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

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ABSTRACT

Timeliness of corporate annual financial reports is a crucial factor which affects the usefulness of information made available to external users especially investors. The purpose of this study is to examine the impact of corporate governance towards companies' performances which consequently affect the timeliness of any report submitted to the local authority. This study takes the industrial product sector and the annual reports of companies operating therein and a list of submission dates 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 return on asset (ROA) and return on equity (ROE) which will eventually affect the timeliness submission of the annual report to Bursa Malaysia. The Chief Executive Officer (CEO) duality and independent audit committee carry a significant relationship with timeliness of financial reporting whereas 8.8% of the studied companies submit early within the statutory requirement while the remaining 91.2% submit timely.

Keyword: timeliness, corporate governance, Bursa Malaysia, audit committee, practitioners

INTRODUCTION

Background of the Study

Timeliness is an important qualitative characteristic of accounting information, and it may affect the usefulness of information made available to external users (Almosa & Alabbas, 2007). The term "timeliness" can be defined as the time interval between companies' cut-off point and the date such reports are made available to the public (Van Horne, 1995). Timeliness is a significant criterion in financial reporting and a main concern of the regulators and authorities for accounting profession worldwide. Transparency and timely financial information are critical to ensure potential investors in particular receive relevant information to facilitate proper investment decisions. Many researchers study timeliness as a qualitative characteristic of accounting that represents a fundamental element of the relevancy in financial reporting (Clatworthy & Peel, 2016).

The management of a company is responsible for the timeliness of financial reporting for preparation of annual reports. It also portrays the readiness of a company to announce its information on performance and earnings to stakeholders for informed decision making. The Conceptual Framework for Financial Reporting defines timeliness as "having information available to decision-making in time to be capable of influencing their decisions" (Malaysian Accounting Standards Board, 2015).

The value of financial information depends on the amount of time assigned to prepare and submit to the stakeholders and decision makers. Investors need appropriate and timely information due to the rapid growth and complexity (Vuran & Adiloglu, 2013). Timely financial information will build up confidence among investors about a company's operation (Leventis, Weetman & Caramanis, 2005), and a company should disseminate its financial information as soon as possible after its fiscal year end (Maslina, Hamidah & Sherliza, 2016). The timeliness represents the usefulness of corporate reporting due to its close tie with huge opportunities it provides for stakeholders who effectively integrate the disclosed information into their decision-making.

The American Institute Certified Public Accountants (AICPA), Accounting principles Board (APB) and Financial Accounting Standards Board (FASB) have highlighted timeliness as a qualitative characteristic of financial reporting. In the United States, the FASB underlined the significance of timeliness as a critical component of relevancy in their Statement of Accounting Concepts in which the lack of timeliness can hamper the relevance of financial information for users.

However, in a market with the institutional block holders who may address the needs of investors for information by disclosing a lot of information but with less-relevant information in order to hide their perks' consumptions (Zandi Gholamreza & Alireza Shahabi, 2012). In 2011, the Governmental Accounting Standards Board (GASB) released a statement that the ''timeliness of financial reporting is perhaps the most frequent and common concern expressed to the GASB by users of state and local government financial reports" (GASB, 2011). In 2012, the United States Securities and Exchange Commission (SEC) required the GASB's statement since investors in municipal bond are not often provided the same timely financial information access as investors in other United States capital markets (SEC, 2012). The SEC further stated many factors to amplify the need for timely disclosure which include the severity of recent municipal defaults and bankruptcies, sheer size of the municipal bond sector, significant decrease in credit enhancements, and the prevalence of individual investors holding municipal securities. Many high-profile bankruptcies, including the cities of Detroit, Michigan in 2013, Stockton, California in 2012, Harrisburg and Pennsylvania in 2011, and the default of 162 issuers on over USD8.2 billion of municipal bond debt (Preston, 2010), enhanced the public tension to the issue of timely municipal financial reporting. This represented perception of instability and risk in the municipal bond sector, so taxpayers and investors needed better transparency. In 2012, the SEC proposed measures to Congress in efforts to improve municipal reporting and disclosure, including requirements on timely filing of financial information. In a study by Zandi Gholamreza, Fauziah Md. Taib and Daing Nasir Ibrahim (2010), the usefulness of financial information would affect the share prices as Price Informative Disclosures (PID) and their non-usefulness as Non-Price Informative Disclosures (Non-PID). These characteristics assist potential and current investors by presenting underlying economic substance of public listed firms. The low transparency comes along with low level of public confidence that concludes in the reluctant attitude of investors to buy shares from the private sector.

We have considered the annual reports of public companies listed in industrial product sector due to the fact that out of all the 890 available data in main market under listed companies in Bursa Malaysia, 254 are represented by industrial products. The annual reports covered the most recent year when the data collected and due to the full convergence of Malaysian Finance Reporting Standards (MFRS) from 1 January 2012. The industrial product sector was the biggest industry which adhered to the MFRS by 29% of the companies which were listed on Bursa Malaysia. This was followed by trading services (21%), consumer products (19%), properties (11%), construction and plantation (5% each), real estate investment trusts or REITs (2%), and infrastructure project corporations or IPCs (1%). Three other industries hotels, closed end funds, and special purpose acquisition companies (SPACs) represent less than 1% of the submission.

In Malaysia, it is mandatory for listed companies to timely submit their financial statements. It is a compliance requirement of Bursa Malaysia Securities Berhad. Timely disclosure of financial information can hamper the opportunities for insider trading and abuse of corporate assets by managers (Leventis & Weetman, 2004), lower the cost of capital (Euromoney Institutional Investor, 2001), and reduce information asymmetry (Lang & Lundholm, 1999). Timely disclosure can thus reduce the volatility of stock price and periodic earnings, which in turn, enhances credibility of management.

This study investigated the corporate governance and performance in Malaysian public listed companies as major contributors to the timeliness of financial statements when prior studies on role of performance as a control variable had been limited. It studied whether the corporate governance mechanisms and performance of listed companies could explain the different timeliness with regard to financial statement. We further examined the extent of submission compliance with regards to timeliness of financial statements in Malaysian public listed companies. Wan Kamalluarifina (2016) proposed that timeliness would differentiate companies based on quality and performance from each other.

Prior studies provided evidence that strong corporate governance mechanisms would improve financial reporting quality, as it potentially affected the auditor's risk assessments (Abbott, Parker & Peters, 2004; Zandi et al., 2010). 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. In a study by Ismail, Mustapha and Cho (2012) on the timeliness of audited financial reports in Malaysian listed companies, the characteristics of audit committee independence were only studied but components of corporate governance, i.e., Chief Executive Officer (CEO) duality and number of Board of Directors (BOD)'s independence were never being discussed. There was a research made by Filouz, Hashima and Abdul Razak (2013) on the relationship between corporate attributes and timeliness of corporate reporting in Malaysia which included 200 companies of different sectors submitted in 2007, but it was only focused on corporate attributes with the timeliness. Finally, in a study by Hashima and Abdul Razak (2013), the effect of profit on timely reporting in Malaysia was consistent with the literature that stated companies with profits (good news) would report more timely than the companies carrying losses (bad news) whereas the different sectors had not affected the submission factor.

LITERATURE REVIEW

Chambers and Penman (1984), and Begley and Fisher (1998) believed that firms unexpectedly accelerate the release of good news and delay the disclosure of bad news relative to their previous reporting pattern. Companies with better corporate governance have better operating performance than those with poor corporate governance (Black et al., 2002) which was concurrent with the view that better governed firms might have more efficient operations, resulting in higher expected returns (Jensen & Meckling, 1976). According to Zandi et al. (2010), the presence of independent directors has been helpful for better transparency as the independent directors would follow public interests.

The economic theory suggests that, as total information delay increases, estimation risk and information asymmetry among investors grow, leading to a rise in the cost of capital (Christopher et al., 2017; Lambert, Leuz & Verrecchia, 2012; Francis et al., 2005). Economic theory further predicts that timeliness is an important construct as disclosure timing impacts informational differences across investors (Choudhary, Merkley & Schloetzer, 2015). When information is untimely, larger investors, with sufficient resources, may likely seek additional information about an entity's prospects. Additionally, as information becomes less timely, privately informed investors are more likely to gain an information advantage (Francis et al., 2005). In a research study by Zandi and Alireza (2012), the block holders advocate potential investors and try to boost the public's confidence by disclosing higher extent of voluntary information but irrelevant. The block holders would like to show the market is efficient with no information asymmetry. However, such transparency is not genuine.

Corporate Governance Quality

The Malaysia Code on Corporate Governance (MCCG) emphasises the establishment and maintenance of a sound system of internal control. Corporate governance quality in this study is characterised by the following criteria:

Board size (number of BODs)

Jensen (1993), and Lipton and Lorsch (1992) suggested that larger board composition might be less effective than small boards. This is due to the fact that when board size is bigger, agency problems might occur such as director-free riding which at the end board becomes more symbolic and non-functional as management.

CEO duality

Referring to Yang and Shan (2014), CEO duality refers to the board leadership structure in which the CEO also holds the position as the chairman of the board. Brickley, Coles and Jarrell (1997) encouraged that separating the CEO and chairman posts resulted in both costs and benefits, and it is more of a cost to the larger firms than the benefits. On the contrary, Ehikioya (2009) suggested that firms with separating power between CEO and chairman of the board are likely to gain confidence on the firms' ability to increase additional capital and hence there are less chances of bankruptcy of the firm.

Independent BODs

The judges Chandler and Strine (2003) have stated it very clearly, "Strong and diligent oversight by independent directors who are required to focus on legal and accounting compliance will result in public companies behaving with integrity."

Independent audit committee

The distinguishing feature of an audit committee is its independence. Effective functioning of the audit committee is essential to mitigate the risk of corporate failures and to enhance public confidence (DeZoort, 1998; Lee & Stone, 1997). Many researchers noted that the audit committee is assigned internal control oversight responsibilities (Millichamp, 2002; Tan & Kao, 1999; DeZoort, 1998; Wolnizer, 1995). Caplan (1999) mentioned audit committee's roles in detecting errors, irregularities, and fraudulent practices in the firm. The effectiveness of audit committee depends on its collective capability to meet its oversight objectives (DeZoort, 1998).

Performance measurement on profitability

Performance is one of the important elements that make a company announce their report earlier or much later to avoid adverse public sentiments (Jensen & Meckling, 1976) and two important performance elements would involve return on assets (ROA) and return on equity (ROE).

Timeliness

Timeliness can be defined as "having information available to decision-makers before it losses its capacity to influence decisions" (Delaney et al., 1997). In line with Statement of Financial Accounting Concepts (SFAC) No. 1 and

SFAC No. 2, in order for sound decision making being exercised by users, useful information must be available timely before it loses its ability to influence decision makers.

RESEARCH METHOD

In this research, it is more reliable to use quantitative method because it is easier to compile the data available from financial statement in Bursa Malaysia. In addition to that, the research can be conducted on a large scale using this method and can cover industrial products' sector (Remenyi et al., 2002). In order to ensure that data being collected was reliable and validated, we downloaded financial statements from the Bursa Malaysia's website. Bursa Malaysia is a well-known security in Malaysia that discloses the status of business operation in Malaysia in terms of corporate governance and financial performance.

Data Collection and Sample

Out of 186 data available in industrial products in Bursa Malaysia, 102 of the industrial product companies as majority of the sample presented their financial statement year ended 31 December 2016. Hence, for 2016 financial submissions, 102 audited financial statements were selected as the main population of the available data for industrial products (55%). These 102 selected financial statements are homogenous and taken from 31 December 2016. Consequently, this ensure same matching sample taken to represent the population of the industrial products sector. The variables are recognised under corporate governance component, performance and timeliness (Table 1).

Data Analysis and Results

CEO duality

The CEO duality included 43 companies (42%). The descriptive statistics indicate that the number of companies with CEO duality is relatively high as almost half of them lack independent CEOs, which according to Abdullah (2004) and Zandi et al. (2010) causes the risk of under-monitoring management.

Table 1
Measurement used for data analysis

Items	Variable	Measurement used	Indicator/result
Corporate governance mechanism	Independent variable	Board size	Number of BODs
Corporate governance mechanism	Independent variable	CEO duality	CEO = chairman, 1 = Yes (combined); 0 = No (separate)
Corporate governance mechanism	Independent variable	Independent BODs	Number of independent BODs appointed by the company divided by total BODs
Corporate governance mechanism	Independent variable	Independent audit committee	Number of accounting professional audit committee appointed by the company divided by total audit committee
Performance indicators	Explanatory variable	ROA	Net income divided by total assets
Performance indicators	Explanatory variable	ROE	Net income divided by shareholder's equity
Effect on the submission	Dependent variable	Timely submission for the respective year	1 = early and announce within 4 months; 0 = just in time and submit within 6 months

Timeliness of financial reporting

Only 9 companies (8.8%) release their financial reports within the specified time and the rest of the 93 companies (91.2%) are late for their financial reporting. Ismail and Chandler (2004) conducted a survey on Bursa Malaysia listed companies regarding their financial reporting timeliness and disclosed that companies in Malaysia take a much longer reporting lag. On contrary, McGee (2009) who studied timeliness of financial reporting in 20 developing countries indicated that considering Organisation for Economic Co-operation and Development (OECD) benchmark of 5 for best and 1 for worst, Malaysia scored 4 in financial reporting timeliness which is a good score among developing countries.

Board size

According to the results, the number of BODs in companies in Bursa Malaysia ranges from 4 to 16 with an average of 7. However, there was just one company with 16 boards of directors. This result confirmed the results obtained by Abidin, Kamal and Jusoff (2009) who investigated the effect of ownership structure and firm performance. His finding was in line with Bennedsen, Kongsted and Nielsen (2008) results who found out that board size positively affected the performance, but its effect was different in various industries. Zandi et al. (2010) find that board size is positively and significantly related to Price Informative Voluntary Disclosure of financial information.

Board independence

According to the descriptive results, the board independence ranges from 0 to 6 with the average of three independent board members. Although Abdullah (2006) indicated in his research that no significant effect is found for board independence on the distressed status of companies in KLSE, but his results are not consistent with Ramdani and Witteloostuijn (2010), who stated that board independence significantly and positively affected the performance of Malaysian companies. Zandi et. al. (2010) find that independent directors are positively related to Price Informative Voluntary Disclosure of financial information.

Independent audit committee

The number of independent audit committee members in the sample population ranges from zero to three with the average of one. Audit committee independence can affect many aspects of the companies. For example, Pomeroy and Thornton (2008) argued that independent audit committee could contribute to financial reporting quality in firms.

ROA

The financial ratio ROA for the sample population ranges from –9.12 to 61.45. Since the standard deviation is 6.49, we can see that the ROA ratio varies to a great extent between different companies in this research sample.

ROE

The financial ratio ROE for the sample population ranges from –20.94 to 24.82. Since the standard deviation was 3.25, we could see that the ROA ratio varies to a great extent between different companies in this research sample.

The Correlation among the Variables

According to Naser, Karbhari and Mokhtar (2004), correlation among the variables in any research can enable the researcher to make interpretation to the regression and possible multicollinearity problem. The result of Pearson's correlation analysis is reported in Table 2. The correlation between variables in this study is quite low as the highest correlation reported is between ROA and ROE (0.342). According to Schroeder (1990), correlations coefficient below 0.80 are not subject to multicollinearity problem.

Table 2
Correlation matrix of research variables

	CD	BI	IAC	ROA	ROE	TS
BS	0.003	0.277	–0.012	–0.047	–0.070	0.155
CD		0.093	–0.96	0.097	0.01	–0.126
BI			0.88	–0.181	–0.293	0.017
IAC				–0.149	–0.011	0.083
ROA					0.342	–0.034
ROE						-0.001

Multiple regression

According to Freedman (2012), the regression analysis is a statistical process that estimates the relationships among variables. The results of regression analysis represent that there is no significant relationship between board size, BOD's independence, ROA and ROE, and timeliness of financial reporting in the companies listed in Bursa Malaysia. However, there is a significant relationship between audit committee independence, CEO duality, and timeliness of financial reporting in the companies listed in Bursa Malaysia. The results of a study by Wan Kamalluarifina (2016) revealed that there was a significant negative relationship between the board independence and timeliness of corporate internet reporting (TCIR) but a positive relationship between the age of directors, profitability and leverage. In case of CEO duality, our result was consistent with a few studies (Ezat & El-Masry, 2008; Bennedsen, Kongsted & Nielsen, 2008; Hashim & Devi, 2007; Abdullah, 2004). According to a study by Zandi et al. (2010) and Ezat and El-Masry (2008), higher non-executive directors and institutional investors on the board of directors, non-CEO duality companies produce better and relevant financial reporting. Regarding audit committee independence, our result was consistent with a number of studies (Courteau & Zéghal, 2000; Carslaw & Kaplan, 1991; Ashton, Graul & Newton, 1989; Ashton, Willingham & Elliott, 1987; Davies & Whittred, 1980). With regard to performance measurements and rejecting their relationship with financial reporting timeliness, the result of this research confirmed the findings of Abidin, Kamal and Jusoff (2009), and Naser et. al. (2004). Christopher et al. (2017) proposed that total information delay, comprised of two component time periods (i.e., audit delay and post audit delay), was significantly associated with higher debt costs and lower bond ratings.

Table 3
Results of multiple regression analysis

Variable	Coefficient β	t-statistic
Constant	–	12.260*
BS	–0.137	–1.422
CD	0.214	2.320*
BI	0.068	0.723
IAC	–0.380	–4.124*
ROA	–0.150	–1.04
ROE	0.045	0.309
F-Ratio	4.855	–
Adjusted R^2	49%	–

*Indicates significance at 5% level based on 2-tailed test

CONCLUSION

Based on the Bursa Malaysia's requirements and descriptive analysis, only nine companies which represent 8.8% submit timely and within the statutory requirement (timely submission) while the remaining 93 companies or 91.2% (late submission) and within the required time by the statutory requirement. Malaysian companies only submit within the compliance required period because they are afraid of the negative impact of noncompliance with societal values as cited in a study by Cormier et al. (2009). According to Maslina, Hamidah and Sherliza (2016), for convergence of International Financial Reporting Standards (IFRS) with MFRS the auditors might face challenge of issuing their clients' listed company audited financial statements on time. It looks that the presence of specialist auditors from each industry can reduce the audit report lag and subsequently enhance financial reporting timeliness in Malaysia under MFRS fully convergence.

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