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Relationship between Corporate Attributes and Timeliness in Corporate Reporting: Malaysian Evidence

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Abstract

This study empirically investigates the timeliness of corporate reporting in Malaysia *i.e* the lead time to publish financial statements and characteristic of companies contributing to the lead time. The sample comprises of 200 listed companies on the Bursa Malaysia representing different sectors for the year ending 2007. The financial reporting lead time is 117 days which is 4 days earlier than the regulated 121days. The regression results revealed that size of the company and audit duration are having a significant relationship with the timeliness of corporate reporting. The remaining variables were found to be insignificant in relation to timeliness of corporate reporting.

Keywords: Timeliness; lead time; financial statements; bursa Malaysia; Malaysia

1.0 INTRODUCTION

Recent development on the conceptual framework has categorized timeliness as enhancing qualitative characteristics. Timeliness means having information available to decision makers before it loses its capacity to influence decisions. To be regarded as relevant information that is crucial in decision making process, financial statements must be made available to users in a timely manner. It is rather difficult to strictly determine when is considered to be on the right time.

The financial statement is commonly known as a communication tool for companies to convey their inside information to wide range of outside users. Companies need to ensure that information goes out will benefit them in terms of attracting investors and gaining market confidence.

Timeliness is of great concern because a report's usefulness may be negatively related to the reporting delay. As the delay increases, the financial information will have less importance in decision making process.[5] This study examines the compliance level of meeting the reporting dateline stipulated by the listing rules and both the company-specific factors and audit-related factors that contributed to the timeliness reporting of companies listed on the main board of Bursa Malaysia.

2.0 LITERATURE REVIEW

Dyer and McHugh[13] had pioneered the investigation into the timeliness of annual financial reporting by studying the timeliness financial reporting of Australian public listed companies and found that company size and year-end closing date were significantly associated with timely reporting. On the other hand, profitability reported no statistically significant relationship with timely reporting.

Large companies are expected to be timely reporters. At the size they are now going, they had established themselves in the market in terms of sufficient resources to sustain in the competitive market, well developed and strong internal control, closely monitored by the investors and regulators and strong customer based with good brand name. It is evidenced from prior researched that large companies report on a more timely basis than their smaller counterparts.[3,4,11,13,17] Timely reporting is expected to be influenced by profitability of a company. Companies with profit figures (good news) will be having intention to report more promptly than those with losses figures (bad news). This is because profitability reflects the efficiency of companies in managing their resources. Profit figures will portray how well the management team discharging their task entrusted by all stakeholders, especially the majority shareholders. Dogan[12] has evidenced that companies with good financial performance are having early disclosure timing. Companies with good news will have the tendency not to delay conveying the good news to the public but delaying bad news as later as they can.

It has been argued that increasing the amount of debt a firm uses, will put pressure on the firm to provide its creditors with audited financial reports more quickly.[1] The gearing ratio has been studied empirically by some researchers to assess whether it bears any relationship to audit delay. However, researchers like Carslaw and Kaplan[7] and Abdulla[1] found no significant

association between the gearing ratio and audit delay. The nature of the relationship between audit lag and gearing is vague.

Different sectors will have different characteristics i.e. different liquidity, requirements, type of assets, technology usage, overall profitability and growth rate. Prior study by Givoly and Palmon[15] has suggested that there is a significant relationship between the sector type and company's reporting behavior. On the contrary, Owusu-Ansah and Leventis[18] observed that none of the industry categories is statistically significant. Referring to the most current findings by Owusu-Ansah and Leventis,[18] this study is expecting the same outcome from the sector variable.

It is expected that the month of the year in which a company's financial year-ends would influence its reporting lead time. The empirical evidence on the relevance of 'busy audit season' reported in the literature is, however, mixed.[4,7,11] Year-end 31 December to 31 March is considered as busy period. All other months were treated as 'non-busy period'. A dummy variable is coded one (1) for 'busy audit season' and zero (0) if otherwise. Although the direction of the effect of the month of the financial year-end on reporting lead time is unclear, this study hopes to achieve positive relationship between financial reporting lead time and the busy financial year end which between December to March.

There are studies which have examined empirically the relationship between the characteristics of the audit firm (size of audit firm) and audit delay.[7,14] Whereas Gilling[14] found a significant positive relationship between the audit delay and the size of the auditing firms, Carslaw and Kaplan[7] and Davis and Whittred[11] found no significant association between the audit firm size and audit delay. It is more likely that the larger audit firms (hence, Big 4 audit firms) have a stronger incentive to finish their audits work quicker in order to maintain their reputation. This study is expecting a negative relationship between types of audit firm and financial reporting lead time.

The duration of audit is affected by the size of company, quality of internal control and complexity of company's operation.[15] As regulated in the Companies Act 1965, all company accounts have to be audited before being presented to the public. Therefore, the moment the audit start, the counting of the audit delay and reporting lag started. One of the variables being examined in this study is auditor type; whether they are the big 4 or non big 4. It is expected that big four firm will complete the audit faster than the non-big 4 firm. This study is looking at the contribution of the audit duration towards the reporting delays. As discussed above it is expected that the audit duration contributes to timely reporting.

3.0 RESEARCH DESIGN AND METHODOLOGY

Sample of this study was 200 listed companies of Bursa Malaysia, randomly selected from the different Sectoral Index Components of Bursa Malaysia. Samples companies are selected on equal proportion of the total companies in the Index to ensure that all sectors are represented proportionately.

Independent Variables used in this study are size of the company, profitability, gearing, plantation sector, property sector, consumer product sector, industrial product sector, construction sector, trading and service sector, finance sector, company's financial year-end, type of auditors and audit duration. The seven sectors variable is dummy variable and therefore one sector variable is omitted in the model which leaves something with the value of zero with which to compare each of the categories.

Dependent variable is Financial Reporting Lead Time (FRLT) which is the number of days between financial year-end and the date of announcement of a company's audited financial statements on Bursa Malaysia website.

The following Multiple Regression Model, which is assumed to hold for each sample company, was estimated. The study employed the following cross-sectional regression model:

$$FRLT = \alpha + \beta_1 SIZE + \beta_2 PROFIT + \beta_3 GEAR + \beta_4 SECTOR_1 + \beta_5 SECTOR_2 + \beta_6 SECTOR_3 + \beta_7 SECTOR_4 + \beta_8 SECTOR_5 + \beta_9 SECTOR_6 + \beta_{10} YREND + \beta_{11} AUDTYPE + \beta_{12} AUDUR + E$$

FRLT : Number of days between announcement date and year end date
SIZE : Natural log of year-end total assets
PROFIT : Return on Equity (ROE)
GEAR : Ratio of total debts to total assets
$SECTOR_1$: Plantation sector
$SECTOR_2$: Property sector
$SECTOR_3$: Consumer product sector
$SECTOR_4$: Industrial product sector
$SECTOR_5$: Construction sector
$SECTOR_6$: Trading and service sector
YREND : Financial Year End
AUDTYPE : Big 4 auditors / Non-big 4 auditors
AUDUR : Number of Days from year end to the auditor's sign date

4.0 RESULTS AND DISCUSSION

4.1 Timeliness of Reporting

Results in Table 1 indicated that ten companies (5%) failed to issue their annual audited accounts within 121 days from the date of their financial year-end. The non-complying companies are having fiscal year-end in month of March and December. For the month of March, companies took an average of 122 days which is one day longer than average of 121 days. As for the December month companies, they took an average of 123 days which is longer by 2 days than average to issue their audited accounts. Eighty-eight companies (44%) report their annual audited accounts to the Bursa in exactly 121 days after their financial year-end. The highest composition by month is from December year-end companies (54.5%), followed by month of June (18.2%) and January (11.4%). Fifty-one percent of the companies are early reporters. In average, they took about 114 days to submit their annual audited accounts to the Bursa which is 7 days earlier than the stipulated time.

Table 1 Reporting lead time

		Reporting Lead time								
Reporting month	**Mean (days)**	**On time**	**%**	**Mean (days)**	**Early**	**%**	**Mean (days)**	**Late**	**%**	**Mean (days)**
January	121	10	11.4	121	2	2.0	114	0	0.0	0
February	121	2	2.3	121	0	0.0	0	0	0.0	0
March	121	3	3.4	121	8	7.8	112	8	80.0	122
April	121	0	0.0	121	11	10.8	112	0	0.0	0
May	121	0	0.0	121	8	7.8	117	0	0.0	0
June	121	16	18.2	121	24	23.5	116	0	0.0	0
July	121	1	1.1	121	3	2.9	104	0	0.0	0
August	121	2	2.3	121	4	3.9	109	0	0.0	0
September	121	4	4.5	121	3	2.9	122	0	0.0	0
October	121	1	1.1	121	1	1.0	118	0	0.0	0
November	121	1	1.1	121	0	0.0	0	0	0.0	0
December	121	48	54.5	121	38	37.3	118	2	20.0	123
Total		88		121	102		114	10		122
%		44%			51%			5%		

Table 2 Pearson product-moment correlation matrix (n=200)

Variable	**FRLT**	**SIZE**	**PROFIT**	**GEAR**	**YREND**	**AUDTYPE**	**AUDUR**
FRLT	1.000						
SIZE	0.089	1.000					
PROFIT	-0.029	0.257**	1.000				
GEAR	0.156*	0.246**	-0.131	1.000			
YREND	0.057	-0.008	-0.136	0.066	1.000		
AUDTYPE	-0.073	0.296**	0.013	- 0.064	0.029	1.000	
AUDUR	0.545**	-0.190**	-0.050	0.062	-0.050	- 0.161*	1.000
SECTOR:							
S1	-0.059	0.046	0.052	- 0.111	0.089	0.079	- 0.084
S2	0.132	0.089	-0.022	- 0.078	- 0.045	0.026	0.121
S3	0.019	-0.178*	0.053	- 0.047	- 0.074	-0.180*	0.020
S4	0.060	-0.166*	-0.184**	0.040	0.013	-0.012	0.091
S5	-0.031	0.067	-0.004	- 0.062	0.021	0.010	0.054
S6	-0.090	-0.028	0.054	0.202**	0.027	0.050	- 0.099
S7	-0.075	0.370**	0.144*	-0.077	-0.011	0.065	- 0.165*

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the level 0.01 (2 tailed)

4.2 Result of Multiple Regression Analysis

Table 2 presents the correlations among variables. There is no correlation coefficient that is higher than 0.80. Therefore, multicollinearity among variables is not a serious problem.

Table 3 presents the results of the FRLT regression analysis. The F-statistic of the model is significantly different from zero. This indicates that a subset of the independent variables does explain the variation in FRLT about its mean. The value of R^2 of 0.364 indicates that only about 36% of the variation in FRLT is explained by the model. It is shown that the coefficient estimates of SIZE and AUDUR are statistically significant. The Sig. value is 0.002 and 0.000 respectively, i.e. less than 0.05 suggest that these variables are making a significant unique contribution to the prediction of the dependent variable (FRLT).

The AUDUR shows positive sign. However SIZE shows a positive sign. The positive sign of AUDUR is consistent with prior study that time taken to complete the audit is the single most important determinant of the timeliness of earning announcements.[15]

The coefficient of the rest of the variables; PROFIT, GEAR, SECTORS (S1 – S6), YREND and AUDTYPE are not statistically significant. These variables are not making a significant unique contribution to the prediction of dependent variable (FRLT). This may be due to overlap with other independent variables in the model.

Table 3 Multiple regression

Variables	Coefficients	t-Value	Significance
SIZE (-)	0.237	3.091	0.002*
PROFIT (-)	-0.028	-0.442	0.659
GEAR (?)	0.049	0.735	0.463
SECTOR:			
S1 (?)	0.038	0.444	0.657
S2 (?)	0.125	1.181	0.239
S3 (?)	0.127	1.151	0.251
S4 (?)	0.130	0.997	0.320
S5 (?)	-0.012	-0.136	0.892
S6 (?)	0.074	0.576	0.566
YREND (?)	0.090	1.510	0.133
AUDTYPE (?)	-0.036	- 0.568	0.570
AUDUR (+)	0.566	9.159	0.000*
Model summary statistics:			
R2	0.364		
Adjusted R2	0.323		
F-Statistics	8.909		
Sig	0.000		

Although PROFIT is not statistically significant, it is having a negative sign, which agrees with prior study such as Owusu-Ansah[17] and Dogan *et al*[12]. This indicates that the profitable companies (good news) listed on the Bursa Malaysia report more promptly compared to their counterparts which are having poor results (bad news). The early reporting of good news is driven by the positive performance of the stock market, and this encourages profitable companies to inform the public quickly of their good performances.

Prior studies suggested that there is a significant relationship between size of the company and the reporting lead time. Their findings indicate that large companies report on a more timely basis than their smaller counterparts.[11,13,17] Consistent with previous studies, the result in this study shows that there is a significant relationship between size and reporting lead time of companies as measured by total assets. However, in this study, the significant relationship has a positive sign which contradict to prior studies. The positive sign suggest that the higher the amount of total assets will contribute to longer reporting lead time. The auditor would take longer time to verify the stocks in their process of carrying out the audit, before they are able to conclude their opinion. The positive sign on AUDUR consistent with prior study that time taken to complete the audit is the single most important determinant of the timeliness of earning announcements.[15]

Gearing shows not significantly related to reporting lead time. The positive coefficient of gearing is consistent with previous studies by Carslaw and Kaplan[7], Owusu-Ansah[17] and Owusu-Ansah and Leventis[18].

This positive coefficient support prior studies which suggested that auditing of a company with a high proportion of debt to assets consumes more time than a company with a relatively low proportion of debt. One of the reasons is the fact that a company with a high proportion of debt to total assets tends to be associated with financial distress and ultimately the greater likelihood of bankruptcy.

There is a negative relationship between PROFIT and FRLT. This negative sign indicates that when financial performances of companies are high (good news), companies are in tendency to disclose this situation early to the public. Relatively early disclosure of high performance financial results (good news) has the main purpose to increase stock prices. These results are consistent with the results obtained from previous study by Chambers and Penman[8], Owusu-Ansah[17], Leventis and Weetman[16] and Dogan *et al*[12]. The insignificant findings are consistent with Dyer and McHugh[13], who reported no association between profitability and reporting lag in Australia.

5.0 CONCLUSION

This study examined the timeliness of financial reporting of 200 listed companies on the main board of Bursa Malaysia. It also examined company-specific factors and audit-related factors as well as its relationship that significantly influenced timely reporting of the sample companies.

Descriptive analysis provides strong evidence that almost all companies are in compliance with the four months period required by the Bursa Malaysia. The results also indicate that companies are able to report earlier than the regulated time limit. On average companies took about 117 days to publish their annual audited accounts on the Bursa Malaysia Website. In view of the stock market reaction, the timeframe should be re-examined to a shorter period than four months. This will add value to the information released as it can be of important factors to be considered by investors. This will also increase the competitive edge of Bursa Malaysia in the competitive market.

Results of multiple regression analysis indicated that reporting timeliness of Bursa Malaysia listed companies is influenced by their size (measured by total assets at year end) and the audit duration (measured by the time from year end to the auditor sign date). With regards to the size of company, result of this study shows that it has a positive relationship with timely reporting (large companies are having longer reporting lead time). This is not consistent with prior studies such as by Owusu-Ansah[17] and Owusu-Ansah and Leventis[18] which suggest that a company's size has a negative relationship with reporting lead-time (large companies have the tendency to release their report early compared to their counterparts). However Givoly and Palmon[15] suggest that size of the company contributes to the length of the audit process and thus the reporting timeliness.

The result of the study found that audit duration is having significant positive relationship with reporting timeliness. This result is consistent with prior study by Givoly and Palmon[15] where they suggest that the audit period is the most important determinant of timeliness of reporting. Givoly and Palmon[15] further identified company attributes that contributes to the audit duration. They are the size of the company, the quality of its internal control and the operation complexity of a company.

This study however shows that timeliness of reporting of sample companies are not influenced by profit (measured by ROE), gearing (measured by total debt to total assets) Industry sector, financial year end and type of auditors (big4 or others). The PROFIT coefficient is negative but statistically not significant. The negative effect of PROFIT on timely reporting in Malaysia is consistent with the prediction in the literature, implying that companies with profits (good news) reports more timely than the companies having losses (bad news). Positive effect of GEAR is not statistically significant in this study. Previous studies for Malaysia have mixed results. Abdullah[2] indicated positive relationship but Che Ahmad and Abidin[9] identified negative relationship. Positive result of this study is consistent with Owusu-Ansah and Leventis[18], Owusu-Ansah[17] and Carslaw and Kaplan[7]. This result suggests that audit of debt capital is more time consuming than that of equity capital, and as a consequence, highly geared companies are more likely to report late.[7]

Result for SECTOR type is not statistically significant for all sectors. It is consistent with Owusu-Ansah and Leventis[18] whereby they observed that none of the industry categories is statistically significant. This implies that timeliness of reporting of Malaysian companies in not affected by the sectors they are in.

The same outcome was obtained from YREND and AUDTYPE type variables. They are not effecting the timely reporting of Malaysian companies.

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