THE ASSOCIATION BETWEEN COMPANY ATTRIBUTES AND TIMELINESS IN REPORTING PRACTICES AMONG MALAYSIAN COMPANIES

BY

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ABSTRACT

The issue of timeliness of financial reporting has received much attention from various parties such as professional bodies, regulatory authorities, investors and academicians in Malaysia in recent years. Timeliness is an important characteristic of the usefulness of the financial information. Stale information is irrelevant because it can lead to incorrect judgements for decision making. This study empirically examines the timeliness, i.e., the reporting lag, of 138 companies listed on the Bursa Malaysia in 2002. This study also reports on the association between timeliness and each of the following corporate attributes, i.e., company size, profitability, debt proportion, company age, and sector. The results of a descriptive analysis indicate that 99.3 percent of the companies in the sample lodged their annual reports within the Bursa Malaysia's regulatory deadline of 180 days. It is also found that the Malaysian listed companies took on average 143 days to submit their annual reports. A multivariate regression analysis indicates that company size is the only significant factor of the reporting lag. Profitability, debt proportion, company age and sector are found to be not significantly influence the reporting lag. These findings, significance of the study, and implication for future research are also discussed.

ملخص البحث

إن قضية الزمن في التقارير المالية أُعطيت اهتمام كبير في السنوات الأخيرة من قِبل عدة أطراف مثل: المؤسسات، والأفراد المهنيين، والسلطات المنظمة، والمستثمرين، والأكاديميين في ماليزيا. إن أهمية المعلومات المالية تنبع من أهمية عنصر الزمن المناسب. إن إعطاء المعلومات في الزمن الغير مناسب يؤدي إلى حكم غير صحيح عند اتخاذ القرار، وتوفر المعلومات في الزمن المناسب يؤدي إلى اتخاذ القرار المناسب. حاولت هذه الدراسة اختبار أهمية عنصر الزمن في التقارير، ولهذا أخذت الدراسة عينة من 138 شركة مُسجلة في بورصة ماليزيا لعام 2002م. إن الدراسة حاولت معرفة أثر الجمع بين أهمية عنصر الزمن والخصائص التالية لكل شركة؛ حجم الشركة، الربح، نسبة الْدَيْن، وعمر الشركة، ونوعية القطاع على كتابة التقارير.

أشارت نتائج التحليل الوصفي إلى أن نسبة (99.3%) من الشركات محل الدراسة قد عملت تقاريرها السنوية بالتزامن مع التاريخ الذي حددته بورصة ماليزيا لرفع التقارير خلال 180 يوماً فقط. إن الدراسة وجدت أن الشركات المُسجلة في بورصة ماليزيا ترفع تقاريرها السنوية خلال 143 يوماً. إن التحليل الإحصائي المُتعدد يُشير إلى أن حجم الشركة هو العامل المهم الوحيد الذي يُؤخركتابة التقارير السنوية في زمنها المُحدد. كما أن هذه الدراسة وجدت أن العوامل الأخرى مثل: الربح، نسبة الْدَيْن، وعمر الشركة، ونوعية القطاع هي عوامل غير مُهمة، ولا تؤثر في زمن كتابة التقارير السنوية. وقد نوقش تأثير هذه الدراسة في البحوث المُستقبلية.

APPROVAL PAGE

I certify that I have supervised and read this study and that, in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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Supervisor

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This dissertation was submitted to the Department of Accounting and is accepted as partial fulfillment of the requirement for the degree of Master of Science in Accounting.

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This dissertation was submitted to the Kulliyyah of Economics and Management Sciences and is accepted as partial fulfillment of the requirement for the degree of Master of Science in Accounting.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise states. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Name: MUHANIZA BINTI ZAINAL ARIFFIN

Signature ____________________ Date 11/7/05

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In the name of Allah the Most Gracious the Most Merciful

Praise be only to ALLAH Almighty for His bounty and blessing upon us, and peace be upon Prophet Muhammad, his family, his companion, and his followers until the end of the day.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AGM	Annual general meeting
APB	Accounting Principles Board
CAR	Corporate annual report
CCM	Companies Commission of Malaysia
D-W	Durbin-Watson
DF	Balance sheet date
DS	Date on which the annual reports are submitted and received by the Bursa Malaysia
FASB	Financial Accounting Standard Board
ICAC	Institute of Chartered Accountants of Canada
ICAEW	Institute of Chartered Accountants in England and Wales
IPC	Infrastructure project company
KLSE	Kuala Lumpur Stock Exchange
MASB	Malaysian Accounting Standard Board
NO.	**Number**
OLS	Ordinary Least Square
RL	**Reporting lag**
ROCE	Return on capital employed
SC	Securities Commission
SPSS	Statistical Package for Social Sciences
VIF	Variable Inflation Factor

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Timeliness is one of the qualitative characteristics of financial reporting and it requires that the companies publish their accounting information as soon as possible to facilitate informed decision making by the investors. The concept of timeliness in financial reporting has two dimensions. First, there is the frequency of reporting, which refers to the length of reporting period. Second, there is the lag period between the closing of financial accounts and the date the financial statements are issued. Consideration regarding both of these aspects appears in the legislative and regulatory provision regarding corporate disclosure. For example, the Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange, KLSE), strictly enforces the rules relating to the prompt release, which requires listed companies to submit the annual reports within a period not exceeding six months from the close of the financial year of the listed issuer. In addition to the annual reports, companies are also required to submit all the interim reports and periodic financial reports immediately upon its availability, and these reports are announced in accordance with the Bursa Malaysia listing requirements[1].

Failure to comply with the timeliness rules will result in punitive actions such as fines, de-listing, suspension or public reprimand. It was reported in Bursa Malaysia's annual report that from July 1998 until December 2002, 227 companies were investigated and

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[1]KLSE Listing Requirement, 2001

103 companies were reprimanded for breaching either one of the requirements which are to furnish (1) annual reports, (2) annual audited accounts or (3) preliminary financial statements within the stipulated period of time. It was also notified that the number of companies reprimanded and investigated was increasing every year, which demand cautious attention to find ground in addressing the factors associated with the reporting lag. From July 1998 to June 1999, 38 companies including the cases brought forward were investigated for non compliance with the requirements. However, only 31 companies were reprimanded for breaching the requirement. The recent cases reported as on December 2002, 44 companies were reprimanded from the total of 101 companies which have been investigated[2].

The timing of corporate reporting and the variables associated with differential timing have attracted the attention of a number of researchers in recent years. Nevertheless, most of the studies have been undertaken in western or developed countries like United States, United Kingdom, Australia, New Zealand and Canada. Only a few studies addressing similar issues were conducted in developing countries. The provision of timely reporting is crucial since accounting information is only useful when it possesses certain characteristics, one of which is timeliness. Therefore, this study would provide some contribution to the extent of knowledge and understanding of the timeliness in Malaysian context. At the same time, this study will add to, and complement research in other developing countries.

[2]KLSE Annual Report, 2002

1.1 RESEARCH OBJECTIVES

The purpose of this research is to identify the company specific attributes that influence the timeliness of corporate reporting. Having identified the attributes, this study will endeavour to explain the pattern of reporting lag as well as the factors influencing timely reporting behaviour. Five company specific attributes considered in this study are based on prior studies (e.g. Dyer and McHugh, 1975; Courtis, 1976; Owusu-Ansah, 2000; and, Ku Ismail and Chandler, 2002) which are company size, profitability, debt proportion, company age and sector. Moreover, comparison between the findings of this study and findings of previous studies will offer a better understanding on the concept of timeliness.

The results of a descriptive analysis indicate that 99.3% of the companies in the sample reported to the public i.e. submitted their annual reports to the Bursa Malaysia by the regulatory deadline. The study also provides evidence that only company size is a significant determinant, and the association is in the hypothesised direction.

1.2 SIGNIFICANCE OF THE STUDY

The study will contribute to the knowledge of timeliness of corporate reporting in the Malaysian context. Understanding the attributes of companies that influence timely reporting behaviour, could serve as a guideline for the companies which intend to improve the quality of their annual reports. Additionally, the evidence presented in this study will be useful for regulators as well.

1.3 OUTLINE OF THE STUDY

This study consists of six chapters. Chapter one comprises the background of the study, objectives and contributions of the study, and the organisation of the study. The next chapter, chapter two, reviews the literature related to the timeliness of corporate reporting. The main objective of the chapter is to highlight the importance of timeliness as one of the characteristics of accounting information. It also includes reviews of the empirical evidence on the association between timeliness and its determinants. The chapter will conclude with an overall summary of the literature.

Chapter three discusses the conceptual and regulatory framework of timeliness. The chapter will firstly discuss the concept of timeliness with reference of its acknowledgement from various parties. It also includes a discussion on the requirement and regulation related to the timeliness in the Malaysian context.

Then, chapter four discusses the hypotheses development, sampling procedures, sources of data and method of data collection, and estimation of empirical model of the study. This chapter will also discuss the measurement of all the variables used in this study.

The empirical results and discussions are presented in chapter five. This chapter will present the results of the company attributes and reporting lag by applying univariate and multivariate tests. Finally, chapter six provides a summary and conclusion to the study. Some recommendations for future research will also be proposed in this last chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The issue of timeliness of financial reporting as an important qualitative characteristic of accounting information has received much attention from regulatory and professional bodies since 1954 (American Accounting Association, AAA, 1954). It requires the information to be made available to the users as rapidly as possible because its usefulness will decline as the reporting lag increases. Greater concern about timeliness of the public information has motivated several studies on the determinants of reporting delay. This is confirmed by the increasing number of empirical studies done on the issue. Accordingly, this chapter aims at highlighting prior studies on the timeliness of the corporate annual reports, which will be explained in section 2.1 followed by summary of the chapter in section 2.2.

2.1 REVIEW OF THE RELEVANT LITERATURE

Several studies have been conducted to identify the determinants of reporting lags. The literature on the timeliness of corporate annual financial reporting is of two main types, which are (1) the impact of timely reporting on stock returns, and (2) the pattern and trend of reporting lag, including the factors influencing reporting behavior. However, only the second type of issues is reviewed here since the present study belongs to that category.

Pioneers of this issue are Dyer and McHugh (1975) who examined the timeliness of the Australian companies' annual reports over the period 1965-71. They randomly selected 120 industrial and commercial companies listed on the Sydney Stock Exchange on June 1971. The researchers described three principal lags, i.e., preliminary, auditors' signature, and total lag in an attempt to discover the reasons for the length of delay for Australian firms. Preliminary lag was defined as the difference between the receipt of preliminary financial statement by the Sydney Stock Exchange and the financial year- end. Auditors' signature lag was defined as the difference between financial year-end and the auditors' signature stated on the annual report, while total lag was defined as the number of days from the reporting companies' financial year-end to the receipt of the published annual report by the Sydney Stock Exchange. At the same time, they examined the association between selected corporate attributes, namely company size, year-end closing date, and profitability on reporting delays.

Dyer and McHugh (1975) used non-parametric Kolmogorov-Smirnov and chi-square statistics to specify time-lag distributions. Cumulative relative frequencies were generated for each of the years 1965 through 1971 to determine if the total time-lag distribution for any one year was statistically different from any other years in the period of study. In general, they found that the distributions of the three principal lags were nonnormal, positively skewed and leptokurtic. The fat-tails of the leptokurtic distributions were biased to the right side, meaning that there were too many lags of long duration relative to the mean than expected for strictly normally distributed lags. The cumulative relative frequencies for the total lags, auditors' signature lags, and the preliminary lags were shown to be stable, with the sole exception that in 1971 total lags have increased from 102 to 118 days over the seven year period. In order to gain a clearer picture of the causes of this delay, Dyer and McHugh (1975) had distributed questionnaires to the sample companies asking the management's opinion on the maximum acceptable total lag. They found that management are of the opinion that the maximum acceptable total lag should be at least three week less than it has been. The average of the responses was 93 days, which was 25 days shorter than the actual lags for 1971. It shows that sixty-six percent of the mean total lag in the year 1971 was consumed in pre-audit delay and year-end audit examination which indicate that planning has not been influential in reducing the duration of the total lag. Accordingly, Dyer and McHugh (1975) ascertained that the duration of the year-end audit was a major element in the total lag.

Then, Dyer and McHugh (1975) evaluated the impact of three attributes i.e. company size, year-end closing date and profitability on reporting delays. They hypothesized that there is an association between company size, year-end closing date and profitability with total lags. They used Spearman rank correlations and Mann-Whitney U statistics to test the hypotheses. The result showed that only two factors i.e., company size and year-end closing date were significantly associated with total lag. Larger companies were taking less time to release their reports. The vast majority of the sampled companies with the financial year ended June 30 were generally not reporting as quickly as compared to the companies with the financial year ending in other than June 30. Because a significant number of Australian companies close their books on June 30, it would have caused peak demands on the resources of auditing firms which in turn, would have led to additional time in completing the year-end investigation. Dyer and McHugh (1975) concluded that the results supported the hypotheses for company size and year-end closing date. Tests of the relation between profitability and total lag did not reveal any meaningful association.

A similar study conducted by Courtis (1976) examined three aspects of New Zealand corporate reporting, namely: (i) the diversity of accounting balance dates in use; (ii) the interval of time between balance date and selected other dated events; and (iii) the relationship between the delay in releasing audited figures and corporate attributes. The sample consists of 204 listed New Zealand public companies and data were obtained from the annual report for the year 1974. The four attributes examined were company size, age, number of shareholders and the length of the annual reports. He identified five interval periods to provide the basis for analyzing the overall profile of corporate reporting lags. Then, he further analyzed the B-lags (interval of days between balance date and the date of auditor's report) to address directly the obvious question of which party is to blame for the lack of punctuality in corporate reporting. In addition, he also considered the B-lag relationship with the corporate attributes, firms' profitabilities and industry groups.

Courtis (1976) found a high diversity in corporate balance sheet date. On average companies take approximately four and a half months to report to shareholders. He noted that the auditors should not be blamed for the lack of punctuality in releasing audited corporate results for three reasons. The first reason is due to companies' inability to promptly prepare a set of accounts for the auditors. The second reason is that in some cases the auditors' reports are post-dated to coincide with the release of the printed annual reports. Although this would not affect the total lag time, its occurrence would distort the accuracy of B-lag calculation. Logically, where it exists, the B-lag would be shorter, but as 58 different audit firms audited the sample of 204 companies, there was a doubt whether the practice of post-dating audit reports would extend across the profession. The third reason is that many parties such as auditors, lawyers, accountants and managers claimed that there are chronic inefficiencies in the printing industry, which resulted in the annual report takes longer time to print. Arguably, the companies themselves are responsible for B-lags. Thus, Courtis (1976) eventually explored the type of relationship that existed between the lags and corporate attributes.

Courtis (1976) run non-parametric Mann-Whitney U test to determine whether the fast reporters (represent companies that took no more than two months from balance date to report to their audited results) and slow reporters (companies took upward of three months from balance date) differed with respect to profitability, industry group and other four corporate attributes i.e. corporate size, age, number of shareholders, and the length of the annual report. With respect to profitability, the result showed that slow reporters tend to be less profitable as a group than fast reporters. It was indicated that the mean of the absolute profit figure for the fast reporters was significantly greater than the mean of the absolute profit figures for the slow reporters with a Z score of -2.39. Statistical test of the attributes of reporting lag had shown no significant relationship between the variables, whereby the study revealed that no differences for company size, company age, number of shareholders, or annual report length between fast and slow reporters. With regards to industry classification, he found that companies in the fuel and energy as well as finance sectors tend to report sooner as compared to companies in service, and mining and exploration sectors. He also realized that there is tentative inverse relationship between profitability and B-lags, which is considered as the limitation of his study.

Commenting on the study by Courtis (1976), Gilling (1977) suggested that timely reporting depended on both management who prepared the statements and the auditors who examined them. He asserted that punctuality in the production of financial statements could be attributed to the efficiency of either management or auditor, or to the interaction of management and auditor. He further explained that as the lag is essentially an auditing lag, which reflects the auditors' decisions on what is to be done, the manner in which it is to be done and the time at which it is to be done, it would been more appropriate for Courtis (1976) to examine the auditors' activities and attributes, rather than corporate attributes.

Consequently, Giling (1977) investigated the diversity of balance sheet date and some of the attributes of auditors and auditing lag. The sample is based on a survey of 187 New Zealand public companies' 1976 annual reports. Like Courtis's (1976) study, Gilling's (1977) study revealed a wide diversity in the balance dates used by New Zealand companies. He found that the average interval between balance date and the date of the auditors' report was 80 days, an improvement of three days over Courtis's (1976) study. The results suggested that the leading auditing firms in New Zealand worked faster than the smaller auditing firms. As a conclusion, Gilling (1977) analysis proposed that it may be more important to examine the attributes and actions of auditors rather than corporate attributes.

Another study by Davies and Whittred (1980) is not so much different from Dyer and McHugh's (1975) study. Both these studies examined the timeliness of the Australian companies' annual reports. Supplementing the Dyer and McHugh's (1975) research, Davies and Whittred (1980) examined the nature of corporate reporting lags in

Australia and their determinant over the period of six years (1972-1977). By replicating three selected corporate attributes in Dyer and McHugh's (1975) study, i.e. company size, financial year-end and profitability, Davies and Whittred (1980) included three other determinants, namely; the auditing firm, changes in auditing firm and the presence or otherwise of extraordinary items. These three determinants were believed to capture the attributes of auditing firms and corporations in determining the timeliness of corporate reporting.

In order to specify time-lag distributions, an unrestricted random sample of 100 companies was taken from annual report files maintained by the Sydney Stock Exchange Library. In addition to time-lag data, Davies and Whittred (1980) also collected data on net profit (after tax, extra ordinaries and minority interests), total assets and shareholder's fund from the Sydney Stock Exchange's Investment Service. Davies and Whittred (1980) adopted Spearman rank correlation and Mann-Whitney U statistics to test the total reporting lag. Besides total lags, they also tested the association between the selected corporate attributes and the remaining lags i.e., the auditor's signature lag and the preliminary lag which are not reported by Dyer and McHugh (1975).

Using the same statistical test as Dyer and McHugh (1975), Davies and Whittred (1980) found that the company size did appear to be a determinant of the total reporting lag. Contrary to Dyer and McHugh (1975), they found that the financial year-end had little influence on the total reporting lag. Companies experiencing extremes in relative profitability and those extreme changes in the amount of extraordinary items take significantly longer time to release both their preliminary and final accounts than firms experiencing moderate levels of the two variables. In addition to the total lags, significant associations were also observed between (i) the auditor's signature lag and financial year-end, and (ii) the preliminary lag and firm size. Davies and Whittred's (1980) study shed additional light on the determinants of corporate reporting lags

Lawrence (1983) reported the results of his findings on the financial reporting delays for firms filing for bankruptcy. A preliminary sample of 110 industrial firms filing for bankruptcy between 1975 and 1981 was selected from the Wall Street Journal Index and the New York Times Index. A total of 58 companies for which financial data could be obtained formed his sample firms. He collected three dates for each firm i.e., (a) the fiscal year, (b) the date of bankruptcy, and (c) the date the financial statements were made public in order to measure the time delays for financial reporting in the year preceding bankruptcy. After establishing the relevant dates, he computed the reporting delays by calculating the number of months from the firms' year-end and the release of the annual report. The study revealed that there was a significant number of bankrupt firms incur delays in releasing their annual reports for the final year before bankruptcy. More specifically, he found that approximately 47 percent of the sample firms had a reporting lag of four or more months from their fiscal year-end.

Ashton et al. (1989) examined the determinants of audit delay on a sample of 465 companies listed on the Toronto Stock Exchange from 1977 to 1982. The sample companies were composed entirely of Canadian companies which were audited by Canadian auditors. Ashton et al. (1989) excluded companies audited by non-Canadian auditor because they were specifically interested in the Canadian audit environment.

One aspect of the environment was the prohibition by the Institute of Chartered Accountants of Canada (ICAC) of the "subject-to" opinion in November 1980 which meant that contingencies that were previously highlighted in audit opinions would henceforth be disclosed by management in footnotes to the financial statements. Consequently, auditors would then give clean opinion if the disclosures were adequate. Ashton et al. (1989) observed eight explanatory variables in each of the six consecutive years which are (1) company size, (2) industry classification, (3) month of year end, (4) audit firm, (5) sign of net income, (6) extraordinary items, (7) contingencies, and (8) type of audit opinion. The dependent variable was audit delay defined as the number of calendar days from the financial statement date to the audit report date.

Ashton et al.'s (1989) work identified total assets as a proxy for the company size. They expected a negative relation between total assets and audit delay based on prior empirical studies such as Dyer and McHugh (1975), Courtis (1976) and Davies and Whittred (1980). In addition, they also expected similar relation between audit firm and audit delay. For industry classification, they identified 14 major categories of listed companies and then grouped into financial services companies, and others. They expected that financial companies have shorter audit delays than companies in other industry classification. For the third explanatory variable (month of year end), Ashton et al. (1989) distinguished companies with year-ends in December or January (assigned as 1) which is likely to be "busy season" and those with year-ends in any of the other ten months (assigned as 0). They expected that auditing during the busy season could increase audit delay. For other explanatory variables, a positive relationship was expected with audit delay.