

# Impact of Accounting Information on Market Share Price of Firms Listed on Kuwait Stock Exchange

Fatima Rahal\*

Belarusian State Technological University

DOI: [10.36347/sjebm.2019.v06i08.004](https://doi.org/10.36347/sjebm.2019.v06i08.004)

| Received: 18.08.2019 | Accepted: 25.08.2019 | Published: 30.08.2019

\*Corresponding author: Fatima Rahal

## Abstract

## Original Research Article

To examine if the Accounting Information affects the Kuwait stock exchange, the quantitative methodology relied on the panel multiple regression through compiling and analyzing the accounting information and market share price secondary data for the period 2011 – 2018. The independent variables are Return on Equity (ROE), Earning per Share (EPS), and Dividend per Share (DPS) Market Share Price (MSP) of premier listed companies on Kuwait stock exchange. The analysis of the coefficient of correlation R shows that the correlation is very strong among DPS and EPS, DPS and ROE, EPS and ROE whilst it is strong among MSP and ROE, MSP and DPS, and EPS and MSP. Moreover, the variation of the three variables affects strongly the variation of MSP significantly on 1%. Therefore, there is a cause-effect relation between accounting information and MSP

**Keywords:** Kuwait Stock Exchange, ROE, MSP, ESP, Regression.

**Copyright © 2019:** This is an open-access article distributed under the terms of the Creative Commons Attribution license which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use (NonCommercial, or CC-BY-NC) provided the original author and source are credited.

## INTRODUCTION

Market share prices have important roles in determining the performance of the companies. Thus, companies aim continuously has a high market share prices for many goals. First, high share prices show high performance for the companies and their staff, impact company's reputations, gives trust to investors and shareholders. In brief, shares values determine firms' values as they represent the wealth for investor that change directly proportional with them. Therefore, understanding all variables that affect share prices is vital for investors. Kuwait stock market is the oldest 1962 in the gulf council countries to develop the capital market. And as investors demand the disclosure of adequate, reliable accounting information to make the investment decisions, they become very essential for the market growth.

## RESEARCH OBJECTIVE

This research is designed to capture the impact of accounting information on listed firms on Kuwait stock exchange.

## Problem Statement and Research Questions

To determine the impact of accounting information on listed firms on Kuwait stock exchange the main research question to be investigated are as follows:

- How does accounting information affect the listed firms on Kuwait stock exchange?
- The specific questions are:
- What is the effect of return on equity on market share price in the listed firms on Kuwait stock exchange?
- What is the effect of earning per share on market share price in the listed firms on Kuwait stock exchange?
- What is the effect of dividend per share on market share price in the listed firms on Kuwait stock exchange?

## Research significance

Information level is an essential factor which determines financial market efficiency. And since shares are the most preferred investment tools due to their high returns. Therefore, the determinants of stock prices are vital subjects in accounting and finance literature. Investors would leverage their profits depending on the effect of this information on stock prices.

The findings of paper are significant for investors in terms of forming investment strategies and market efficiency so they can choose the most appropriate investment decisions. Moreover, accounting information might affect the profitability and risk for

investors willing to have diversified portfolios. Hence, this study would provide guidelines for the investors in Kuwait stock exchange to optimize their portfolios. Additionally, this study might help the financial policy makers in Kuwait stock market to sketch the appropriate policies and for firms to make consider a framework in their future financial performance. Also, this research may be added value for academics as a reference in the studies.

### Research Hypothesis

To achieve the goal of the research the following hypotheses are formulated:

**H<sub>1</sub>:** Return On Equity affects Market Share Price significantly price in the listed firms on Kuwait stock exchange.

**H<sub>2</sub>:** Earning Share Price affects Market Share Price significantly price in the listed firms on Kuwait stock exchange.

**H<sub>3</sub>:** Earning Share Price affects Market Share Price significantly price in the listed firms on Kuwait stock exchange.

## LITERATURE REVIEW

In finance and accounting, information is vital in evaluating the quality of investments and since stocks are the most preferred investment instruments due to their high returns, there is a real and continuous need to study the factors that plays roles in determining stock prices. The market price per share of stock is the amount that investors are willing to pay for one share of the firm's stock which is different from book value per share of the firm's assets extracted from a firm's balance sheet [1].

Investors can increase their profits according to the impact of this information on stock prices there are many studies relating the determinants of stock returns in the literature.

Some of them link changes in stock price to firm accounting information. Accounting information is an important factor for investment decisions, stock price, and consequently firm's future profit [2]. In assessing the market value of companies, market-based ratios are significant tools used by investors. These ratios as price to earnings ratio (P/E), earnings per share (EPS) and market to book ratio (M/B) can give indicators to investors of the real value of stocks in contrast to the market value of the stocks. Thus, stocks that forms good investment decisions are ones which their real values exceed their market value [3].

### Return on Equity and Market Share Price

The return on equity focuses on the equity part invested in the firm and relates net income to it [4]. The accounting formula of return on equity reflects this:

$$\begin{aligned} \text{Return on Equity} \\ &= \text{Net income} \\ &\div \text{book value of shareholders equity} \end{aligned}$$

Kabajeh M, AL Nu'aimat S, Dahmash F [2] conducted their study to analyze the relationship between the ROA, ROE and ROI ratios with Jordanian insurance public companies share prices during the period (2002-2007). Their empirical results supported a positive relationship between the ROA, ROE and ROI ratios together with Jordanian insurance public companies share prices. However, the results showed no relationship between the ROE ratio, low relationship between each ROA, ROI separately with Jordanian insurance public companies market share prices.

In a research of [5], a significant positive relationship between the market price per share with the ratios of return on assets and return on equity for a sample of forty Jordanian public companies listed in Amman Security Exchange during the period between the years of 1984 to 1996.

Ndubuisi [5] showed that Return on Equity has a positive and statistically significant effect on Market Share Price, Communication and Technology firms listed on Nigeria Stock Exchange from 2010-2016

### Earnings per Share and Market Share Price

Earnings per share the amount of current period earnings or profit (or loss) attributable to a unit of ordinary share, Investors can forecast the real value of stocks by using market based ratios such as price to earnings ratio (P/E), (EPS) [3]. The accounting formula of Dividend per Share is:

$$\begin{aligned} \text{Earning per Share} \\ &= \text{Net income} \\ &\div \text{outstanding common shares} \end{aligned}$$

Earnings per share affects calculation of stock price significantly [9]. Moreover, Earnings per share that depend on net income can assess firms' performance in operations and financing [7].

Zeytinolu *et al.* [3] tested the effect of Earning per share (EPS), price to earnings ratio (P/E) and market to book ratio (M/B) on stock returns of insurance companies in Turkey. Based on results, the ratios have explanatory power on stock returns.

Findings of Ndubuisi [6] showed that Earnings per Share has a positive and statistically significant effect on Market Share Price Findings

### Dividend per Share and Market Share Price

Dividend per share is the gross dividend divided by number of ordinary shares. It represents the retention policy of firms as investor seeks for higher ratio to continue to retain their investments [8].

### The accounting formula of Dividend per Share is

$$\begin{aligned} & \text{Dividend per Share} \\ & = \text{total dividend for a period} \\ & \div \text{outstanding shares for the period} \end{aligned}$$

Regarding the effect of DPS on the firms' values, there are two opinions. The first opinion considers the dividend policy Gordon [9] considered relevant in relation to the value of the firm and the market price of shares [10,11] stated in his paper that a positive relation is found between dividend yield and stock price changes for a sample of firms listed in the London Stock Exchange.

Khan [10] considers dividend per share is more than a just an income for investors, but it is an indicator for assessing firms in investment as they consider dividends not only the source of income but also an instrument to assess company from investment point of view and to evaluate the cash generative ability of firms. On other hand, higher DPS ratio indicates less future investments. Also, lenders consider high DPS ratio means less servicing and redemption of their claims [12]. Dividend return is important to investor's returns, and assesses the valuation of the firm's shares [13]. This makes the volatility of stock prices as important to firms as it is to investors [14].

AL Taher M [15] in his study showed a significant positive relationship between the impact of dividend policy and the market share prices for a sample of seven Jordanian commercial banks listed in Amman Security Exchange during the period between the year of 1996 to 2000.

Findings of Ndubuisi [6] showed that Dividend per Share has a positive and statistically significant effect on Market Share Price.

In a recent study for [16] EPS has positive effect on firm value in property and real estate companies listed on the Indonesia stock exchange for the period (2014-2017).

Whilst the second one believed in irrelevance theory Miller and Modigliani [17]. Abu Shanab [18], showed that there is no effect for the returns, risks and dividends on the market value per share for a sample of thirty-eight industrial public companies in Jordan listed on Amman Security Exchange for the period (2000 – 2007). Mirfakhr *et al.* [19] also find negative and significant relationship between stock price and price to earnings ratio. Another studies for Somoye *et al.* [20], Rahgozar [21], Al Tamimia *et al.* [22], find weak and negative relationship between EPS and share prices.

In their study [23], analyzed the effect of returns on equity (ROE), earnings per share (EPS), and

price-earnings ratio (PER) on stock prices (SP). The results show that the three independent variables namely ROE, EPS and PER simultaneously affect the Stock Price on the Indonesia Stock Exchange. However, Partially the ROE has a significant impact but EPS and PER do not.

## DATA AND METHODOLOGY

### Research methodology

The methodology employed in this study is quantitative. Quantitative methodology relies on numbers to analyze and predict the relation between the accounting information and the market share price of listed companies on Kuwait stock exchange from 2010 till 2018.

### Research Variables

#### Independent variables

Three independent variables were used in the research namely: Return on Equity, Earning per Share, and Dividend per Share.

#### Dependent variable

The Market share price is the dependent variable used in the research.

## DATA COLLECTION

### Population

The listed companies in Kuwait stock market are divided into three segments:

- *Premier: Premier Market forms the elite segment within Kuwait exchange. It will be occupied by high caliber companies with high liquidity and medium to large market capitalizations.*
- Companies in this segment are subject to annual reviews to assess their performance and trading activities in Kuwait exchange throughout the entire year, base on which their classification under the Premier Market for the following year is determined, or else demoted to either the Main Market or Auction Market.
- *Main: the main market consists of those stocks that fall short of the premier market requirements, but still have sufficient liquidity as determined by the exchange.*
- *Auction: The Auction Market is designed to concentrate liquidity on low trading stocks at specific times during trading hours. Listed companies that do not meet the requirements of the Premier or Main Markets will be listed in the Auction Market. Constituents within the Auction Market are illiquid securities regardless of their market capitalization.*

### Sample

The sample is consisted of all twelve listed companies in premier market classified as in table1:

**Table-1: Premier listed firm’s sectors sample**

sector	Banks	Basic Materials	Financial Services	Industrials	Real States	Telecommunications
Number of listed firms	5	2	1	2	1	1

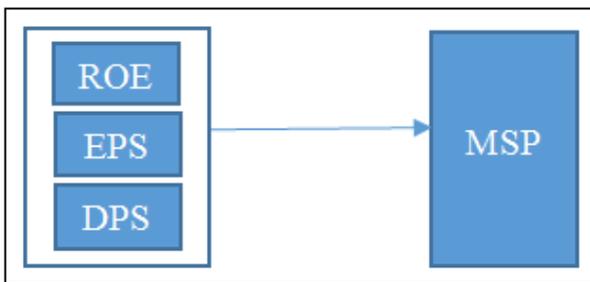
Reference: done by the author

**Sources of data**

The study used the secondary data from several sources: Kuwait stock exchange website, journals, text books, and articles. The data collected from financial statements extracted from publications of Kuwait stock exchange website consists of 96 observations for each variables market.

**Frame work of analysis**

The research framework can be described in the figure 1:



**Fig-1: model framework**

**The Correlation**

The correlation between two variables is a measure of the degree of association (magnitude and sense) between the two variables.

According to [24], the standards of the coefficient of correlation (R) are:

- 0 – 0.19, then don’t even think about a correlation between X and Y.
- 0.2 – 0.39, then there is weak correlation between X and Y.
- 0.4 – 0.59, then there is a moderate correlation between X and Y.
- 0.6 – 0.79, then there is a strong correlation between X and Y.
- 0.8 – 1, then there is a very strong correlation between X and Y.

If the sign of R is negative, this means that it is a negative relation between X and Y.

If the sign of R is positive, this means it is positive relation.

The study analyzed the correlation between the variables values of the listed firms for the given period, thus having a sample of 96 data for each variable.

**The Regression**

Fixed effects panel regression in SPSS using Least squares dummy variable approach is used. The fixed effects model can be used to study the relationship between time-varying predictors and outcomes[25].

It is a statistical tool that has been used in this research for the purpose of studying the relationship between the accounting information and market share price where data are both cross-sectional and time series.

**Thus the equation is formulated as follows**

$$MSP_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_2 EPS_{it} + \beta_3 DPS_{it} + \gamma_2 D2_i + \gamma_3 D3_i + \dots + \gamma_n Dn_i + u_{it}$$

where the D2<sub>i</sub>, D3<sub>i</sub>,.....Dn<sub>i</sub> are Dummy variables.

A good measure to quantify the goodness of a simple regression fit is the coefficient of determination “R square” which is nothing than the correlation squared. R square determine what percentage variation of the dependent variable is attributed to the variations of the independent variable [24]

**Empirical findings**

Firstly, summary descriptive statistics of variables is presented. Then correlations between the variables are shown. Finally, regression model is clarified.

**Descriptive Statistics**

This section provides descriptive statistics of variables in the study for the given period from 2011 till 2018 and then they are interpreted. Sample minima, maxima, means, and medians, standard deviations are reported. The descriptive statistics are presented in table 2.

**Table-2: Descriptive statistics**

	N	Min.	Max.	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
ROE2011	96	.018705	.501648	.11474052	.087246751
EPS2011	96	.002	.259	.04651	.040129
DPS2011	96	.000	.185	.02682	.031949
MSP2011	96	161.000	3739.500	610.08865	541.766921
	96				

Source: done by the author depending on SPSS calculations

Table (1) shows that the market share price ranges from a minimum value of 161 to a maximum value 3739.5 and a mean equal to 610.088. The return on equity ranges from a minimum value of 0.18705 to a maximum value of 0.501648 and a mean equal to 0.11474. The earning per share ranges from a minimum value of 0.002 to a maximum value of 0.259 and a

mean equal to 0.04651. The dividend per share on investments ranges from a minimum value of 0 to a maximum value of 0.185 and a mean equal to 0.02682.

**Correlations**

The correlations between the variable ROE, EPS, DPS, and MSP are shown in the table 3.

**Table-3: Correlations**

N for each variable = 96		ROE2011	EPS2011	DPS2011	MSP2011
ROE2011	Pearson Correlation	1	.856**	.837**	.729**
	Sig. (2-tailed)		.000	.000	.000
EPS2011	Pearson Correlation	.856**	1	.933**	.790**
	Sig. (2-tailed)	.000		.000	.000
DPS2011	Pearson Correlation	.837**	.933**	1	.759**
	Sig. (2-tailed)	.000	.000		.000
MSP2011	Pearson Correlation	.729**	.790**	.759**	1
	Sig. (2-tailed)	.000	.000	.000	
**. Correlation is significant at the 0.01 level (2-tailed). Source: done by the author depending on SPSS calculations					

As shown in table, the analysis of the coefficient of correlation R shows that the correlation is very strong among DPS and EPS, DPS and ROE, EPS

and ROE whilst it is strong among MSP and ROE, MSP and DPS, and EPS and MSP

**Regression**

**Determination Coefficient Test (R2)**

The coefficient of determination (R2) aims to measure how far the ability of the model in explaining the variation of the dependent variable. The coefficient of determination is zero and one. To explain the variation MSP, table is presented:

**Table-4: Model Summary**

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.933 <sup>a</sup>	.870	.848	211.142569
a. Predictors: (Constant), DPS2011, AUB, AGLTY, KPROJ, BPCC, ALQURAIN, ZAIN, KFH, BURG, KIB, MABANEE, HUMANSOF, EPS2011, ROE2011 Source: done by the author depending on SPSS calculations				

The estimated model has a good explanatory power, since it can explain 87% of the variability of dependent variable (shown by the R-square). The adjusted R-square is 84.8%. This indicates that percentage of variation of MSP is affected by the

variation of ROE, EPS and DPS variables with the obtained Adjusted R Square value of 0.848. Moreover, the overall model is significant, shown by its F-statistic (38.89) in table, and the significance of F-statistic (at the 1% level).

**Table-5: ANOVAa**

Model		Sum of Squares	df	Mean Square	F	Sig.	Durbin-Watson
1	Regression	24272506.779	14	1733750.484	38.890	.000 <sup>b</sup>	
	Residual	3611075.926	81	44581.184			1.191
	Total	27883582.705	95				
a. Dependent Variable: MSP2011							
b. Predictors: (Constant), DPS2011, AUB, AGLTY, KPROJ, BPCC, ALQURAIN, ZAIN, KFH, BURG, KIB, MABANEE, HUMANSOF, EPS2011, ROE2011							

**Table-6: Coefficientsa**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	309.839	93.710		3.306	.001
	KIB	-218.193	109.290	-.112	-1.996	.049
	BURG	-96.577	109.566	-.050	-.881	.381
	KFH	145.131	108.124	.074	1.342	.183
	KPROJ	-163.355	111.533	-.084	-1.465	.147
	MABANEE	314.797	137.146	.161	2.295	.024
	BPCC	-558.505	128.070	-.286	-4.361	.000
	ALQURAIN	-338.289	108.637	-.173	-3.114	.003
	AGLTY	-88.806	110.127	-.046	-.806	.422
	ZAIN	-441.193	112.407	-.226	-3.925	.000
	HUMANSOF	-484.592	148.104	-.249	-3.272	.002
	AUB	-818.920	108.009	-.420	-7.582	.000
	ROE	-821.351	969.620	-.132	-.847	.399
	EPS	7943.535	2070.831	.588	3.836	.000
DPS	9472.350	2937.534	.559	3.225	.002	

a. Dependent Variable: MSP2011  
Source: done by the author depending on SPSS calculations

**From the above table these findings can be extracted**

- The constant is equal to 309.839; this means that if there is no change in the variable ROE, EPS, and DPS, MSP remains at 309.839.
- ROE variable regression coefficient is obtained at 8251,212, this means that if the ROE increases by 1 unit, it will decrease MSP by 821.351 or vice versa but it is not statistically significant.
- EPS variable regression coefficient value obtained at 7943.535 this means that every increase in EPS by 1 unit will cause MSP to rise by 7943.535 and it is statistically significant on 1%
- Regression coefficient value of DPS variable is 9472.35, this means that every increase in MSP by 1 unit will stock prices to rise 9472.35 and it is statistically significant on 5%.
- The coefficients of the dummy variable (companies) show the differences between each dummy variable and (KIB) as reference category.

**CONCLUSION**

ROE has negative predictive relationship. This study examined the relationship between the ROA, ROE and ROI ratios simultaneously prices during the period (2011-2018). Fixed effect panel regression models were used to test the hypotheses of the study. Correlations between variables were done. Additionally, descriptive statistics for each variable were done. Based on the results of the study, the following conclusions can be made: First, the analysis of the two variables of EPS and DPS together showed a strong and positive relationship with share prices whilst ROE showed a negative one and a strong explanatory power as an overall model. Second, ESP and DPS showed significant relation while ROE showed insignificant predictive relationship with market share prices of Kuwait listed companies.

**REFERENCES**

1. Peavler R. How to calculate market price per share.2017. <https://www.thebalance.com/what-is-the-market-price-pershare-393220>.
2. Kabajeh MA, Al Nuaimat SM, Dahmash FN. The relationship between the ROA, ROE and ROI ratios with Jordanian insurance public companies market share prices. *International Journal of Humanities and Social Science*. 2012 Jun;2(11):115-20.
3. Marashdeh HA. *International Research Journal of Finance and Economics*.2012.
4. Damodaran A. Return on capital (ROC), return on invested capital (ROIC) and return on equity (ROE): Measurement and implications. *Return on Invested Capital (ROIC) and Return on Equity (ROE): Measurement and Implications (July 2007)*. 2007 Jul 1.
5. Al-Khalayleh M. The Association between Market Based Performance Measures and Accounting Performance Measures in the Long Run. *Dirasat Journal*. 2001;28(1):93-110.
6. Kenn-Ndubuisi JI. Effects of financial leverage on corporate growth in Nigeria (Unpublished doctoral thesis). Rivers state University, Port Harcourt. 2018.
7. Seetharaman A, Raj JR. An empirical study on the impact of earnings per share on stock prices of a listed bank in Malaysia. *The International Journal of Applied Economics and Finance*. 2011;5(2):114-26.
8. Siyanbola TT, Adedeji SB. *Financial accounting*.2014.
9. Gordon MJ. Optimal investment and financing policy. *The Journal of finance*. 1963 May 1;18(2):264-72.

10. Khan KI. Effect of dividends on stock prices—A case of chemical and pharmaceutical industry of Pakistan. *Management*. 2012;2(5):141-8.
11. Hussainey K, Oscar Mgbame C and Chijoke-Mgbame AM. Dividend policy and share price volatility: UK evidence. *The Journal of risk finance*. 2011; 12(1), 57-68.
12. Amahalu N, Chinyere O, Nweze C, Okoye EI. Effect of Financial Leverage on Dividend Policy of Quoted Conglomerates in Nigeria.
13. Amahalu N, Agbionu C, Chinyere O. Effect of human resource accounting on profitability of selected quoted telecommunication firms in Nigeria. 2017.
14. Ikhatua OJ. Accounting information and stock volatility in the Nigerian Capital Market: A GARCH analysis approach. *International Review of Management and Business Research*. 2013 Mar 1;2(1):265.
15. Taher NM, Al Jabab AS. Galvanic corrosion behavior of implant suprastructure dental alloys. *Dental Materials*. 2003 Jan 1;19(1):54-9.
16. Perveen S. The Value Relevance of Accounting Information: An Empirical Analysis of Banking Sector of Pakistan. *Journal of Marketing and Information Systems*. 2019 Feb 27;1(2):10-7.
17. Miller M, Modigliani F. Dividend policy, growth, and the valuation of shares. 1961.
18. Abu Shanab SA. The Impact of Returns and Risks on share prices. An Applied Study on Industrial Corporations listed at Amman Stock Exchange, unpublished Doctorate Thesis, and Arab Amman University for Higher Studies, Amman, Jordan. 2008.
19. Mirfakhr-Al-Dini SH, Dehavi HD, Zarezadeh E, Armesh H, Manafi M, Zraezadehand S. Fitting the relationship between financial variables and stock price through fuzzy regression case study: Iran Khodro Company. *International Journal of Business and Social Science*. 2011 Jun 1;2(11).
20. Somoye RO, Akintoye IR, Oseni JE. Determinants of equity prices in the stock markets. *International Research Journal of Finance and Economics*. 2009 Aug;30(13):177-89.
21. Rahgozar R. Relationship Between Total Stock Returns and Stock Prices, with Selected Financial Variables, Market Risk, and their Variations. Midwest Finance Association Chicago. 2011:2-5.
22. Al-Tamimi HA, Alwan AA, Abdel Rahman AA. Factors affecting stock prices in the UAE financial markets. *Journal of Transnational Management*. 2011 Mar 11;16(1):3-19.
23. Anwar Y, Rahmalia L. The effect of return on equity, earning per share and price earnings ratio on stock prices. *The Accounting Journal of Binaniaga*. 2019 Jul 29;4(01):57-66.
24. Hejase AJ, Hejase HJ. Research methods: A practical approach for business students. Masadir Incorporated. 2013.
25. Allison PD. Fixed affects regression models. Los Angeles: Sage.2009.