



TIMELINESS OF FINANCIAL STATEMENTS: THE CASE
OF MALAYSIAN LISTED INDUSTRIAL PRODUCT
COMPANIES

BY

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ABSTRACT

The timeliness of corporate annual financial reports is a crucial factor which affects the usefulness of information that is made available to external users, especially investors. The purpose of this study is to study corporate governance and performance in Malaysian public listed companies as key contributors to the timeliness of financial statements as few past studies have also included performance as an explanatory variable for timeliness. In Malaysia, the public depends on the financial statements submitted to Bursa Malaysia previously known as Kuala Lumpur Stock Exchange (KLSE) in order to make sound business decision so directors should provide shareholders with timely information. This study takes the industrial product sector and the annual reports of companies operating therein and a list of submission date of annual report to Bursa Malaysia by Malaysian public listed companies for data analysis. Regression analyses were performed to examine the relationship between corporate governance and company's performance using ROA and ROE which will eventually affect the timeliness submission of the annual report to KLSE. In this study, it is proven that out of the variables discussed, CEO duality and independent audit committee have a significant relationship with timeliness of financial reporting. Practitioners may use this finding to develop mechanisms that can ensure companies will abide with timeliness guidelines regardless of CEO duality and independent audit committee issues faced by companies. Most companies in Malaysia only submit within the statutory requirement required by the Bursa Malaysia to avoid being delisted and to maintain its public image. Out of the chosen data, 8.8% of the sample companies in Malaysia submit early within the statutory requirement while the remaining 91.2% submit timely within the statutory requirement.

ملخص البحث

تعد التقارير المالية السنوية للشركات عاملا حاسما يؤثر إلى حد كبير على جدوى المعلومات التي تُعد للمتعاملين الخارجيين وبخاصة المستثمرين. استهدفت هذه الدراسة دراسة ضبط إدارة، وأداء الشركات الماليزية العامة المسجلة باعتبارها من أهم المساهمين في عملية توقيت الكشوف المالية. تناولت عدة دراسات من قبل أداء الشركات باعتباره متغيرا ضابطا للتوقيت. يعتمد الجمهور في ماليزيا على الكشوف المالية المقدمة إلى البورصة الماليزية التي كانت تعرف من قبل باسم بورصة كوالالمبور، وذلك لاتخاذ القرار السليم للتعامل، وذلك حتى يوفر المدراء للمساهمين المعلومات في الوقت المناسب. تتناول هذه الدراسة قطاع الإنتاج الصناعي، والتقارير السنوية للشركات التي تعمل ضمن هذا القطاع، وكذلك بيان بتاريخ تقديم التقرير السنوي من الشركات العامة المسجلة في هذا القطاع، وذلك باعتبارها بيانات للتحليل. ومن أجل دراسة العلاقة بين ضبط الشركات، وأدائها تم إجراء تحليل انحداري باستخدام العائد على الأصول، والعائد على حقوق المساهمين، الأمر الذي يؤثر تبعا لذلك على توقيت تقديم التقرير السنوي إلى البورصة الماليزية. خلّصت الدراسة من خلال المتغيرات التي تمت دراستها إلى أن ازدواجية الرئيس التنفيذي، ولجنة المراجعة المستقلة لها علاقة مهمة بتوقيت إعداد التقارير المالية. قد تفيد هذه النتيجة المتعاملين لتطوير الآليات التي يمكن أن تضمن أن الشركات سوف تلتزم بالتوجيهات الخاصة بالتوقيت بغض النظر عن القضايا التي تواجهها الشركات من قبل الازدواجية بين الرئيس التنفيذي، ولجنة المراجعة المستقلة. أغلب الشركات في ماليزيا تقدم التقارير وفقا للتوقيت والمتطلبات القانونية التي حددتها البورصة الماليزية، وذلك حتى تتجنب الاستبعاد من جهة، وتحافظ على صورتها العامة من جهة أخرى. ومن نتائج التحليل وجد أن نسبة 8.8 % من عينة الشركات في ماليزيا تقدم التقارير في وقت مبكر وفقا للشروط القانونية، و النسبة المتبقية وهي 91.2% وإن لم تكن تقدم التقارير مبكرا إلا أنها تقدمها في إطار الوقت المحدد وفقا للمتطلبات القانونية.

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 (Accounting).

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Nur Amalina Abdullah

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LIST OF ABBREVIATIONS

BI	Board Independence
BOD	Board of Directors
BS	Board Size
BURSA MALAYSIA	Bursa Malaysia Securities Berhad
CD	Chief Executive Officer Duality
CEO	Chief Executive Officer
CG	Corporate Governance
IAC	Independent Audit Committee Size
MATRADE	Malaysia External Trade Development Corporation
MCCG	Malaysia Code of Corporate Governance
KLSE	Kuala Lumpur Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
TS	Timely Submission

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

This chapter introduces the study. Section 1.1 discusses the overall scope and background of the study. Section 1.2 focuses on the motivation that leads to the research study. In section 1.3, the problem statement is discussed, and section 1.4 articulates the research questions and objectives. Section 1.5 explains the contribution of the study, and section 1.6 concludes the chapter by discussing the structure of the dissertation.

1.1 BACKGROUND OF THE STUDY

Financial statements provide information about the financial position and performance of an enterprise. It is useful to a wide range of users enabling them to make better economic decisions. Financial statements are intended for readers with a reasonable knowledge of business, economic activities, and accounting and who are willing to study the information diligently such as prospective investors, government entities, and the general public. Another important quality that makes financial information useful is the timeliness of financial reports.

Timeliness is an important qualitative characteristic of accounting information that may affect whether the information is useful and relevant to those who read the financial statements. Timeliness, that is, having information available to decision makers before it loses its capacity to influence decisions, is an ancillary aspect of relevance. If information is not available when needed or becomes available long after the reported events, then it lacks relevance and has no to little value for future action.

Timeliness alone cannot make information relevant, but a lack of timeliness can rob information of relevance it might otherwise have had. Furthermore, the timeliness of audited corporate annual financial reports is an essential factor affecting the usefulness of information made available to external users (Almosa and Alabbas, 2007). It is important for the information to be available to the users as rapidly as possible (Carslaw and Kaplan, 1991) and before it loses its ability to influence decision-makers (Delaney et al., 1997).

The term “timeliness” can be defined as the time interval between companies’ cut off point and the date in which such reports are made available to the public. Timeliness typified quality information (i.e. in the sense of relevancy of information) is where the availability of such information suits the needs of its users and has long been recognised as one of the qualitative attributes of financial reports. Table 1.1 illustrates timeliness and its relationship to decision usefulness:

Table 1.1 Qualitative Characteristics and the Three Types of Presentation Decisions

Qualitative characteristic	Presentation Decision Types		
	What information is shown	Where information is shown	How information is organized
Relevance	Information that is (a) capable of making a difference in achieving financial reporting objectives and meeting user needs and thus (b) has confirmatory value, predictive value, or both.	When more information is identified as relevant the need to consider whether information needs to be located in different places increases. Relevance is important when distinguishing between core information and supporting information.	The more information is identified as relevant, the greater the potential need to consider the best way to organize information.
Timeliness	Information that is timely enough to be useful.	Information's location can facilitate timeliness.	No impact.
Verifiability	When reporting certain types of information include: <ul style="list-style-type: none"> - Assumption that underlie the information, - Methodologies adopted in compiling it, and - Factors that support other information reported. 	The extent to which information can be verified and the ways in which different types of information are verified may impact on where information is shown.	The inclusion of information such as disclosure of methodologies and assumptions is likely to have implications with respect to how information should be organized.
Understandability	Understandability impacts in combination with relevance. For users to understand information there must be sufficient relevant information to meet the objectives of financial reporting	Locate information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. Understandability is important when	Organize information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. Present information in a

	and user needs.	distinguishing between core information and supporting information.	manner that is readily understandable by users. Classify, characterize and present information clearly and concisely.
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Source: Financial Accounting Standards Board (FASB) 1980

As illustrated in Table 1.1, timeliness of financial reporting is perceived as being able to enhance the relevance of financial information. In the current MASB conceptual framework, timeliness is considered to enhance decision usefulness of accounting information.

Empirical research on timeliness of financial reporting provides evidence that the degree of timeliness of information has information content and affects firm value (Chambers and Penman, 1984). Recognising the theoretical and practical importance of the timely release of financial information, regulatory agencies around the world have set statutory maximum time limits within which public companies are required to issue audited financial statements to shareholders and other external users and/or file them with regulatory bodies.

Industrial products refer to machinery, manufacturing plants, materials, and other goods or component parts for use or consumption by other industries or firms. Normally the price of industrial products is highly dependent on consumer demands and timeliness assists the companies to remain competitive. Industrial products' organisation and resource-based view are vital to maintain business timeliness and operations management (Loi, 2004). It seems that when there is intense competition

and shortage of resources plus continued globalisation, the integration of value chains and systems is an effective way of achieving timeliness.

Due to the complexity of industrial products, Frank (2004) sought to improve the timeliness of monthly sales progress in the Dutch manufacturing industry. They studied the study short term economic statistics to ensure that users such as the European Central Bank and International Monetary Fund will receive relevant information for better decision making. In addition, a trade off between timeliness and accuracy of information was studied whereby it is also believed that reduced accuracy might be acceptable as long as it enhances the timeliness of information.

According to the Malaysian External Trade Development Corporation (MATRADE), The National Trade Promotion Agency of Malaysia, Malaysian products receive huge attention and demand because of its high quality and the reliability of the delivered products and services. This is proof of product demand and the sensitivity to timely financial reporting.

The industrial product sector is the biggest industry in Malaysia. Of the main market listed companies in Bursa Malaysia 2012, 29% represent industrial products. The list is followed by trading services 21%, consumer products 19%, properties 11%, construction and plantation 5% each, REITs 2%, and IPC 1%. Three other industries hotels, closed end funds, and SPAC represent less than 1% of the submission.

The Malaysia Code of Corporate Governance (MCCG) 2012 stipulated in Principle 7 that companies must ensure timely and high quality disclosure. In this principle, it is explicitly mentioned that companies must be able to establish corporate disclosure policies and procedures that are comprehensive, accurate, and support timely disclosures. The need to comply with the MCCG 2012 is among the essential criteria to determine the quality of corporate governance of a company as well as how

well the company performs within the industry and among the industrial player themselves.

In addition, MCGG 2012 is supported by Bursa Malaysia's Listing Requirements of Bursa Malaysia Securities Berhad: Chapter 9 on Continuing Disclosure, 9.23 (1) Issue of annual audited financial statements and annual report, a company must be able to issue their financial statements along with the auditors' and directors' report and forward to Bursa Malaysia not later than six months of its closing year end. While Chapter 9 on Continuing Disclosure, 9.23 (2) mentioned that companies can also submit their financial statement including with early and within four months from its financial year end. Consequently, it is important for the company to timely announce and maintain their performance to remain attractive to investors.

Company performance is an important element for listing, as mentioned in Part G-Continuing Listing Obligations 5.11 (1) Submission of Financial Statements. Herein it is mentioned that a company must submit its unaudited/audited financial statements that include the profit and loss and its balance sheet on an accumulated basis of three months after the companies' financial year end. Details on this particular matter can be seen in Part G – “the Due Date” in Bursa Malaysia's listing requirement. In the case for exemption, the respective company must state whether there is any abnormal circumstance that has affected or will affect the business and financial position of the company that require it to make such request. The exemption and approved period is subject to approval by the Exchange. Therefore, it is equally important for the industrial product players to submit financial reports in a timely manner to remain profitable within the industry. In this thesis, we shall study the relationship between corporate governance and timeliness using profitability as a explanatory variable.

1.2 MOTIVATION FOR THE STUDY

In general, early disclosure on financial reporting is perceived to be better compared to late disclosure even though by doing so a company might need to forgo certain qualities. For example, companies that issue their annual reports early on March 31st risk the possibility that some of the information in that report is not as comprehensive as would be the case if the company had spent more time preparing the statements and had issued them a few weeks or months later.

Companies with better corporate governance have better operating performance than companies with poor corporate governance (Black et al., 2002). This is concurrent with the view that better governed firms might have more efficient operations, resulting in higher expected returns (Jensen and Meckling, 1976). This indicates that in general, timeliness of financial reporting is directly related with companies' profitability performances and level of corporate governance possessed by a company. Thus, in this study we shall study the relationship of corporate governance and timeliness while performance ROA and ROE is used as explanatory variables. By studying this relationship, conclusions can be made as to whether the above statement can be used in the Malaysia setting.

In addition, it is hoped that this study will contribute to practice and is useful to financial users. Furthermore, the results of the study will be hopefully assist regulators and companies to better manage maximum lead time to release their annual reports. This study expects to contribute to financial users including top management of companies, auditors, regulators, investors, and public users.

This thesis focuses on the industrial product sector mainly because out of all the 890 available data for the main market under the listed companies in Bursa Malaysia 2012, 29% represent industrial products. As a newly industrialised market

economy, Malaysia's industrial products are relatively open. Machinery, manufacturing plants, materials, and other goods and component parts for use or consumption by other industries or firms are among the industrial products available in the Malaysian industrial products' industry. Since industrial goods are widely based on the consumer demand, normally production is derived from demand. This might be one of the reasons for the company to remain competitive and submit their financial statement to ensure that the market demands remain intact. Looking at the level of submission for this industry might be help us understand why companies submit their financial statements in a timely manner and why others do not.

The Malaysia Code of Corporate Governance (MCCG) 2012 emphasises on the importance of timely and high quality disclosure as stipulated in Principle 7 which is in line with the Listing Requirements of Bursa Malaysia Securities Berhad: Chapter 9 on Continuing Disclosure, 9.23 Issue of annual audited financial statements and annual report; and Part G-Continuing Listing Obligations 5.11 (1) Submission of financial statements. From this thesis, it is hoped that we can identify whether the intervention from regulations encourages the timely submission of the annual report or whether this is determined by the market.

1.3 PROBLEM STATEMENT

As many perceive that having timely financial reporting is vital to investors' investment decisions, identifying the determinants of financial reporting has become a significant move to improve the financial reporting quality and continue to motivate researchers to examine the factors that may influence the timeliness of financial reporting. In Malaysia, Bursa Malaysia or also known as the Kuala Lumpur Stock Exchange (KLSE) requires companies to issue their audit report on time. Failure to do

so will result in serious penalties and affect the goodwill of a company which at the end of the day affect the companies' performance due to the adverse effects to the public.

Delays in releasing reports to the company's shareholders is of interest since it has a close association with audit functions. This is because the financial statement cannot be issued until an audit has been duly performed and concluded (Che-Ahmad and Abidin, 2008). Bursa Malaysia also requires timely financial reporting according to the provision No. 2.03-2 Chapter 2 and No.9.01.3 Chapter 9 of the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia). Hence, investigating the determinants of timely reporting would provide information that would help the regulators of emerging capital markets in formulating new policies to improve their markets (Owusu-Ansah and Leventis, 2006).

Awareness of the importance of corporate governance has now become a global concern as many countries are actively working to develop the tools and institutions necessary to practice good corporate governance systems at the national level (Afify, 2009). Prior studies provide evidence that strong corporate governance mechanisms may improve financial reporting quality such as strength of the board of directors and audit committee is significantly associated with the quality of the financial reports, as it potentially affects the auditor's risk assessments (Abbott, Parker and Peters, 2004).

The evidence from prior literature provides strong support with the agency view of the board and audit committee. Fama and Jensen (1983) posit that a firm's internal governance plays an important role in shaping and effectively enhancing the operations of its internal control system. The board of directors, through the audit committee, is the primary internal governance mechanism that is responsible for the

effective oversight of the overall control environment. The effectiveness of this oversight function is largely dependent on the independence of the directors serving on the board and the audit committee. Such independence from outside directors who have incentives to protect their reputation and avoid litigation and audit business risks, which in the end would affect the impact timeliness of the audit.

Ismail, Mustapha and Cho (2012) examined the determinants of audit delay among Malaysia public listed companies before the revision of the Code of Corporate Governance and MCCG 2012 was introduced. In the study, the characteristics of audit committee independence were studied but components of corporate governance i.e. Chief Executive Officer (CEO) duality, and the number and independence of the Board of Directors' (BOD) was never discussed. This thesis will study the components of corporate governance i.e. board size, CEO duality, independence of BOD, and independence of the audit committee.

Hashima and Abdul Razak (2013) researched the relationship between corporate attributes and timeliness of corporate reporting in Malaysia based on a sample 200 companies from different in 2007. Their study examined company-specific factors and audit-related factors as well as its relationship with timely reporting. However, they did not explicitly study performance but rather, focused on corporate attributes and its relation with timeliness. The important question in this thesis is whether the performance has a direct impact on the timeliness of a company announcing and submitting its financial statements.

In the same study, Hashima and Abdul Razak (2013) mentioned that timeliness of reports for a sample of companies are not influenced by profit (measured by ROE) but the profit coefficient is negative but statistically not significant. The authors concluded that the negative effect of profit on timely reporting in Malaysia is

consistent with literature that believed that companies with profits (good news) exercise timely reporting impacted on companies having losses (bad news) and that different sectors does not affect the submission factor (Hashima and Abdul Razak, 2013). This thesis focuses on the financial statements of the industrial sector submitted in 2012 to Bursa Malaysia to determine whether such conclusions can be generalised to the entire Malaysian context.

1.4 RESEARCH QUESTIONS AND RESEARCH OBJECTIVES

Research questions and research objectives are outlined below.

1.4.1 Research Questions

The first question is can the corporate governance mechanisms across the listed firms explain the timely submission of financial statements? Second question to be discussed in this dissertation is what is the relationship between the performance of listed companies and financial timeliness? Thirdly, what is the extent of submission compliance with regards to timeliness of financial statements in Malaysian public listed companies?

1.4.2 Research Objectives

The first research objective of this study is to investigate whether the corporate governance mechanisms can explain the timeliness with regard to financial statements. Secondly, is to examine the relationship between performance of listed companies and financial timeliness. The third research objective is to investigate the extent of submission compliance with regards to timeliness of financial statements in Malaysian public listed companies.

1.5 CONTRIBUTION OF THE STUDY

Ismail, Mustapha and Cho (2012) studied only the determinants of audit delay among Malaysia public listed companies prior to the introduction of MCCG 2012. In this study, limited discussion is made on the components of corporate governance i.e. Chief Executive Officer (CEO) duality and number of Board of Directors (BOD) with regard to performance. Thus, the component of corporate governance i.e. board size, CEO duality, independent BOD and independent audit committee shall be studied in this thesis.

Hashima and Abdul Razak (2013) examined company-specific factors and audit-related factors as well as its relationship that timely reporting of the sampled companies of different sectors submitted on 2007. Company performance was not the integral part of the study while in this thesis, we shall examine whether ROA and ROE are important factors for the company to timely submit their annual audited report as required by Bursa Malaysia.

Hashima and Abdul Razak (2013) also mentioned that timeliness of reporting are not influenced by profit (measured by ROE) but the profit coefficient is negative but statistically not significant. However, they still agree with the theory that companies with profits (good news) report in a more timely manner than companies having losses (bad news) and that different sectors does not affect the submission factor (Hashima and Abdul Razak, 2013). Consequently, this thesis will focus only on industrial products and shall determine this gap in the literature.

Some researchers are of the point of view that focusing on a specific industry might help disclose the real practices of that particular industry (Gray et al., 1995; Simpson and Kohers, 2002). Thus far, no study has specifically focused on industrial