TIMELINESS OF ANNUAL FINANCIAL STATEMENT SUBMISSION: PRELIMINARY EMPIRICAL EVIDENCE FROM INDONESIA

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ABSTRACT

The study investigates the effects of size, profitability, and financial distress on information regulatory noncompliance (IRN) of firms listed in the Jakarta Stock Exchange (JSX). The firms' IRN in this study is measured by the firm noncompliance on the timeliness regulation, i.e. whether firms submit financial statement to the Indonesian Capital Market Supervisory Agency (BAPEPAM) on, before, or after the due date. The purpose of this study is to provide preliminary empirical evidences about the timeliness of financial reporting which is still very limited in emerging market such as Indonesia. This study found that return on asset (ROA) is a determining factor to noncompliance behaviour of the firms in meeting the timeliness requirement. Inconsistent with previous studies (e.g., Whittred 1980 and Givoly and Palmon 1982), this study found that auditor opinion has no association with the noncompliance since most of the financial statements of noncomplying firms have unqualified opinions. The results are partially consistent with previous studies such as those of Schwartz and Soo (1996).

INTRODUCTION

Indonesia has committed to increase the role of capital market in the development of its economy. By the year 2000, it is targeted that market capitalization should be about 80% to 120% of the country's GDP with the number of securities traded over

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four hundreds. To achieve these objectives, the Indonesian government through the Ministry of Finance and Capital Market Supervisory Agency (or known as BAPEPAM in Indonesia) has established a strong information regulatory structure such as Law No. 8 of 1995 and a number of capital market rules established in 1996. Indeed the government and the capital market related agencies have set strategies, one of which is 'Strict Compliance With Disclosure Principle'[2].

The information dissemination timeliness has been regulated in the Indonesian capital market (old) rule, and it is given more exposure and enforcement in the new rules. The new rules on information disclosure to the public were established by the agencies on January 24, 1996 and were effective at the time they were established. Since the new rules have been established for more than a year, it is significant now to investigate the extent to which the rules are complied with. This is significant to keep the capital market in track of the objectives and strategies, especially regarding information dissemination timing and the information disclosure principle. Further, when it is found that the rules are not complied with then the agencies need to investigate what factors influence the noncompliance behaviour and the characteristics of the noncomplying firms.

This study attempts to answer those questions. Learning from developed capital markets such as those in the U.S. and Australia, questions about the information disclosure and timeliness regulatory noncompliance are significant issues. Previous studies (in the U.S. and other countries) found that the information regulatory noncompliance such as reporting time delay is associated with the bad news about the firms. For examples, reporting delay is associated with the presence of the financial distress, qualified opinions by the firms' auditors, existence of contracts on process and attempts by the firms' management to avoid investors' scrutiny and non-confidence (Scwartz and Soo, 1995 and 1996; Bamber, *et al,* 1993; Givoly and Palmon, 1982). Specifically, this study has the following objectives:

- to examine the extent to which the information timeliness regulation is complied with by the public firms in Indonesia
- to identify factors that influence noncompliance's on timeliness regulation

[2] Other strategies include: 1) to promote an economically viable security industry, 2) to set high standards of safety and service quality, and 3) to keep low transaction and service charges.

The information regulation examined in this study includes those mentioned explicitly in the article No. 86 Law No. 8 of 1995 about reporting and information openness, Securities Acts No. KEP-80/PM/1996 about periodic (annual and semi-annual) financial reporting, and Securities Act No. KEP-86/PM/1996 about the disclosure of special information to the public. Specifically this study examines the noncompliance of timeliness rules of financial statement submission by public companies in Indonesia to the regulatory agency. Factors such as financial conditions of the firms such as debt to equity ratio, profitability, and auditors' opinions are examined to determine whether they influence the noncompliance behaviour of the firms with information timeliness regulation. The result of this study is significant for two reasons: for providing empirical evidences regarding information timeliness in Indonesia and for policy decision regarding information timeliness regulation. Disclosure regulation attempts to ensure that significant information is available to investors. When the regulation is not complied with, or the regulation of timeliness cannot capture significant events, the regulation is not effective. This study attempts to provide some information to make the regulation of information disclosure and timeliness effective and complied with by public companies.

INFORMATION REGULATORY NONCOMPLIANCE STUDIES AND THEIR APPLICATION IN INDONESIA

The regulatory economics suggests that information regulation is significant to facilitate the existence of fair and efficient securities market (Chambers, 1973). In Indonesia, the securities market is regulated by a set of a new rule: Law No. 8 1995 and related disclosure rules required by the Capital Market Supervisory Agency (BAPEPAM) and the Jakarta Stock Exchange (JSX). This section reviews the laws and related literature on IRN.

Financial Information Regulation in Indonesia

Table 1: Financial reporting and disclosure of Indonesian listed firms

Required reporting	Report to	Deadline
Routine		
• Annual financial statement	BAPEPAM & JSK	• Audited statement by 120 days
• Advertised annual financial statement	BAPEPAM & JSK	• At least 2 widely circulating newspaper
• Mid-year financial statement	BAPEPAM & JSK	• Limited review: 90 days; unaudited: 60 days; audited: 120 days
• Advertised mid-year financial statement	BAPEPAM	• At least 2 widely circulating newspaper
• Quarterly report	BAPEPAM & JSK	• Every 3 months
• Report on appropriation of funds raised from public • Monthly registration report	JSK	• Monthly
Periodic • Each significant event of relevance	BAPEPAM & JSK	• Within 48 hours
Other reports		
• Amendment of articles of association	BAPEPAM & JSK	• 5 days after receipt of amendment before advertised
• Planned general meeting of share/bond holders	BAPEPAM & JSK	
• Change in board membership	BAPEPAM & JSK	• Within 48 hours
• Greater than 10% deviation from published projection	BAPEPAM & JSK	• Within 2 days of coming into knowledge into knowledge of the deviation

The financial reporting of public companies in Indonesia is regulated by the Law No. 8 1995 on the capital market and other rules established by the BAPEPAM and JSX[3]. According to the law, public companies should submit financial reports periodically to BAPEPAM on timely basis. The submission and publication of audited annual and unaudited semi-annual financial statements are mandatory, while the submission of quarterly financial statements is voluntary. The financial statements should be reported based on Financial Accounting Standards, and consist of balance sheet, income statement, statement of cash flows, disclosures about accounting policy and notes that accompany the financial statements. The information regulation also mandates the firms to disclose other significant events and information such as merger and acquisition, changes in the company top management and changes in company' s auditor. The summary of the reports that should be submitted and published by the firms is provided in Table 1.

BAPEPAM, a government agency that supervises the operation of Indonesian capital market, enforces the financial regulation and imposes penalties for noncomplying firms. For example, in 1997 BAPEPAM announced that the agency has provided formal warnings and imposed Rp2.98 billion fine on 170 firms due to reporting lateness (Suara Pembaharuan, December 27, 1997).

Information Regulatory Noncompliance Studies

IRN has been studied from the information dissemination timeliness perspective. The studies examined whether firms report the required information within the time limit determined by the regulation. The required information that should be reported timely by the firms includes annual reports, annual earnings announcements, information regarding the auditor changes and other significant events. The IRN phenomenon has been studied in various countries such as Australia (Dyer and McHugh, 1975; Whittred, 1980), New Zealand (Courtis, 1976), and the US (Givoly and Palmon, 1982; Alford, *et al,* 1994; Ashton, *et al*, 1987, and Schwartz and Soo, 1996 among others). Those studies found that audit qualifications (Whittred, 1980), existence of bad news (Givoly and Palmon, 1982), firm size, existence of financial distress and types of auditor (Lawrence, 1983,

[3] The financial reporting is also mandated by the previous capital market law, but not as extensive as the Law No. 8 1995.

Alford, *et al,* 1994; Schwartz and Soo, 1996) shape the information dissemination timeliness noncompliance.

Whittred (1980) investigates the effect that qualified audit reports have on the timeliness of Australian firm annual reports. Auditors issue the qualifications of audit reports if the auditors, at the completion of the audits, are unable to confirm auditees' compliance with the applicable statutory provisions and the relevant professional standards (accounting). The qualification may take several forms: 1) adverse opinion, 2) statement of inability to form an opinion, and 3) exception opinion. He argues that audit qualification results in reporting delay for two reasons. First, audit qualifications were still rare in Australia and they were perceived as a signal of bad performance of management. Consequently, managements were reluctant to receive the qualification and auditors to give one. Under these circumstances management may take several actions such as negotiating with auditors asking the latter to expand the audit procedures and to collect more evidences. These processes take more auditing time that eventually delays the financial statement submission. The second reason for the effect of audit qualification to report delay is the Australian professional auditing standards. The standards imply that this is likely to be the case. The standards require that before issuing a qualified opinion, auditors must take all reasonable steps to put themselves in a position to issue a confirming opinion (CP3/357: Para. 17 - ASA, 1977) Even there is a time constraint for auditors for conducting the audit procedures (the standards prohibit auditors to defer report to obtain further evidence to resolve possible qualifications), the auditors may do so because of the reluctance in issuing qualified opinion mentioned above.

Givoly and Palmon (1982) examined the timeliness of annual reports as a significant determinant of their usefulness. Their study investigates the timeliness from several aspects such as the timeliness implications for regulatory actions and for research design. For the regulatory purposes, the timeliness of financial reporting is significant to determine if the time limit requirement (e.g., the 90-day requirement) is appropriate. If almost all companies are capable of and are actually issuing their statements within a much shorter period, the limit might be too loose. On the other hand, too much noncompliance might indicate an abuse of the provision and might point to a need to reexamine the regulations concerning the annual report timing. The implication of report delay study on research designs is that the findings of reporting delay may deteriorate the information content findings of the reports. Studies about the information contents of earnings announcements

assumed a fixed arbitrary announcement date through the years (for examples: Beaver and Dukes, 1972; Basu, 1977, 1978). The increase in report delays means that there are alternative sources of information or the prevalence of leaks and exploitation of inside information. Givoly and Palmon (1982) argued that the existence of such phenomenon would underscore the importance of timeliness because the alternative sources of information are costlier than that of the improvement in the timeliness of accounting information.

Based on the analysis of a sample of 210 companies in 25 industries collected from COMPUSTAT file of industrial corporations, Givoly and Palmon (1982) found that the trend in noncompliance is decreasing, and the reporting delay relates to the content of the report. Announcements containing bad news tend to be delayed. Investigation of the association between firm characteristics and timeliness indicates that size is inversely related and complexity of the audit is directly related to the reporting delay. However, those relationships have small explanatory power. The Givoly and Palmon's study also found that the market tests indicate a significant diminution in the information content of annual reports when the reporting lag is unusually long. For this reason, the study concludes that timeliness appears to be a non-trivial factor in assessing the effect of earnings announcement on investor expectations.

Recently, Schwartz and Soo (1996) studied the timeliness noncompliance with SEC disclosure regulation of the U.S. firms. In one sense, Schwartz and Soo's study extends Givoly and Palmon's (1982) in that the earlier provides more empirical evidences of the effects of changes in regulatory regimes on noncompliance, while the latter only provided the trend in the extent of noncompliance. However, the Schwartz and Soo's study also investigates if noncompliance with the regulations (i.e., disclosure of auditor changes) is caused by lack of SEC expertise, quality of auditors, firm size and existence of financial distress. The change in regulatory regimes examined in Schwartz and Soo's study (1996) is about tighter SEC regulations on the 8-K filing time under FRR 34. The Form 8-K is a non-routine filing that aims to provide timely disclosure of material current events such as a change in company auditor. Since the announcement of this regulation, the SEC received several comment letters claiming the difficulty in meeting the regulation due to lack of personnel and the impact of weekends and holidays (Schwartz and Soo, 1996). If the complaints were truly arisen from the difficulties, not from other motivations, Schwartz and Soo would find a higher noncompliance rate under the tighter SEC regulation, but no change in the time it takes to file the form. Firm size

is related with quality of auditors and SEC expertise in explaining the IRN. Schwartz and Soo (1996) predict that the compliance rates of smaller firms may differ from those of larger firms for several reasons. First, smaller firms may be uninformed about current filing requirements or may take longer to submit the Form 8-K report due to limited staff and experience. Second, the larger firms have a greater exposure to the legal and political authorities. Larger firms are more likely to be questioned about their motives for late submission due to the potential greater investor losses and capital market disturbances.

The third reason for the differences in timeliness between smaller and larger firms relates to the quality of the auditors. As documented by Dopuch and Simunic (1980), DeAngelo (1981) and Johnson and Lys (1990), auditor size is positively related to the auditor quality. Auditor quality in the literature is measured by the auditor sizes such as whether an auditing firm is a member of the big six or not. Johnson and Lys found that large auditors have greater incentives to develop and market their expertise in SEC compliance than the small auditors do. Further, the larger auditors tend to inform their clients about the SEC regulations and ask the clients to comply with the regulations. Schwartz and Soo (1996), based on their discussion with SEC staff also found that reporting noncompliance is much more common among the firms employing smaller (non-big six) auditors.

RESEARCH METHODOLOGY

Research Hypotheses

The review on the information regulation in Indonesia and IRN studies in the previous section indicates that the IRN has been studied in various countries such as the U.S., Australia and New Zealand, and the application of the study in Indonesia is worthwhile. The application of the studies in Indonesia is significant for the following reasons. First, the study is significant, as it looks at the efficiency and effectiveness of the regulation itself. Second, since Indonesia is in the process of establishing its capital market, inducing the role of the private sector in the economy, and increasing the transparency and business fairness, the study in IRN is significant in order to support these efforts toward market efficiency.

IRN studies have been done extensively in developed countries, but not in developing countries. The application of the existing studies to developing

countries such as Indonesia is significant because of the different regulatory environment. These differences include the absence of antimonopoly laws, lower level of judicial certainty and property rights law enforcement (World Bank, 1997). This research examines the IRN in Indonesia by looking at the following aspects. First, this study examines the extent to which the timeliness of the annual financial statement submission is complied with by listed firms; and second whether factors such as the size (total assets and total sales), profitability (returns on assets), growth of the firms affect the noncompliance, financial distress (level of debt to equity ratio) and auditor opinion.

Measurement of the Variables

This study explores factors that associate with information regulatory noncompliance behaviour of the firms listed in the Jakarta Stock Exchange (JSX). Based on previous studies in the US and Australia, variables such as auditor opinion, profitability, capital structure and financial distress conditions are predicted to associate with the noncompliance behaviour. Those variables of noncomplying firms are compared to the complying firms to explore the association. Measures of those variables and the sample firms are discussed below.

The dependent variable, i.e., noncompliance, is measured based on whether a firm annual report submission is delayed. The submission is categorized as a delayed submission if it is done after the due date, e.g., March 31. This measure is similar to that of Schwartz and Soo (1996) that measured the noncompliance based on whether a rule is complied with. Previous studies used different measures such as number of days of time lag (Whittred, 1980), and the reporting delay measured as the number of days between the end of the fiscal year and the announcement date. The independent variable, i.e., financial distress, is measured using the debt to equity and profitability ratio of the firms. Debts to equity and profitability ratios are significant measures to indicate whether a firm is financially healthy (Holthousen, 1990; Press and Weintrop, 1990). Accounting literature on financial distress uses two different types of debt to equity ratio: the D/E level and the change in D/E. Similarly the profitability is analysed using the level and the change in profitability. This study uses the level measures of financial distress and profitability due to limitation of the data.

Sources of Data

This study uses secondary data collected from the Capital Market Supervisory Agency (BAPEPAM) files. The sample data analysed in this study consist of two groups of firms: 1) groups of noncomplying firms, and 2) groups of complying firms (comparisons). Noncomplying firms are identified from annual report submission of firms listed in the Jakarta Stock Exchange (JSX) from 1994–96. Forty firm years are identified as noncomplying firms. From these firms, the data of twelve firm years are not available so that there are 28 noncomplying firm years in the sample. Three firm years of these samples are in financial service industry.

The complying firm years are randomly selected for comparison. The selections of comparison firms are conducted in two ways: 1) random selection of comparison firms based on the same industry (first group) and 2) total random selection from all the complying firms without looking at the industry type (second group). The summary of the data is provided in Table 2, and the list of noncomplying firm years and the randomly selected complying firm years are listed in Appendix 1. The financial data for the independent variable measures (total assets, profits, profitability, returns on assets and returns on equities, and debt to equity ratios) are collected from the financial statements of the sample firm years in the BAPEPAM files. The data are analysed using descriptive and logit regression analysis.

Table 2: Summary of the data of noncomplying and noncomplying firms

Descriptions	Number of firm years
Number of noncomplying firm years since 1994-96	40
Firm years whose data are not available	12
Remaining firms	28

RESULTS AND DISCUSSION

This section describes the descriptive statistics and the results of the regression analysis. The descriptive statistics compare financial variables of noncomplying and complying firms, and explains the differences and similarities of auditor

opinions on the noncomplying and complying firms. The regression analysis examines if total assets, sales, returns on assets, returns on equity and debt to equity ratio determines the regulatory compliance and noncompliance of the firms.

Differences in Financial Variables

The descriptive statistics of the financial variables (i.e., average of total sales, returns on assets, returns on equity, profit growth and debt to equity ratios) for the three groups of sample firms are presented in Table 3. The three groups of sample firms are one group of noncomplying firms and two groups of complying (comparison) firms. The comparison firms are categorized based on the sample selection, one group selected from the same industry firms (comparison with firms 1) and the other is selected from all firms (comparison with firms 2). The complying firms have higher total assets, sales, returns on assets (ROA), returns on equity (ROE), and profit growth, and lower debt to equity ratio than those of noncomplying firms does. However, except for the ROA, the differences are not significant. These results are consistent for all of the sample firms either including or excluding the firms in the financial service industry.

For all of sample firms, the ROA of the same industry (all) complying firms is .069 (.058), significantly higher than that of noncomplying firms, .023 (t=2.5 for the same industry and t=2.38 for all firms; $p<.05$). The debt to equity ratio (DER) of the same industry (all) complying firms is 1.55 (2.15), less than that of noncomplying firms, 2.17 (Table 3, Panel A). However, the difference in DER is not significant. For the sample firms excluding the firms (noncomplying) in financial service industry, the results are similar. The ROA of the same industry (all) complying firms is .066 (.056), significantly higher than that of noncomplying firms, .021 (t=2.64 for the same industry and t=2.21 for all firms; $p<.05$). The DER of the same industry (all) complying firms is 1.072 (2.24), less than that of noncomplying firms, 1.85 and the difference in DER is however not significant. These results provide partial supports for the prediction that financial performances of the sample firms affect their financial reporting behaviour, i.e. the compliance and noncompliance of the firms on information regulation. These results are consistent with the previous studies in other countries (Givoly and Palmon, 1982; Schwartz and Soo, 1996; Whittred, 1980).

Table 3 (Panel A):
Descriptive statistics for the three groups of sample firm years

Descriptive statistics for the three groups of sample firm years including financial service firms						
	Assets (Billions Rupiah)	**Sales (Billions Rupiah)**	**ROA**	**ROE**	**D/E Ratio**	**Profit growth**
Noncomplying firms (NCF)	447.36 *699.26*	212.51 *280.53*	.023 *.071*	(.038) *.584*	2.170 *2.310*	-2.585 *16.95*
Comparison firms 1 (CF1)* Complying firms 1	578.68 *635.93*	319.31 *419.42*	.069 *.061*	.138 *.145*	1.553 *1.807*	.517 *1.41*
Comparisons firms 2 (CF2)* Complying firms 2	2,433.7 *7014.37*	579.26 *1186.51*	058 *.038*	.124 *.059*	2.151 *3.067*	.192 *.463*
Independent t-test** NCF vs. CF1 NCF vs. CF2	-.735 *-1.497*	-1.120 *-1.592*	-2.500*** *-2.384****	-1.524 *-1.442*	-1.113 *.027*	-.965 *-.867*

Italic numbers indicate the standard deviation
*** Significant at < 0.05
** Two-tailed test
* Comparison firms group 1 represents the same industry comparison while group 2 represents total random comparison

Table 3 (Panel B):
Descriptive statistics for the three groups of sample firm years

Descriptive statistics for the three groups of sample firm years excluding financial service firms						
	Assets (Billions Rupiah)	**Sales (Billions Rupiah)**	**ROA**	**ROE**	**D/ E Ratio**	**Profit growth**
Noncomplying firms (NCF)	398.947	225.390	(.021)	(.061)	1.846	-2.887
Comparison firms 1 (CF1)*	573.045	347.346	.066	.138	1.072	.520
Comparisons firms 2 (CF2)*	2582.021	584.486	0.56	.102	2.244	.170
Independent t-test**						
NCF vs. CF1	-.908	-1.159	-2.643***	-1.550	1.754	-.945
NCF vs. CF2	-1.467	-1.409	-2.218***	-1.450	-.520	-.856

*** Significant at < 0.01
** Two-tailed test
* Comparison firms group 1 represents the same industry comparison while group 2 represents total random comparison

Auditor's Opinion

The result of the observation on the relation between noncompliance behaviour and auditor opinion is surprising. Most of all the noncomplying firms have an unqualified opinion, indifferent from the complying firms. There is only one firm out of 28 noncomplying firms in the sample that has a qualified (disclaimer) opinion, which is different from the previous studies that reported a significant relationship between information regulatory noncompliance and auditor opinion. The fact that delayed reports or noncompliance behaviour does not relate to the auditor opinion may be due to the reluctance of auditors to issue a qualification and management to accept one. This may happen in a developing society where the legal structure and professional environment are not relatively well established.

Logit Regression Analysis

Logit regression is used to examine if the financial variables (total assets, total sales, ROA, ROE, and D/E ratios) determine the firms' noncompliance. The complete logit regression model is stated as the following:

$$NC_{i,t} = \beta_0 + \beta_1 TA_{i,t} + \beta_2 TS_{i,t} + \beta_3 ROA_{i,t} + \beta_4 ROE_{i,t} + \beta_5 DE_{i,t} + \beta_5 PG_{i,t} + \varepsilon_{i,t}$$

Where,

NC = a dummy variable of noncompliance (coded as 1 if a firm did not meet the due date and 0 otherwise)
TA =s total assets
TS = total sales
ROA = returns on assets
ROE = returns on equities
DE = debt to equity ratio
PG = profit growth
β_0 = intercept and
ε = errors of firm i at year t.

The results of the logit regression analysis are provided in table 4. Panel A (B) of Table 4 provides an analysis of the noncompliance model for the sample firms including (excluding) financial firms[4]. The results indicate that all the independent variables except for returns on assets (ROA) are not significant. However, with the complete model, coefficient for ROA is marginally significant at –16.38 (p = .10). A negative coefficient shows that the lower the ROA, the higher the probability that the firms become noncomplying firms. For the reduced models (Models 2 and 3), level of significance for ROA increases at 17.28 (p = .07) and 14.86 (p = .04) for (Table 3) respectively.

[4] The regression results reported here cover only sample firms using the same industry comparison.

Table 4: Logit regression analysis of noncompliance model coefficients: Panel A – All firms including financial firms*

($NC = \beta_0 + \beta_1 TA + \beta_2 TS + \beta_3 ROA + \beta_4 ROE + \beta_5 DE + \beta_5 PG + \varepsilon$)

	Total assets	**Total sales**	**ROA**	**ROE**	**D/E Ratio**	**PG**
Expected sign	-	+	-	-	+	-
Model 1(full)						
Coefficients	-.00 (.71)	-.00 (.45)	-16.38 (.10)	-1.64 (.65)	.01 (.95)	.08 (.45)
$R^2 = .16$ $\chi^2/F = 9.76$ $P(\chi^2/F) = .13$						
Model 2						
Coefficients	-.00 (.72)		-17.28 (.078)	-.88 (.21)		
$R^2 = 0.14$ $\chi^2/F = 8.67$ $P(\chi^2/F) = .07$						
Model 3						
Coefficients	-.00 (.28)		-14.28 (.048)		.038 (.83)	
$R^2 = .14$ $\chi^2/F = 8.53$ $P(\chi^2/F) = .036$						

* Based on the sample firm with Group 1: Same industry comparison

Table 4: Logit regression analysis of noncompliance model: Panel B – Excluding financial firms*

($NC = \beta_0 + \beta_1 TA + \beta_2 TS + \beta_3 ROA + \beta_4 ROE + \beta_5 DE + \beta_5 PG + \varepsilon$)

	Total assets	**Total sales**	**ROA**	**ROE**	**D/E Ratio**	**PG**
Expected sign	-	+	-	-	+	-
Model 1(full)						
Coefficients	-.00	-.00	-18.74	-.63	.70	.13
	(.44)	(.41)	(.08)	(.87)	(.13)	(.28)
$R^2 = .24$						
$\chi^2/F = 5.19$						
$P(\chi^2/F) = .73$						
Model 2						
Coefficients	-.00		-21.22	1.31		
	(.22)		(.04)	(.47)		
$R^2 = .18$						
$\chi^2/F = 13.30$						
$P(\chi^2/F) = .10$						
Model 3						
Coefficients	-.00		-13.92		.633	
	(.15)		(.051)		(.17)	
$R^2 = .21$						
$\chi^2/F = 16.51$						
$P(\chi^2/F) = .036$						

* Based on the sample firm with Group 1: Same industry comparison

For the sample excluding financial firms (Panel B, Table 3), the regression analysis indicates a stronger result. All the independent variables except for the ROA are still not significant. However, the ROA is significant at a higher level at 18.74 (p = .08). Similarly for the reduced models (Models 2 and 3), the ROA is significant at a higher level than that of the complete model at 21.22 (p = .04) and at 13.92 (p = .051).

These results show that firms do not comply with the timeliness regulation due to lower profitability. Size (measured by total assets and total sales) and financial

distress (measured by debt to equity ratio) do not affect (significantly) financial reporting (timeliness) behaviour of the firms. Profitability may be interpreted as bad news that motivates management to delay the dissemination of the information. These results are partially consistent with previous studies such as those of Schwartz and Soo (1996), Givoly and Palmon (1982), and Whittred (1980). The delay of bad news (measured by the lower level of ROA) found in this study is consistent with the previous findings, which claimed that firms attempt to hide bad news (measured by analyst's expectation in Givoly and Palmon's study, and by negative disclosure in Schwartz and Soo's study).

CONCLUSION

This study examined whether factors such as size, profitability, and financial distress affect the firms' IRN. The firms' IRN is measured through the timeliness regulation, i.e. the due date of the financial statement submission to the Capital Market Supervisory Agency in Indonesia (BAPEPAM). The aim is to provide empirical evidence on IRN in the emerging Indonesian market. Based on the sample studied, it was found that all the independent variables except for the returns on assets (ROA) do not explain noncompliance of Indonesian firms. These results are partially consistent with previous studies (Schwartz and Soo, 1996; Givoly and Palmon, 1982; and Whittred, 1980). The noncompliance's of timeliness regulation in Indonesia is not associated with the firms' financial distress (measured based on their debt to equity ratio), auditors' opinions, and size of the firms (total assets and total sales). This study utilised less data compared to those utilised by previous studies. However, this study may be extended by including some other variables such as extent of disclosure (e.g., auditor changes and revaluation of assets) and accounting choices

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Appendix 1: Noncomplying firms and their comparison firms

No.	Noncomplying firms	Year	Industry	Comparison firms 1	Comparison firms 2
1	Anwar Sierad	1996	Basic Industry & Chemicals	Unggul Indah Corp. '96	Indal Aluminium Industry '96
2	Aster Dharma Industry	1994	Trade, Service & Investment	Surya Hidup Satwa '95	Intan Wijaya Chemical '96
3	Asuransi Ramayana	1996	Finance	Perdana Cipta MF '95	Dankos Indonesia '94
4	Bakrie & Brothers	1995	Trade, Service & Investment	Matahari Putra Prima '96	Voksel Electric '95
5	Bank Papan Sejahtera	1994	Finance	Lippo Pacific Finance '95	Miwon Indonesia '95
6	Bank PDFCI	1995	Finance	Bank Tiara Asia '94	Tjiwi Kimia '96
7	Bukaka Teknik	1996	Infrastructure, Utilities & Transportation	Berlian Laju Tanker '96	Intan Wijaya Chemical '96
8	Concord Benefit	1994	Misc. Industry	SUCACO '95	Texmaco Perkasa '96
9	Concord Benefit Enter.	1995	Misc. Industry	Branta Mulia '95	Kabel Metal '96
10	Dharmala Agrifood	1995	Basic Industry & Chemicals	Indal Aluminium Industry '95	Petrosea '96
11	Itamaraya Gold	1994	Basic Industry & Chemicals	Fajar Surya Wisesa '96	Surya Mas Duta Makmur '96
12	Miwon Indonesia	1996	Consumer Goods Industry	Suba Indah '94	Pudjiadi & Sons '94
13	Pan Brothers	1995	Misc. Industry	Super Mitory Utama '94	Bank Surya '96
14	Rimba Niaga Idola	1996	Trade, Service & Investment	Hotel Prapatan '94	Steady Safe '95
15	Sarasa Nugraha	1994	Misc. Industry	Inti nusa Selareksa '94	Plaza Indah Realty '95
16	Sarasa Nugraha	1995	Misc. Industry	Eratex Djaya '96	Bank Rama '96
17	Sarasa Nugraha	1996	Misc. Industry	Komatsu Indonesia '96	Multi Breeder '94
18	Sekar Bumi	1995	Consumer Goods Industry	Mayora Indah '95	BNI '96
19	Sekar Bumi	1996	Consumer Goods Industry	Mustika Ratu '96	Metro Supermarket '95
20	Sekar Laut	1995	Consumer Goods Industry	Dankos Laboratories '96	Delta Djakarta '96
21	Sierad Produce	1996	Basic Industry & Chemicals	Sumalindo Lestari '94	Mayora Indah '94
22	Squibb Indonesia	1996	Consumer Goods Industry	Delta Djakarta '94	Ultra Jaya Milk '96
23	Telagamas	1995	Misc. Industry	Argo Pantes '96	Tunas Ridean '95
24	Tigaraksa Satria	1994	Trade, Service & Investment	Enseval Putra '94	Citra Marga NP '96
25	Toko Gunung Agung	1996	Trade, Service & Investment	Bayu Buana '96	Bank Bira '95
26	Ultra Jaya Milk	1994	Consumer Goods Industry	Merck Indonesia '95	SMART Corp. '96
27	Wicaksana Overseas Intl.	1996	Trade, Service & Investment	Dharmala Sakti Bersama '96	Telkom '95
28	Zebra Nusantara	1995	Infrastructure, Utilities & Transportation	Citra Marga NP '94	Branta Mulia '96