

Abstract

This study investigates the perceptions of investors of UAE stock exchange to independence of external auditors, quality of reported earnings, reliability and relevance of financial statements of companies listed on Dubai Financial Market and Abu Dhabi Securities Market (ADSM).

This study seeks to achieve three basic objectives:

1. To give a snapshot of the investors' perceptions about the status of external auditors and their confidence in the reliability and relevance of audited financial statements and the quality of the reported earnings.
2. To draw the necessary policy implications.
3. To narrow the literature gap on the subject which exists at present.

The majority of share dealers questioned the quality of reported profits (earnings) and have indicated a number of tactics they think management of listed companies use to manipulate profits. They also indicated the ways they use to make up for this. Nonetheless, the majority of both female and male share dealers are of the view that financial statements of listed companies are reasonably reliable and relevant to use, *inter alia*, to choose the shares they buy and sell. Likewise, the majority of share dealers have maintained positive attitudes to independence of external auditors. The fact that there are no cases of listed company failures on Dubai Financial Market and Abu Dhabi Securities Market and the fact that the auditing profession of UAE is well regulated, have contributed to these positive attitudes.

On the whole, therefore, the research findings confirmed that both female and male dealers have the same attitudes on almost all the issues involved. These attitudes and perceptions are more or less in line with previous research findings. However, when it comes to the investors' response to the current share crisis, there is a good reason to believe that this aspect seems to be gender-sensitive. This is because many female investors have opted for selling more shares than buying. Male investors, on the other hand, continued to take risk and invest in the share market in 2007 and 2008. Thus, conclusions of this study tend to confirm previous findings on female investors tendency to avoid risk (Stotsky, 2006).

Perceptions of Share Traders on the United Arab Emirates' (UAE) Stock Exchange to Independence of External Auditors, Quality of Reported Earnings, Reliability and Relevance of Financial Statements of Listed Companies*

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1.Introduction

1.1 Background to the Research Problem

For a long time,investors on the stock exchange have found the traditional financial statements(income statement,blalance sheet and statement of cash flows) of the listed companies very useful to help them decide whether to buy,hold or sell shares.Empirical research in USA,Australia and New Zealand had confirmed that investors do not only use these traditional financial statements for investment purposes,but also value the assurance services provided by the external auditors(Chang and Most,1985,Hawkins and Hawkins,1985,Epstein and Pava,1993, and Courtis,1982).

The recent scandals which involved big US companies such as World Com.Qwest Communications,Xerox,Tyco,Ahold,Elan and Enron,however,had raised many questions on the auditor independence,reliability and relevance of audited financial statements the world over.In particular,the collapse of Enron,which used to be a darling of Wall Street and the consequent collapse and takeover of the auditing company Arthur Anderson,formerly one of the big five companies in the auditing business,has raised concerns about the need for radical reform and cast doubts on the future of the auditing profession(Citron,2003).

Because these recent financial reporting failures in US had caused massive financial losses for investors,and since the accounting and the auditing professions has partly contributed to this failure,this situation leads to crucial loss of trust and even a danger of loss of public confidence in the system itself.It is no wonder,therefore,that a 2001 survey of over 400 US investors has concluded that the perceived reliability of financial statements decreased over the last five years and that the perceived auditor independence has declined over the same period(Hodge,2003,Citron,2003).It is because of this and other reasons,there is now a lot of litigation involving external auditors and other third parties.Thus, "Despite efforts to address legal liability of certified public accountants (CPAs),both the number of lawsuits and size of awards to plaintiffs remain high,including suits involving third parties under both common law and the federal securities acts"of USA(Arens et al,2003).

These recent scandals and financial failures in US had many implications for regulation of the accounting and the public auditing professions across the world.In US,for instance,the Sarbanese-oxley Act 2002 was introduced in a serious bid to respond to the loopholes that might have caused these financial reporting failures.Moreover,a number of approaches had been put forward to reform the public auditing profession such as firing the external auditors,revisiting the external auditor's incentives and quality control procedures,the free market approach,the tax inspector model,appointment of auditors by the stock exchange and the gradual reform option based on client's audit committees(Citron,2003).While these approaches are not without problems,they indicate the serious efforts made by the regulators who are keen to restore the public confidence in the auditing profession.

Nonetheless,recent research suggests that ,notwithstanding these scandals in USA,investors on the stock exchange elsewhere continue to use financial statements for investment decisions.A study by Chan and Hsu(2005)in Hong Kong and another one by Stainbank and Pebbles(2006)in South Africa concluded that investors have read and used

financial statements published in the annual report of listed companies to make investment decisions.

1.2. Research Questions

This empirical research is an endeavor to replicate similar studies on the subject, especially the one by Hodge 2003 on the status of the public auditing profession and perceived reliability and relevance of audited financial statements of companies listed on Dubai Financial Market (DFM) and Abu Dhabi Securities Market (ADSM). More specifically, this study poses the following research questions:

Question 1:

How do female and male traders perceive the quality of earnings of listed companies, reliability and relevance of financial statements and independence of external auditors of companies listed on DFM and ADSM?

Question 2:

Do female and male traders use financial statements published by the listed companies to buy and sell shares on DFM and ADSM?

It is worth mentioning here that originally this research was meant to focus only on female traders along GERPA research policies and priorities. However, on the basis of constructive comments of participants of the research workshop organized by GERPA in Kuwait Dec. 2006, who thought that the topic is not gender sensitive, the researcher decided to extend the scope of the study to include also male traders for gender balance.

1.2 Research Objectives

This study seeks to achieve three basic objectives:

1. To give a snapshot of the investors' perceptions about the status of external auditors and their confidence in the reliability and relevance of audited financial statements and the quality of the reported earnings.
2. To narrow the literature gap on the subject which exists at present.
3. To draw the necessary policy implications for efficient functioning of the market. To this effect, the researcher plans to organize a one-day seminar for disseminating the research results. Concerned government and private policy makers such as ESCA, DFM, ADSM, EBWC, and FCCI will be invited to participate in this seminar. In addition, the researcher plans to publish findings in an article in one of the reputable journals of UAE.

2. Research Methods

2.1 Use of Questionnaire Surveys

The selection of a particular research design primarily depends on the nature of the research question(s) and the available resources. Because this research aims at soliciting the opinion of as many dealers on DFM and ADSM as possible, and because GERPA is funding this research, it makes use of the questionnaire method. Another reason for using the questionnaire survey method is because "questionnaires can be an

effective means of gathering a wide range of complex information on individuals or organizations on a comparable basis.”(Ticehurst and Veal,2000).The researcher therefore designed a questionnaire to answer the research questions.

2.2 Sampling Strategy(Method)

Normally,a researcher has the choice to choose the sampling method that suits the study most.For that matter,a range of random/probability sampling designs(such as simple random sampling,stratified random sampling and cluster sampling)and non-random/non-probability sample designs (such as quota sampling,accidental sampling,judgemental sampling and snowball sampling)are available to researchers(Kumar 2005).

As far as this study is concerned,the researcher chose the non-random strategy of accidental sampling.Accordingly,the researcher and his assistant have administered the questionnaire among male and female investors available in the share dealing halls of DFM and ADSM at the time of data collection.The reasons for this is two-fold.First of all the researchers have tried to persuade the investors to complete the questionnaire after the dealing hours or at home and bring it next time they come to the dealing hall.Given the sharp downturn of the market,sending and receiving the questionnaire by post would have resulted in an even lower response rate.The second reason is that the sampling frame(i.e. a list of investors) was not made available by the stock market authorities and the brokers’ offices to the researcher.This type of information is always considered sensitive and confidential.Accidental sampling,therefore,was the best choice based upon convenience in accessing the sampling population.

2.3 Sample Size

Initially,the researcher aimed at collecting data from a representative sample of both male and female investors.However,because of the market downturn,the response rate turned out to be very low.Out of the 200 questionnaires given to male investors,only 40 questionnaires were completed and handed over/posted to the researcher.The response of the female investors was not good either.Out of the 400 questionnaires given to female investors,only 78 were completed and handed over/posted to the researcher.

Table 1 below shows the profile of both female and male share dealers in terms of type of dealers,types of shares they trade,the dealers’ nationality,the dealers’ education level,the dealers’ education background,and the dealers’ frequency of buying and selling shares they trade.A closer look at the table indicates that the respondents come from all walks of life,that is,investor type(common and preferred shareholders,speculators and investors),nationality,education level and background.Although the sample size is still very small,this is an asset.

Table 1:Profile of Female and Male Share Dealers on DFM and ADSM

	No.(%)of female dealers	No.(%)of male dealers	Combined No.(%)of female &male dealers
1.Type of dealers:			
a.individuals	78(100%)	37(97%)	115(97%)

b.corporate(institutional)	0(0%)	3(3%)	3(3%)
2.Type of shares traded:			
a.common	50(64%)	25(68%)	75(65%)
b.preferred	26(33%)	12(32%)	38(33%)
C,others(national bonds)	2(3%)	0	2(2%)
3.Dealers' nationality:			
a.UAE nationals	37(54%)	13(45%)	50(52%)
b.GCC nationals	3(4%)	2(7%)	5(5%)
c.Other Arab nationals	25(37%)	14(48%)	39(40%)
d.Other nationalities.	3(4%)	0	3(3%)
4.Dealers' education level:			
a.General secondary school	14(18%)	5(13%)	19(16%)
b.Diploma	18(23%)	5(13%)	23(19%)
c.Bsc	41(53%)	23(57%)	64(54%)
d.Msc	4(5%)	4(10%)	8(7%)
e.Ph.D	0	2(5%)	2(2%)
f.Other	1(1%)	1(2%)	2(2%)
5.Dealers' education background:			
a.General secondary schooling	14(21%)	3(8%)	17(16%)
b.commerce/business administration	20(30%)	15(42%)	35(34%)
c.accounting	15(22%)	12(33%)	27(26%)
d.other social sciences	12(18%)	2(6%)	14(14%)
e.applied sciences	6(9%)	4(11%)	10(10%)
6.Frequency of buying and selling shares by dealers:			
a.Less than a month	20(37%)	9(36%)	29(37%)
b.1-3 months	4(7%)	6(24%)	10(13%)
c.4-6 months	5(9%)	3(12%)	8(10%)
d.7-11 months	6(11%)	5(20%)	11(14%)
e.12 months or more.	19(35%)	2(8%)	21(26%)

To supplement this low response rate, the researcher has conducted limited interviews with some male and female dealers. The objective is to make use of the interview's main advantage of giving the researcher the chance to probe further some issues that might come up during the discussion (Brenner et al, 1985). Furthermore, the researcher also got hold of some documents prepared by relevant bodies such as ESCA and used as a secondary source of data. Al-Khaleej Al-Iqtisadi (Economic Gulf) Daily Newspaper also proved to be an invaluable source of data.

Evidently, therefore, ***the sample size of this study is very small and is not representative***. Hence, it is worth stressing here that the results of this study ***can only offer information about this sample and cannot be generalized to the population of male and female investors on the UAE stock exchange***. In fact, the novelty of this project is in

its attempt to gauge female and male investors' perceptions through a survey instrument. Future research can capitalize on the findings of this exploratory study and do more extensive work in UAE and other GCC countries. *Care must therefore be taken when interpreting these results or making inferences therefrom.*

2.4 Data Analysis

Because of the exploratory nature of this research and the simplicity of the questionnaire, the statistical analysis was done at a low level. Accordingly, the researcher prepared frequency and percentage distributions in tabular forms. This will help the researcher to summarize the respondents' views on various issues, present them in a comprehensible manner, interpret the research findings and draw appropriate conclusions and policy implications. This method is similar to the one used by Stainbank and Peebles (2006) in a similar study.

3. Empirical Research Findings

3.1 Share Traders' Confidence in the Quality (Accuracy) of Reported Earnings (Profits) of Companies Listed on DFM and ADGM

Table 6 below summarizes the respondents' opinion on the fairness of financial statements of listed companies, the frequency of manipulating the reported profits by management, the tactics management uses to manipulate the reported profits and the dealers' strategies to overcome the possibility of profit manipulation by management.

Table 6: Share Dealers' Opinion on Fairness (Accuracy) of Reported Earnings (Profits)

	No. (%) of female dealers	No. (%) of male dealers	Combined no. (%) of female and male dealers
1. Share dealers' opinion on fairness (accuracy) of reported earnings (profits):			
a. always accurate (fair),	25 (38%)	6 (15%)	31 (30%)
b. sometimes accurate,	34 (52%)	31 (79%)	65 (62%)
c. never accurate.	7 (10%)	2 (5%)	9 (8%)
2. Share dealers' opinion on frequency of manipulating earnings (profits) by management:			
a. managers always manipulate profits,	18 (31%)	5 (15%)	23 (25%)
b. managers sometimes manipulate profits,	33 (56%)	26 (76%)	59 (63%)
c. managers never manipulate reported profits.	8 (13%)	3 (9%)	11 (12%)
3. Share dealers' opinion on management's tactics to manipulate reported profits:			
a. boosting earnings with one-time gains,	30 (61%)	11 (32%)	41 (49%)
b. use of inappropriate expense recognition practices,	7 (14%)	3 (9%)	10 (12%)
c. use of inconsistent accounting practices,	10 (21%)	14 (41%)	24 (29%)

d.other tactics.	2(4%)	6(18%)	8(10%)
4.Dealers' strategies to respond to management's tactics of manipulating reported profits:			
a.comparison of company's accounting practices with those of the industry	12(18%)	11(39%)	23(22%)
b.review of recent changes in accounting practices,	11(17%)	8(21%)	19(18%)
c.postponement of some discretionary expenses such as R&D,	14(21%)	2(5%)	16(16%)
d.assessment of disclosure of contingent liabilities,	9(14%)	5(13%)	14(14%)
e.review of management report attached to the financial statements	13(20%)	9(24%)	22(21%)
f.other	6(9%)	3(8%)	9(9%)

A quick look at Table 6 gives the impression that the majority of female and male respondents do not seem to take the accuracy of earnings(profits)companies publish in their financial statements for granted.Thus,41(62%)of the female respondents,to say the least,tend to cast doubts on these reported profits and consider them sometimes accurate or never accurate at all.In the male section of respondents the lack of confidence in the reported profits is even higher.33(84%)of them consider the reported profits as either accurate only sometimes or are not all together.The combined number and percentage of female and male share dealers who have the same attitudes,that is 74(70%)tend to confirm this conclusion.Again,the number and percentage of female and male dealers who maintain that managers either sometimes or always manipulate reported profits tend to suggest that share dealers have their doubts on the accuracy of these figures.In total,82 (88%)female and male share dealers believe that managers either sometimes or always attempt to show higher profits than their companies actually make.However,it is worth mentioning that a minority of 31(30%)of the female and male dealers think that the reported profits of the companies are always accurate.These dealers are encouraged by the fact these companies have internal and external auditors and are monitored by ESCA through the regulations of corporate governance.Other dealers believe that listed companies cannot manipulate their profits because they are keen on their goodwill.

3.2 Share Dealers' Perception on How Management Manipulates Reported(Earnings(Profits))

It is also interesting to note that the share dealers know and have identified a range of the tactics management of listed companies use to boost profits unrealistically.These are shown on Table 6 above.Thus,41(49%) female and male share dealers have indicated that management uses one-time gains to boost their reported profits.Some of them,apparently with a good background in accounting and business administration,have cited examples of such manipulation.These include showing profits of other investment such as shares,as part of the annual net profit figures without classifying them as non-operating profits.Another example was the reevaluation of real estate property at higher prices which results in huge profits.It is because of these practices that some share investors "have raised serious questions in the general annual

meetings of these companies on the logic of showing huge profits because of reevaluation of their real estate properties and land. They maintain that these fictitious profits may not be sustainable in future if prices go down” (Al-Khaleej Al-iqtisadi, October 25, 2006, Issue 10020). The reason why these companies can opt for these practices is because there are no generally accepted accounting principles in UAE which these companies can otherwise follow. Instead accountants from different nationality backgrounds use different accounting practices of their countries or the ones they studied at the university. Moreover, the disclosure requirements of ESCA stop short of forcing listed companies to adopt the international financial reporting standards (IFRSs) as we have already argued.

3.3 Share Dealers’ Strategies to Mitigate the Impact of Profit Manipulation by Management

Asked about how they overcome this possible problem of profit manipulation by management, both female and male share dealers have suggested a number of strategies, as shown on Table 6 above, they use to mitigate this possibility. Other share dealers, who have little or no knowledge in accounting and who lack confidence in the accuracy and reliability of the financial statements of listed companies, they decided to rely on other means to select the shares they trade in.

3.4 Share Traders’ Opinion on Reliability of Financial Statements of Companies Listed on DFM and ADSM

Table 7 below shows the opinion of share traders on the reliability and relevance of financial statements prepared by companies listed on DFM and ADSM. Female and male share dealers seem to be very much divided on the issue. Thus, while only 18 (28%) female dealers tend to think that the reliability of financial statements has decreased over the last five years, a significant number of 18 (51%) of the male share dealers seem to think that the reliability of financial statements has decreased over the same period. Likewise, 47 (72%) of female dealers think that the reliability of financial statements has either increased or not changed over the last five years. Only 17 (48%) of the male dealers share the same view. Combined together, however, 64 (64%) female and male are convinced that the reliability of financial statements of listed companies either increased or has not changed at all.

Table 7: Share Dealers’ Perceptions on Reliability and Relevance of Audited Financial Statements of Companies Listed on DFM and ADSM

	No. (%) of female dealers	No. (%) of male dealers	Combined no. (%) of female and male dealers
1. Dealers’ perceptions to reliability of audited financial statements over the last five years:			
a. reliability of financial statements has	18 (28%)	18 (51%)	36 (36%)

decreased,			
b.reliability of financial statements has increased,	32(49%)	11(31%)	43(43%)
c. reliability of financial statements has not changed.	15(23%)	6(17%)	21(21%)
2.Dealers' perceptions to relevance of audited financial statements to buy/sell shares:			
a.relevance of financial statements has decreased	22(33%)	5(15%)	27(27%)
b. relevance of financial statements has increased	27(40%)	18(55%)	45(45%)
c.relevance of financial statements has not changed	18(27%)	10(30%)	28(28%)

As far as the relevance of financial statements for investment decisions is concerned, a significant number of both female and male share dealers seem to agree on the issue. Accordingly, 45(67%) of female dealers are of the view that the relevance of financial statements for investment decisions has either increased or not changed over the last five years. More male share dealers, that is, 28(85%) have the same attitudes. Combined together, 73(73%) of female and male dealers agree that the relevance of financial statements has either increased or not changed over the last five years. Thus, although a significant number of female and male dealers tend to doubt the accuracy and reliability of reported profits, there is no doubt that the majority of them still consider financial statements relevant for deciding on the shares they buy and sell.

3.5 Share Traders' Confidence in the Independence of External Auditors of Companies Listed on DFM and ADSM

Table 8 below summarizes the respondents' attitudes to external auditors' independence. The researcher attempted to investigate if the collapse of some American companies like Enron or the collapse of some companies on DFM and ADSM have influenced these attitudes. It is interesting to note that in both cases male dealers seemed to be more aware than female dealers of company failures in USA and UAE. In the case of female dealers only 28(38%) have heard of or read about the collapse of Enron whereas 23(60%) of male dealers have been aware of it one way or another. Likewise, only 18(24%) of the female dealers had been aware of company failure compared to 18(45%) of the male traders. However, when it comes to the effect of such knowledge on the traders' attitudes to independence of external auditors, both female and male traders have made it clear that such company failures had never impacted on their attitudes to external auditors' independence. Furthermore, close investigation of the alleged collapse of companies on DFM and ADSM have revealed that such cases did not exist. Instead, the respondents are referring to the legal cases of fictitious share dealings involving a leading bank. The dealers' attitudes of 48(65%) of female traders and 21(60%) of male dealers to external auditors' independence have not been affected by knowledge of collapse of Enron. In total, the attitudes of 69(63%) of both female and male dealers have not been

biased by the collapse of Enron. Many dealers explained this on the basis that Enron operated in a different environment and that the public(external) auditing profession is well regulated in UAE. The same conclusion can be drawn about the impact of knowledge of collapse of companies on DFM and ADSM on attitudes to UAE external auditors' independence. Such failures did not exist so far. This is also partly because both DFM and ADSM are relatively young, that is, seven years' old.

Table 8: Perceptions of share dealers on external auditors' independence

	No.(%)of female dealers	No.(%)of male dealers	No.(%)of female and male dealers
1. Dealers' awareness of collapse of American listed companies such as Enron:			
a. Yes	28(38%)	23(60%)	51(45%)
b. No	47(62%)	15(40%)	62(55%)
2. Effect of dealers' awareness of collapse of some American companies on attitudes to external auditors' independence:			
a. Yes	26(35%)	14(40%)	40(37%)
b. No	48(65%)	21(60%)	69(63%)
3. Dealers' awareness of collapse of some companies on DFM/ADSM:			
a. Yes,	18(24%)	18(45%)	36(31%)
b. No.	57(76%)	22(55%)	79(69%)
4. Effect of dealers' awareness of collapse of some companies on DFM/ADSM on attitudes to external auditors' independence:			
a. Yes,	18(24%)	15(43%)	33(30%)
b. No.	56(76%)	20(57%)	76(70%)
5. Dealers' awareness of litigation involving auditors, clients and third parties in UAE:			
a. Yes,	15(22%)	6(19%)	21(21%)
b. No.	51(77%)	26(81%)	77(79%)
6. Dealers' attitudes to external auditors' independence in UAE:			
a. auditors are less independent now than they used to be five years ago,	23(38%)	14(41%)	37(38%)
b. auditors are more independent now than they used to be five years ago,	38(62%)	20(59%)	58(61%)
c. external auditors' independence has not changed over the last five years	0	0	0

Moreover, the majority of both female and male dealers have not been aware of legal litigation involving external auditors, clients and third parties in UAE. 51(77%) of

female dealers, 26(81%)of male dealers and 77(79%)of both female and male dealers have not heard or read about such litigation.This shows that such cases are rare in UAE.This indicates that the auditing profession in UAE still enjoys a wide public respect and confidence notwithstanding the bad image of the profession worldwide especially in USA(Arens et al,2003).It is no wonder therefore that the majority of respondents believe that external auditors in UAE are more independent now than they used to be five years ago.Thus,38(62%)of female traders,20(59%)of male dealers and 58(61%) female and male dealers are of the view that external auditors of UAE are independent.These positive attitudes can be attributable in part to the good regulation of the auditing profession of UAE.It is also due to the fact that almost all the publicly listed companies on DFM and ADASM are keen to be audited by either the big four or reputable accounting firms.In addition,some dealers are also encouraged by the fact that the State Audit Institution of UAE is also entitled to externally audit some of the companies with government participation.

However,it would be erroneous to conclude that all dealers are happy about external auditors.This is because 37(38%)of female and male dealers think that external auditors of UAE are less independent now than they used to be five years ago.This group of traders are likely to be affected by the aftermath of the collapse of Enron,formerly a darling company of Wall Street which many investors are keen to trade its shares.The subsequent takeover of Arthur Anderson,which was once one of the ‘Big Five’in the auditing profession,is also partly to blame for such negative attitudes.

3.6 How Do Share Dealers Go About Choosing the Shares They Buy and Sell?

Table 9 below summarizes the dealers’ means of choosing the shares they buy and sell.A quick look at the table suggests that female dealers,male dealers and both female and male dealers are almost equally divided between those who consult financial analysts and advisers on the shares they buy and sell and those who do not. However,when it comes to consulting spouse,close relatives and/or friends the majority of female dealers,male dealers and both female and male dealers seem to do so.This is because 56(76%)of female traders,24(62%)of male traders and 80(71%)of both female and male traders consult their spouse,close relatives and/or friends.The current turmoil in the stock market had forced many dealers to seek the advice of relatives,friends or colleagues at work place.

Table 9:Share dealers’ means of choosing the shares they buy and sell

	No.(%)of female dealers	No.(%)of male dealers	No.(%)of female and male dealers
1.Share dealers consulting financial analysts and advisers on shares they trade:			
a.Yes,	41(53%)	19(48%)	60(51%)
b.No.	37(47%)	21(52%)	58(49%)
2.Share dealers consulting others(spouse,relatives and friends)on shares they trade:			

a. Yes,	56(76%)	24(62%)	80(71%)
b.No.	18(24%)	15(38%)	33(29%)
3.Share dealers' attitudes to importance of financial statements to decide on the shares they trade:			
a.Essential,	35(45%)	27(69%)	62(53%)
b.Important,	35(45%)	8(21%)	43(37%)
c.Not important at all.	8(10%)	4(10%)	12(10%)

It is also interesting to note that, in addition to consulting financial analysts, relatives, spouses and friends, share dealers also attach high importance to financial statements of listed companies. Table 9 above suggests that 70(90%) of female dealers, 35(80%) of male dealers and 105(90%) of both female and male dealers consider these financial statements as either essential or important for deciding on the shares they buy and sell. This is in spite of some reservations expressed by a significant number of share dealers regarding accuracy, relevance and reliability of these financial statements as already discussed in previous sections. One would, therefore, expect the majority of share dealers to use these financial statements one way or another to make investment decisions. A total of 12(10%) of both female and male dealers, however, do not seem to share this view and consider these financial statements as not important at all for deciding which shares they trade. This group and other dealers have their own reasons for not using these financial statements in choosing the shares they buy and sell. These will be discussed in the next section.

3.7 Share Traders' Opinion on Usefulness and Use of Financial Statements of Companies Listed on DFM and ADSM

Table 10 below shows the respondents' reaction to questions on usefulness and use of financial statements of companies listed on DFM and ADSM for choosing the shares they buy and sell. A quick look at the table indicates that the majority of the female and male dealers are aware that these financial statements are published on the websites of DFM and ADSM and are also published on newspapers on annual basis in line with the regulations of Emirates Securities and Commodities Authority (ESCA), the government-run regulatory body in charge of the stock exchange. Thus, 37(66%) of female dealers, 18(82%) of male dealers and 55(71%) of both female and male dealers have expressed this awareness. Not only that, but again the majority of the responding dealers have made it clear that they have either visited the websites of DFM, ADSM or ESCA or read the daily newspapers to consider these financial statements for decision-making purposes. Accordingly, 40(71%) of female investors, 18(78%) of male investors and 58(73%) of both female and male dealers had a look at these financial statements on the internet or the press.

Table 10: Share dealers' use of audited financial statements to buy and sell shares on DFM/ADSM

	No.(%)of female dealers	No.(%)of male dealers	No.(%)of female and male dealers
1.Dealers' awareness of publishing audited financial statements on websites of DFM and ADSM and media:			
a.Yes,	37(66%)	18(82%)	55(71%)
b.No.	19(34%)	4(18%)	23(29%)
2.Dealers who read the press/visited websites of DFM/ADSM to study financial statements to choose shares they buy/sell:			
a.Yes,	40(71%)	18(78%)	58(73%)
b.No.	16(29%)	5(22%)	21(27%)
3.Dealers' use of audited financial statements to choose the shares they buy/sell on DFM:			
a.Yes,	43(70%)	28(88%)	71(76%)
No.	18(30%)	4(12%)	22(24%)
4.How dealers analyze financial statements to choose the shares they buy/sell:			
a.analysis of financial ratios,	9(19%)	7(23%)	16(20%)
b.use of trend analysis,	15(31%)	14(47%)	29(37%)
C.z-score analysis to predict business failure,	3(6%)	1(3%)	4(5%)
d.use of absolute profit figures to judge company performance.	21(44%)	8(27%)	29(37%)

It is also interesting to see that the majority of share dealers,irrespective of their gender,have actually used the financial statements of listed companies to decide on the shares they buy and sell.Hence,43(70%)of female dealers,28(88%)of male dealers and 71(76%)of both female and male dealers have actually used these financial statements.The respondents have identified a number of techniques they used to analyse financial statements.These include trend analysis,financial ratio analysis,z-score analysis and use of absolute profits to judge the financial performance of these companies.

However,the use of trend analysis and absolute profits were the most popular techniques used by 58(74%)of both the female and male traders.This is because of the simplicity of both techniques.Dealers find it easy to look at the absolute profit figures companies publish every quarter/year and compare it with that of the previous quarter/year.All listed companies have to make these comparisons in compliance with the regulations of ESCA.Also,16(20%)of the female and male dealers have used financial ratio analysis to assess the performance of respective companies.This group of dealers,apparently with strong education background in accounting or business administration,make use of the financial ratios which ADSM and DFM calculate and publish on their website for various listed companies on daily basis.Appendix 4 shows by way of example the financial ratios published by ADSM for the banks and financial services sector.The publication of financial statements of listed companies always affects the stock market one way or another.For instance,the UAE Stock Market Indicator has grown by 13.51% on publication of the financial results of listed companies for the first

quarter of 2007. This indicates that dealers react to these results reflected by the published financial statements (Al-Khaleej Al-iqtisadi, June 1, 2007, Issue 10239). Because it is approaching June 30, 2007 at the time of writing this report, the share prices are more or less stable in anticipation of the publication of the bi-annual financial results (statements) (Al-Khaleej Al-iqtisadi, June 22, 2007, Issue No. 10260). However, it would be wrong to conclude that the financial performance of listed companies is the only variable that affects the share price of UAE stock market as we have already argued. Speculation and rumors also affect share prices.

On the whole, therefore, the conclusions of this study tends to agree with those of previous similar studies conducted in other countries. For instance, a more recent study in Hong Kong by Chen and Hsu (2005) presents findings that indicate that although Hong Kong investors do use annual reports, they rank the usefulness of alternative information (historical information, company news and advice) higher than that supplied by annual reports (Stainbank and Peebles, 2006). However, it would be wrong to infer that all share dealers use financial statements to decide on the shares they buy and sell. Table 10 above shows that 22 (24%) of both female and male dealers do not use financial statements of listed companies for that matter. This group of dealers have given a host of reasons why they don't use financial statements. These include the following:

- i. Some users do not have access to these financial statements,
- ii. Some users do not think that these financial statements are relevant for investment decision-making. This is because the share prices are declining at a time most of the listed companies are showing high profits.
- iii. Some share dealers prefer technical analysis to financial statement analysis,
- iv. Some dealers are too busy and have no time to consider financial statements,
- v. Some dealers think that financial statements are neither important nor accurate,
- vi. Some dealers prefer to rely on the company's name rather than its financial statements. If the government or a big business family is a shareholder of a listed company then this a sufficient assurance,
- vii. Some share dealers with low education level find these financial statements too complicated to comprehend,
- viii. Some share dealers do not use financial statements for pure religious reasons. According to them, they only depend on Allah they decide which shares they buy and sell. As such, these dealers believe that consulting Almighty Allah through Istikhara is quite enough to guide them on this decision. From the religious point of view, however, the researcher does not think that the use of financial statements to choose shares and Istikhara are not mutually exclusive. This finding is very interesting and it suggests the impact of culture on the business of buying and selling shares.

4. Implications of Female Investors' Involvement in the Stock Exchange

The available statistics of ADSM, suggests that women traders account for a lower percentage. The following table shows that the value of women's share sales transactions of the first quarter of 2007, which amounts to Dhs 881,699,992, accounts for approximately 7% of the total value of share sales transactions of Dhs 13,001,124,336 for the same period. Likewise, out of the total share purchases of Dhs 13,001,124,336 for the first quarter of 2007, female dealers have bought shares to the value of Dhs 802,701,983

which amounts to 6%. Thus, on the whole, notwithstanding the female participation in the stock market of UAE, they are still a minority. Nonetheless, one would consider this as a step in the right direction of more economic participation of women.

Dealings value for the first quarter of 2007 on ADSM gender-wise (in Dirhams)*

Gender	Sale	Purchase	Total
Male	8,105,595,022	8,013,074,762	16,118,669,784
Female	881,699,992	802,701,983	1,684,401,975
Unknown	4,013,829,321	4,185,347,590	8,199,176,912
Total	13,001,124,336	13,001,124,336	26,002,248,672

Source: Administration of Information and Awareness, ADSM, May 2007.

Similarly, the following comparative statistics of DFM for January and February of the years 2006 and 2007 indicate that on average female investors accounted for 8%-9% of share dealings.

Accordingly, in January and February of 2007 the total value of shares female dealers bought was AED 1.567 billion out of a total of AED 20.469 billion bought during the same period. Likewise, female dealers sold shares during the same period to the value of AED 2.08 billion out of a total of AED 23.267 billion sold in the same period. This trend continues during March 2007 as well. During March 2007 the total value of shares female dealers bought amounted to AED 793.6 million out of a total of AED 10.96 billion bought by both men and women. Moreover, during the same month women dealers in shares on DFM sold shares to the value of AED 1.021 billion out of a total of AED 11.338 billion (Al-Khaleej Al-Iqtisadi, Sunday April 1, 2007, Issue No. 10178).

Naturally, women dealers on the UAE stock exchange entered this business to take advantage of the booming financial markets and make money (Al-Iqtisad Al-Islami, Issue No. 305, September 2006).

Table 1: Distribution of Share Dealings on DFM Gender-wise
1/1/2006-31/1/2006

Gender	Dealings Value (Buying in Dhs)	Dealings Volume (Buying in Share numbers)	No. of Transactions (Buying)	Dealings Value (Selling in UAE Dhs)	Dealings Volume (Selling in Share numbers)	No. of Transactions (Selling)
Women	1882037490	174988443	14896	1835062276	167611703	14324
Men	21760729227	1955822086	153248	21429706118	1933190718	152379

1/2/2006-28/2/2006

Gender	Dealings Value (Buying in Dhs)	Dealings Volume (Buying in Share numbers)	No. of Transactions (Buying)	Dealings Value (Selling in UAE Dhs)	Dealings Volume (Selling in Share numbers)	No. of Transactions (Selling)
Women	2759327695	207516755	17156	2760001837	205836351	16973
Men	31955780032	2374677046	167685	33200079501	2447835074	171315

1/1/2007-31/1/2007

Gender	Dealings Value(Buying in Dhs)	Dealings Volume(Buying in Share numbers)	No.of Transactions (Buying)	Dealings Value(Selling in UAE Dhs)	Dealings Volume(Selling in Share numbers)	No.of Transactions (Selling)
Women	807474516	104913416	5991	1122109109	144863624	8499
Men	9295997509	1184682081	62945	10981090092	1356335606	68878

1/2/2007-28/2/2007

Gender	Dealings Value(Buying in Dhs)	Dealings Volume(Buying in Share numbers)	No.of Transactions (Buying)	Dealings Value(Selling in UAE Dhs)	Dealings Volume(Selling in Share numbers)	No.of Transactions (Selling)
Women	760825635	234376311	8327	958217026	259404302	13590
Men	9607420178	2571167775	87403	10206283038	2555596708	86680

*Source:Al-Khaleej Al-Iqtisadi,Friday March 2,2007,Issue No.10148.

1/1/2008-31/1/2008*

Gender	Dealings Value(Buying in Dhs)	Dealings Volume(Buying in Share numbers)	Dealings Value(Selling in UAE Dhs)	Dealings Volume(Selling in Share numbers)
Women	3968163612	918207341	3877136210	905386582
Men	43750047509	9855862303	40943520718	9421590803

Feb.1-Feb.28,2008*

Gender	Dealings Value(Buying in Dhs)	Dealings Volume(Buying in Share numbers)	Dealings Value(Selling in UAE Dhs)	Dealings Volume(Selling in Share numbers)
Women	2644677001	590352578	2981668347	652666684
Men	26849072189	5922308589	27908797685	6208635307

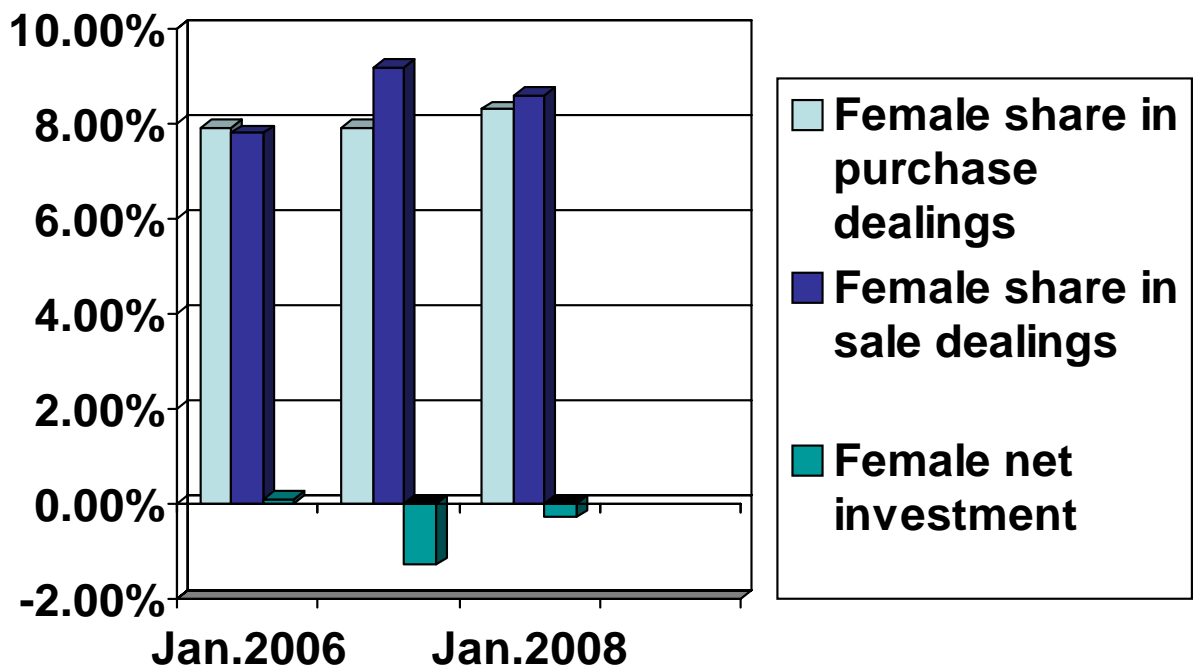
*Source:Dubai Financial Market Monthly Statistics,March 2008-04-03

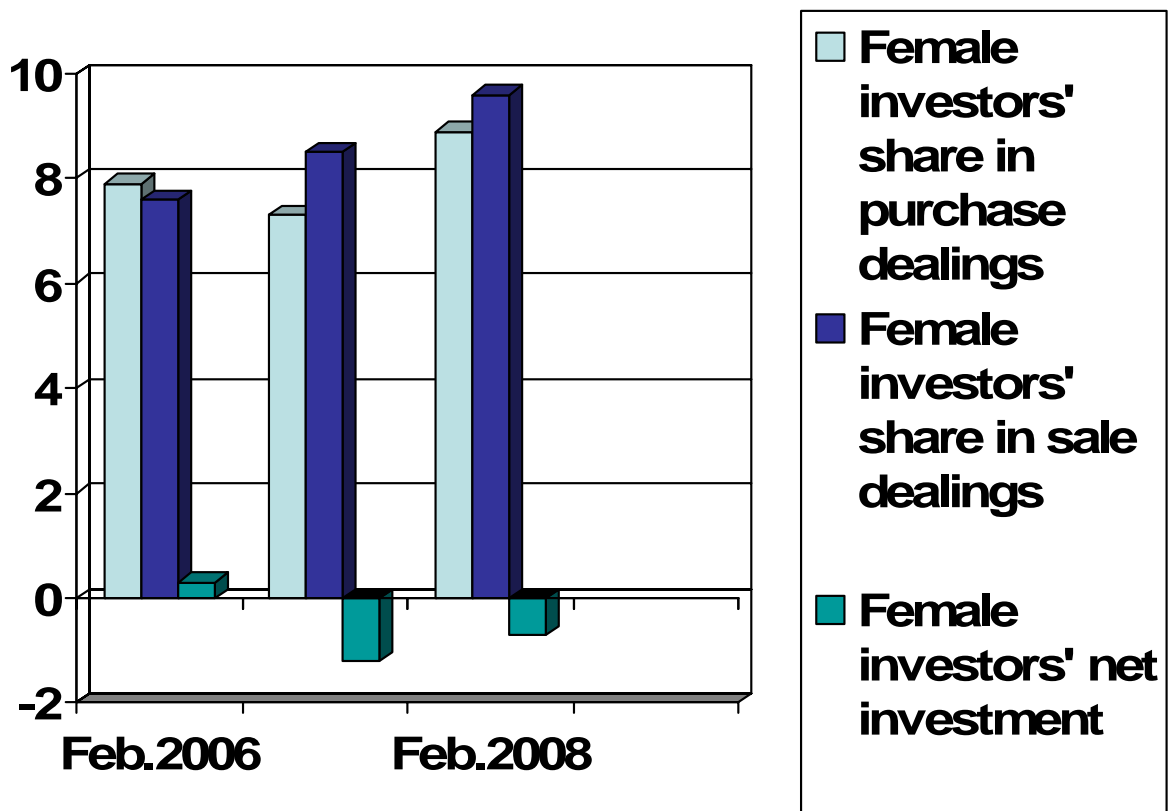
The involvement of women in the stock market, although smaller, nonetheless it indicates the ability of the market to attract this important section of the society. However, since the share price collapse late 2005 and to date, the net investment of female as well as male investors, showed a downward trend. On the basis of table 1 above, we have prepared table 2 and the diagram below which show the distribution of percentage share of female investors in purchase dealings and sale dealings in Dirhams for the same period. It is obvious that female investors are selling more shares than they are buying. This is because their net investment for January and February of 2007 and 2008 was negative. This indicates that female investors are becoming more worried about the future of share prices. Our observations during data collection also tend to confirm this conclusion. While men dealers' halls are still packed to capacity on many of our visits to DFM and ADSM, female's dealing halls, on the other hand, are mostly empty.

Table 2:Female Investors’ Percentage Share in Financial Share Purchase and Sale Dealings

	Jan.2006	Jan.2007	Jan.2008
Female investors’ share in financial purchase dealings	7.9%	7.9%	8.3%
Female investors’ share in financial sale dealings	7.8%	9.2%	8.6%
Female investors’ net investment	.1%	-1.3%	-.3%
	Feb.2006	Feb.2007	Feb.2008
Female investors’ share in financial purchase dealings	7.9%	7.3%	8.9%
Female investors’ share in financial sale dealings	7.6%	8.5%	9.6%
Female investors’ net investment	.3%	-1.2%	-.7%

Diagrammatically, the above female share investors’ share in the purchase and sale dealings on DFM can be shown as follows:



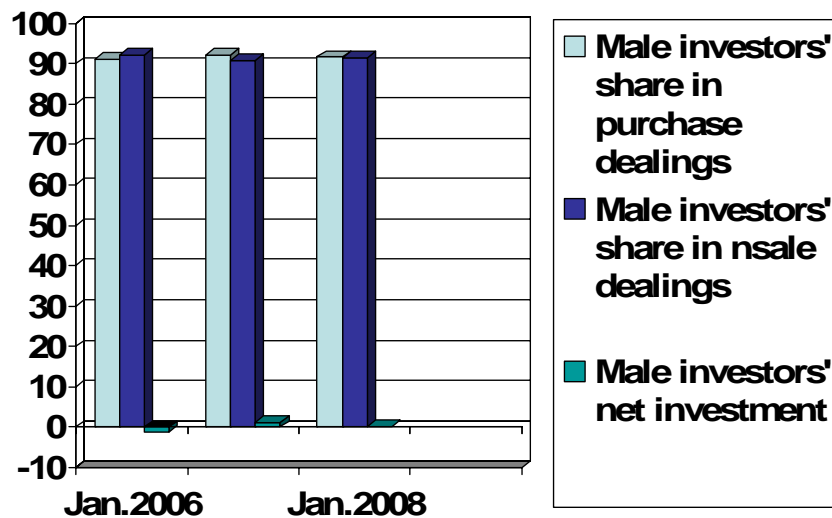
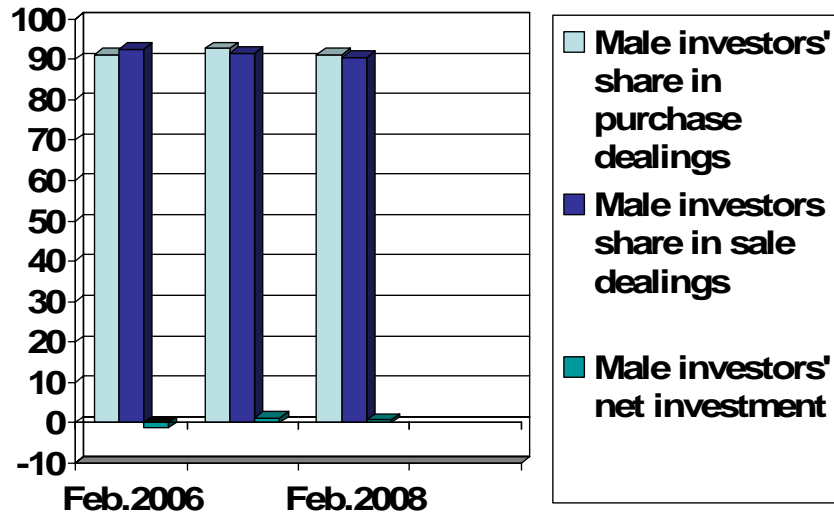


The net investment of male investors, on the other hand, seems to be on the increase, although somewhat insignificantly. Table 3 suggests that, except for Jan. and Feb. of 2006, male investors continued to invest in the stock market and bought more shares than they sold. The net investment for male investors therefore have shown a positive trend in 2007 and 2008.

Table 3: Male Investors' Percentage Share in Financial Share Purchase and Sale Dealings

	Jan. 2006	Jan. 2007	Jan. 2008
Male investors' share in financial purchase dealings	91.1%	92.1%	91.7%
Male investors' share in financial sale dealings	92.2%	90.8%	91.4
Male investors' net investment	-1.1%	1.3%	.3%
	Feb. 2006	Feb. 2007	Feb. 2008
Male investors' share in financial purchase dealings	91.1%	92.7%	91.1%
Male investors' share in financial sale dealings	92.4%	91.5%	90.4%
Male investors' net investment	-1.3%	1.2%	.7%

The following diagrams show the net investment of male investors during Jan. and Feb. of 2006, 2007 and 2008 respectively.



This in turn suggests that female and male investors have responded differently to the share crisis. Thus, while female investors have decided to avoid risk of more financial losses on the tumbling share market, male investors, apparently encouraged by lower prices, have decided to take more risk and invest more hoping to recover some of the losses they made at the beginning of the share crisis. This indicates that female investors, unlike their male counterparts, are risk-averse. In fact, this is in line with the literature conclusions in other studies which tend to label female investors as not inclined to take risk (Stotsky, 2006).

5. Conclusions and Research Implications

5.1 Conclusions

The majority of share dealers questioned the quality of reported profits(earnings) and have indicated a number of tactics they think management of listed companies use to manipulate profits.They also indicated the ways they use to make up for this. Nonetheless,the majority of both female and male share dealers are of the view that financial statements of listed companies are reasonably reliable and relevant to use,inter alia,to choose the shares they buy and sell.Likewise,the majority of share dealers have maintained positive attitudes to independence of external auditors.The fact that there are no cases of listed company failures on DFM and ADSM and the fact that the auditing profession of UAE is well regulated,have contributed to these positive attitudes.On the whole,therefore,the research findings confirmed that both female and male dealers have the same attitudes on almost all the issues involved.These attitudes and perceptions are more or less in line with previous research findings(Chang and Most,1985,Hawkins and Hawkins,1985,Epstein and Pava,1993, and Curtis,1982).

However,when it comes to the investors' response to the current share crisis,there is a good reason to believe that this aspect seems to be gender-sensitive.This is because many female investors have opted for selling more shares than buying.Male investors,on the other hand,continued to take risk and invest in the share market in 2007 and 2008.Thus,conclusions of this study tend to confirm previous findings on female investors tendency to avoid risk(Stotsky,2006).

5.2 Policy Implications of the Research Findings

As we have already argued,and in spite of the good regulation of the market,the share prices are currently fluctuating sharply and are generally showing a downward trend since late 2005.A significant number of share dealers,female as well as male,were either forced out of the market or are adopting the policy of wait and see.Even worse,the current turmoil had far-reaching social consequences on dealers.These ranged from imprisonment of dealers who defaulted repayment of loans they borrowed to buy shares to marriage break-ups(Al-Iqtisad Al-Islami Magazine,Sept.2006).The main challenge facing the government,therefore,is how to restore confidence in the share market and attract the investors who quitted the stock market.Following are some of these policy guidelines.To this effect,we suggest the following policy guidelines.In considering these policy implications,we have to bear in mind the fact that *the sample size of this study is very small and extra care has to be taken in drawing inferences from this study.*

The most important policy implication of this research is the *need to tighten the disclosure and transparency requirements*.Although regulations on disclosure and transparency are already in place and are well enforced,yet experience has shown some loopholes therein.The most important of these is the ambiguity on the accounting standards the listed companies have to use to prepare their audited financial statements.Thus,in spite of the fact that listed companies are required by the disclosure regulations to publish their audited financial statements on quarterly and annual basis,there was no provisions on which financial accounting standards they have to

use. The result is that some companies can choose the accounting standards they think will unrealistically show higher profits.

ESCA therefore needs to revise its regulations on disclosure and transparency. In this respect it would be a good idea if ESCA provides for the use of the international financial reporting standards (IFRSs). These IFRSs have the advantage of reducing variation of accounting practices. In addition, the IFRSs, which are widely used by listed companies world-wide (Choi et al, 2002), will allow these companies to get listed on foreign stock exchange. In fact the use of the IFRSs will allow DFM and ADMS to benefit most of the affiliation with the IOSCO which strongly recommends the use of the IFRSs. It is worth mentioning here that financial experts have long argued in favor of use of the IFRSs on DFM and ADMS. They believe that such move will reduce companies' tendency to show fictitious profits (Al-Khaleej Al-iqtisadi, October 25, 2006, Issue No. 10020).

5.3 Implications for Future Research

Future research on the stock market, therefore, should focus on the social consequences and costs of the collapse of share prices. Such research could focus on the various social problems share dealers experienced in the wake of share price decline. It can also investigate the various ways share dealers used to respond to the crisis such as pulling out of the market, shifting to institutional investment through funds, shifting to other types of investment such as real estate, ... etc.

The impact of culture on dealers' decision to buy and sell shares offers another interesting agenda for research. In particular, future research can focus on how religion (faith in Almighty Allah) can affect the dealers' need and use of accounting information for choosing the shares they buy and sell. It would be a good idea to investigate the importance share dealers attach to financial statements, consultation of relatives, spouses and friends and reliance on Istikhara (consulting Almighty Allah) in choosing the shares they buy and sell.

Because of the essential role of stock exchange markets in promoting economic development, a more ambitious and comparative study can be launched across the GCC countries or even better across the Arab world. Replication of such study will have important policy implications for regulation, integration and strengthening of capital markets especially the weak ones and the ones which are still at their infancy stage.

Finally, it is very interesting to pick up on the conclusions of this study regarding the response of the male and female investors to the share crisis of UAE. In this respect, it would be a good idea to assume that the female investors on the UAE stock market have responded differently to the share price crisis and took less risk than their male counterparts. Such a study should more empirical work to confirm or disconfirm this conclusion.

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