	64.935 (0.000)	0.805

Notes:
P01 = Closing Price Per Share 2001
Y = Book Value Per Share 2001
ANearings = Abnormal Earnings Capitalized as Defined Below:
ANCDPS = Abnormal Income from Cash Dividends Per Share for 2001 Capitalized
ANOPCFPS = Abnormal Income from Operating Cash Flows Per Share for 2001 Capitalized
ANEPS = Abnormal Income from Earnings Per Share for 2001 Capitalized

R_2 it appears that the ANOPCFPS is less significant variable than either the ANCDPS or the ANEPS. As the table's results indicate, with the ANOPCFPS in the model, the constant variable is significant while it is not so with either the ANCDPS or the ANEPS. Beside the model's F score and R_2 are much higher with either the ANCDPS or the ANEPS than with the ANOPCFPS.

VIII. MODEL MODIFICATION

Due to the indecisive results in the previous section as to which set of accounting information is more valuable to market investors when choosing between ANCDPS and ANEPS, and because of the peculiar results in 2001 with regards to ANOPCFPS, an attempt is made to measure the incremental valuation-information content available in the alternative measures of investment abnormal income. Such a test should enable us to tell whether there is an incremental valuation-information content in ANOPCFPS once the ANCDPS variable is already included in the prediction model, and whether there is an incremental valuation-information content in ANEPS once both the ANCDPS and the ANOPCFPS variables are already included in the prediction model.

In order to prevent any overlapping effect among the three alternative abnormal income variables, they will be measured for 1999 (for example) as shown below deflated by the beginning book value per share (Y_{t-1}) and capitalized using the risk free rate of interest.

ANCDPS01 = As usual, (CDPS99 – (Y00*ρ99))/ρ99/Y00
IANOPCFPS01 = Incremental ANOPCFPS01 measured as:
((ANOPCFPS01 – ANCDPS99)/Y00
IANEPS01 = ((ANEPS99 – IANOPCFPS99)/ρ99)/Y00

The other years' variables are measured similarly. Table 3 shows the annual results of the modified model for the study period 1999 -2001 as well as for the pooled period. It is clear from the table that the book value per share (Y) is a significant predictor variable in 1999, 2000 and in the pooled period. The ANCDPS is significant predictor variable every year and in the pooled period. The IANOPCFPS and the IANEPS are not significant at a conventional level (0.05 or stronger) in any year or in the pooled period.

Table 3
Test Results for 2001
$P_{95} = a_0 + a_1Y + a_2$ ANearings

Year	a_0 Constant	a_1 Y	a_2 ANC-DPS	A_3 INOP-CFPS	A_4 IANEPS	F Score	Adjusted R^2
1999	0.474 (0.024)	0.920 (0.000)	0.622 (0.000)	-0.103 (0.357)	-0.0945 (0.365)	30.799 (0.000)	0.832
2000	0.0223 (0.606)	0.943 (0.000)	0.469 (0.001)	0.251 (0.063)	0.285 (0.066)	16.071 (0.000)	0.683
2001	0.588 (0.745)	0.589 (0.746)	0.783 (0.000)	0.157 (0.196)	0.162 (0.192)	31.124 (0.000)	0.823
Pooled 99-01	0.423 (0.000)	0.874 (0.000)	0.644 (0.000)	0.0316 (0.547)	0.0293 (0.591)	74.240 (0.000)	0.785

The overall conclusion is that in the investment environment of Kuwait stock exchange the overriding investors' concern when valuing a firm's equity share is the cash dividends per share more than either the cash flows or the earnings per share.

SUMMARY AND CONCLUSION

The findings of different equity valuation studies reflect a controversy about which set of accounting information numbers is more useful to market investors in setting stock prices. While the established finance theory suggest that expected future dividends should determine the firm's equity value, some authors argue that (accrual) earnings is more reliable share value-setting variable than dividends or cash flows (Penman and Sougiannis 1998). The argument presented here is that earning numbers are widely used by investors and creditors. They mitigate timing problems in revenue recognition and in matching revenues with appropriate costs in time.

Therefore, earning numbers are less noisy than cash flow numbers as a measure of a firm's performance and value indicator.

Still, others argue that cash flows are more relevant than earnings for the study of stock price behavior. Cash flows are less subject to management's manipulation, arbitrary allocation, accrual and deferral policies, but the investors may be naively 'fixate' on earnings (Sloan 1996, and Lawson 1981).

The initial annual results of the use of alternative definitions of equity abnormal earnings were indecisive as to which alternative is more useful to market investors. The results show that both abnormal earnings per share and abnormal cash dividends per share are useful equity market value indicators. To be more decisive, however, the model was expanded to measure the incremental value-information content of the three alternative abnormal earnings measures. The results under the expanded model indicated that abnormal cash dividends per share is more important consideration to market investors when setting share prices that either the abnormal earnings per share or the abnormal operating cash flows per share.

Until now, cash dividends per share information are not part of any financial statement although the recommended amount for cash dividends distribution is normally given in the income statement. Certainly, there is a need to organize and standardize the calculation and presentation of cash dividends information on a per share basis, in a manner not less informative than earning per share presentation.

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