

FIRM PERFORMANCE: AN EMPIRICAL STUDY ON TIMELINESS OF FINANCIAL REPORTING AND FINANCIAL VOLUNTARY DISCLOSURE

***Norziation Ismail Khan, Nor Hidayah Abd Rahim**

Faculty of Accountancy
Universiti Teknologi MARA
42300 Puncak Alam, Selangor, Malaysia

*Corresponding author's email: norzi153@salam.uitm.edu.my

Abstract

Timeliness of financial reporting is an essential part in determining the relevance of accounting information while disclosure is another important element for decision making purposes by the financial reporting information users. This study has two (2) objectives. The first objective investigates a relationship between timeliness of financial reporting and firm performance. Where else, second objective examines a relationship between financial voluntary disclosure and firm's performance. This research draws from agency theory, to form a framework and develop the hypotheses to be examined. Two hypotheses are developed and tested using data from 98 sample firms from years 2011, 2012 and 2013 which is equivalent to 294 firm's year observation. The findings show that timeliness of financial reporting has significant relationship with firm's performance. It indicates that less number of days in announcing the annual report could increase the firm's performance. However, financial voluntary disclosure has insignificant relationship with firm's performance, indicating that the financial voluntary disclosure items disclosed in the annual report have insignificant impact on firm performance. Overall, this study has highlighted on the importance of timeliness of financial reporting as to assist shareholders in making decision effectively for their future investments.

Keywords: Firm performance, timeliness of financial reporting, financial voluntary disclosure, corporate governance

1.0 INTRODUCTION

Organisation for Economic Co-operation and Development (OECD, 1999) has listed transparency as one of the important elements of good corporate governance practices. Kulzick and Raymond (2004) define in detail about transparency that includes accuracy, appropriateness, completeness, consistency, clarity, convenience, timeliness, governance and enforcement. With reference to timeliness, the International Accounting Standards Board (IASB) considers timeliness as a crucial part in financial reporting. The timeliness of financial statements is an essential qualitative characteristic of financial reports as identified by Imam et al., (2001). According to Ismail and Chandler (2004), information that is disclosed on time provides more valuable information to users of financial reporting. The need for timely information to the users of financial reporting will enable them to make prompt review as to further contribute their capital to a firm. Delaying in disclosing timely information to the users may have implications on the market efficiency (Ismail and Chandler, 2004). Another important element of corporate transparency is disclosure of information to the users. Disclosure practices in an annual report can be made as a mandatory or voluntary basis. Mandatory disclosures are information that is compulsory to be disclosed because of

statutory regulations (Cooke, 1992). However, voluntary disclosure is not mandated to be disclosed, but it is important to reduce the agency costs resulting from the information asymmetry between the internal and external stakeholders (Chakroun and Matoussi, 2012; Hassan et al., 2008).

Based on a study conducted by Razali and Adnan (2012), transparency and information disclosure practices are part of corporate governance mechanisms. They found that transparency is an important element in Malaysian property markets. This is due to the high level of transparency in the Malaysian market which will enhance good corporate governance practices and to improve the behaviour of the property market participants. However, there is little research related to the corporate transparency in the property markets (Razali and Adnan, 2012) and mining industry (Rankin et al., 2011). Besides, minimal research has been carried out by academicians on the problems faced by the local construction industry (Ibrahim et al., 2010). This is due to low quality, low productivity, delays in the completion dates during the construction stage, lack of data and information, and poor management in the construction of property and mining sectors which have led to low corporate transparency and affecting the performance of the firm (Ibrahim et al., 2010; Manaf and Diah, 2006; Rankin et al., 2011).

Past literature has found that corporate governance practices have great influence towards firm performance (Hassan et al., 2008; Levine et al., 2000; Kim and Lee, 2003). Bijalwan and Madan (2013) also observed that corporate governance policies and practices, transparency and disclosure are positively related to firm performance. A study by Razali and Adnan (2012) show that there is a positive association with firm's transparency (transparency index) among property firm in Malaysia which leads to better firm performance. Additionally, financial voluntary disclosure significantly contributes to the decision making for the external users of annual reports such as investors, supplier and government (Binh, 2012). On the other hand, Hassan et al., (2008) noticed that there is no relationship between transparency (especially on the timely reporting and the level of disclosure) and firm performance for Malaysian firms. It was reported that there is no significant relevance on the financial voluntary information disclosed in the annual reports for investors' decisions (Lan et al., 2013). Thus, it led to the inconclusive results for the relationship between timeliness, financial voluntary disclosure and firm performance. Hence, it is important to fill in the gap and to add additional knowledge by examining the relationship between timeliness of financial reporting, financial voluntary disclosure and firm performance.

The remainder of this paper is organized as follows. Next section describes literature review and hypotheses development. Third section explains research methodology while results and discussion are presented in the fourth section. Final section summarizes conclusion of this study.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Good corporate governance practices are essential for firms' valuation in order to enhance firms' performance in Malaysia. According to Appah and Appiah (2011), good and sound corporate governance practices includes the rights of shareholders, the role of shareholders, disclosure and transparency, equitable treatment of shareholders, and the responsibility of Board of Directors which are part of the fundamental principles recognised globally. Good corporate governance practices such as transparency and information disclosure of a firm is an important element in order to increase economic performance (Heenetigala and Armstrong, 2011). Transparency is one of the virtuous elements in corporate governance (OECD, 1998) which includes timeliness of financial reporting (Kulzick and Raymond, 2004). According to Dezoort and Salterio (2001), timely corporate financial reporting is an important qualitative element and an essential component of financial accounting. This is because it determines relevancy of the information and influences the decisions made by the users of the financial report. The level of financial voluntary disclosure may be able to affect firm's performance (Hassan et al., 2008). This is supported by the agency theory that when the board of directors are independent and perceive their

responsibility to be transparent and accountable to their shareholders or stakeholders, they will disclose all relevant information on time regardless of mandatory or voluntary information. According to Bijalwan and Madan (2013), the conflict of interest between principal (shareholders) and agent (managers) in relation to disclosure has implication to the corporate governance and performance.

According to Gibbins et al., (1990), timeliness of financial reporting influences corporate governance, especially the Board of Directors who manages information disclosure in the annual reports. Timeliness is one of the major determinants of quality financial reports. The greater the number of days that the firm takes to publish its annual report, the information in the financial reporting would be less useful (Al-Ajmi, 2008). On the other hand, the information will be useful if the firms take lesser number of days to announce its annual report. Therefore, timeliness of reporting the annual reports is considered as a crucial aspect in utilising relevant information for external users, in influencing their decision making process (Alkhatib and Marji, 2012). In a study by Ismail and Chandler, (2004) and Shukeri and Nelson, (2011), it was found that firms suffering losses are predicted to have a longer audit delay as compared to those firms making profits. The losses firms tend to delay in releasing their annual report because they try to hide information from their shareholders and investors which might risk the firm's performance and reputation. However, performing firms demand its auditors to complete the audit work in a stipulated period, in order for the management to report to their shareholders on time (Shukeri and Nelson, 2011). Thus, based on the above arguments, the following hypothesis is proposed:

Hypothesis 1: There is a significant relationship between timeliness of financial reporting and firm performance

According to Hassan et al., (2008), the level of voluntary disclosure has an impact on firm's performance. In addition, studies conducted by Al-Janadi et al., (2011) and Ahmed and Ghazali, (2013) examined the level of voluntary disclosure in annual reports by using voluntary disclosure index or voluntary disclosure checklist. They found out that the financial information in the annual report is the main reference as compared to other sources of information). The stakeholders are said to be able to obtain accurate financial information as compared to non-financial information disclosed (Daoud et al., 2014). This is supported by Binh (2012) who states that financial information is an important item in the voluntary disclosure as it is used as a key factor for decision making purposes. Additionally, the annual report provides useful, relevant, and reliable financial information to investors, shareholders and other interested parties about the performance of the business, financial position and future investments prospects (Binh, 2012). Even though mandatory disclosure is made compulsory by law and regulatory bodies, but at the same time, voluntary disclosure is also important in satisfying the needs of the users specifically for public investors and financial analysts. Thus, based on the arguments above, the following hypothesis is proposed:

Hypothesis 2: There is a significant relationship between financial voluntary disclosure and firm performance

3.0 RESEARCH METHODOLOGY

3.1 Data Collection

Data was collected from the annual reports from Bursa Malaysia's main board. The sample consists of 98 firms of years 2011, 2012 and 2013 which is equivalent to 294 firm's year observation that are mainly from construction, mining, and property sectors, since minimal research was done for these industries.

3.2 Firm Performance Model

Firm performance can be measured based on Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, Market to book ratio (MBR) and Profit to book ratio (PBR) (Kiel and Nicholson, 2003; Baysinger and Butler, 1985; Kim Lee, and Yang, 2013). In this study, firm's performance being the dependent variable is measured by using Tobin's Q and ROA. Tobin's Q is measured based on the market value of ordinary shares plus the total book value of long-term debts divided by net worth which is total assets less total liabilities (Hassan et al., 2008). Return on assets (ROA) is an accounting-based measure which is usually used in the governance literature to measure performance (Al-Matari et al., 2014). It explains that greater value of Q indicates greater real return on investment. Thus, if Q (representing equilibrium) is greater than one ($q > 1$), additional investment for the firm would be encouraged because the profits generated would exceed the cost of the firm's assets (Tobin, 1969). Meanwhile, Return on Assets (ROA) is calculated based on earnings before interest and taxes (EBIT) divided by average total assets (Chiang, 2005). The independent variables in this study are timeliness of financial reporting (TIME) and financial voluntary disclosure (FIN_VOL_DISC). Audit Report Lag (ARL) is used to measure the timeliness of financial reporting, which uses the number of days from the financial year end to the date of signing off the audit report (Daoud et al., 2014). Voluntary Disclosure Checklist (VDC) is used to measure the financial voluntary disclosure. Firm size is measured by total assets of a firm, as a control variable (Hassan et al., 2008; Qu et al., 2013, Ahmed and Ghazali, 2013). Larger firms size indicates greater pressure to announce their reports on a timely basis as to avoid speculative trading of their shares (Ismail and Chandler, 2004) and at the same time will disclose more on financial voluntary disclosure (Brammer and Pavelin, 2006).

3.3 Descriptive Statistic

Table 1 shows the results of the descriptive statistics for firm performance using Tobin's Q with the mean value of 1.3714, minimum value of -1.52 and a maximum value of 23.33. Where else, ROA shows the mean of 5.9278 with minimum value of -180.29 and maximum value of 576.10. This indicates that the mean value of firm's performance using ROA is higher than Tobin's Q. Therefore, it can be deduced that ROA is a better measurement for firm's performance. In addition, Table 2 illustrates descriptive statistic for timeliness of financial reporting (TIME), financial voluntary disclosure (FIN_VOL_DISC) and control variable. The mean value for timeliness of financial reporting (TIME) is reported at 84.85% with a minimum value of 32% and a maximum value of 100%. On the average, most of the firms are able to increase up to 84.85% of their performance by reporting on time. The mean value for FIN_VOL_DISC is 70.02% with a minimum value of 50% and a maximum value of 100%. This indicates that most of the firms are able to disclose up to 70.02% of the financial voluntary disclosure in their annual reports. The results for SIZE indicated a minimum value of 4.30 and a maximum value of 7.73 with the mean value of 5.8633. The difference of 3.43 might be due to the gap in total assets of selected sample. Thus, it indicates that the selected sample of total assets varied differently between each other.

Table 1 Descriptive Statistics for Dependent Variable

	Minimum	Maximum	Mean	Std. Deviation
Tobin's Q	-1.52	23.33	1.3714	2.4265
ROA	-180.29	576.10	5.9278	35.6260

Table 2 Descriptive Statistics for Independent Variables and Control Variables

	Minimum	Maximum	Mean	Std. Deviation
TIME	0.32	1.00	0.8485	0.17296
FIN_VOL_DISC	0.50	1.00	0.7002	0.09644
SIZE (Log of Total asset)	4.30	7.73	5.8633	5.3560

Note: TIME is Timeliness of Financial Reporting, FIN_VOL_DISC is Financial Voluntary Disclosure, and SIZE is firm size

3.4 Model Specification

A multiple regression was performed between firm performance (FP) as the dependent variable and Timeliness of Financial Reporting (TIME) and Financial Voluntary Disclosure (FIN_VOL_DISC) as the experimental variable. Analysis was performed using SPSS REGRESSION for evaluation of assumptions, as shown below:

$$FP = \beta_0 + \beta_1 TIME + \beta_2 FIN_VOL_DISC + \beta_3 size + \varepsilon$$

Where:

- FP = Firm performance
- TIME = Timeliness of Financial Reporting
- FIN_VOL_DISC = Financial Voluntary Disclosure
- SIZE = Log of Total Assets
- ε = error term

4.0 RESULTS AND DISCUSSION

Table 3 shows the Pearson's correlation between the variables used in the regression for univariate and multivariate analysis. The results indicate that multicollinearity is within the acceptable range and all variables are remained. However, there is a high correlation between Tobin's Q and Return on Assets which is 0.94, it might because of both are used as measurement for firm performance.

Table 3 Pearson's Correlation Test Result

Variables	TOBINS_Q	ROA	TIME	FIN_VOL_DISC	SIZE
TOBINS_Q	1				
ROA	0.94	1			
TIME	0.007	-0.235**	1		
FIN_VOL_DISC	-0.062	0.003	0.038	1	
SIZE	0.230**	0.280**	-0.230**	-0.071	1

**Correlation is significant at the level of 0.01. *. Correlation is significant at the level of 0.05

Note: TOBINS_Q is Tobin's Q, ROA is Return on Assets, TIME is Timeliness of Financial Reporting, FIN_VOL_DISC is Financial Voluntary Disclosure, and SIZE is firm size.

A univariate analysis was performed to investigate the relationship between the dependent variables with independent variables. Results in Table 4 show insignificant effect on timeliness of financial reporting and financial voluntary disclosure towards firm's performance using Tobin's Q. The p-value of 0.576 and 0.636 are greater than 0.05 ($p > 0.05$) which has insignificant effect to both independent variables. The insignificant effect indicates that the TIME and FIN_VOL_DISC do not associate with firm's performance. However, the TIME and SIZE measured by ROA are found to be significant at $p = 0.000$ with firm's performance. It can be conclude that less number of days or less time of audit report lag in announcing the annual reports by firm influences the firm's performance.

Table 4 Univariate Analysis between Firm Performance and Independent Variables

Independent Variables	Firm Performance	
	TOBINS_Q	ROA
TIME	0.576	0.000***
FIN_VOL_DISC	0.636	0.632
SIZE	0.000***	0.000***

*Significant at 10% level; **Significant at 5% level, ***Significant at 1% level

Note: TOBINS_Q is Tobin's Q, ROA is Return on Assets, TIME is Timeliness of Financial Reporting, FIN_VOL_DISC is Financial Voluntary Disclosure, and SIZE is firm size

Table 5 Multiple Regression Results using ROA as measurement for firm performance

Variables	Coefficient	t-value	Sig.
TIME	- 0.239	-4.259	0.000***
FIN_VOL_DISC	0.041	0.744	0.457
SIZE	0.233	3.954	0.000***
F-statistic	14.166		
p-value	0.000***		
Adjusted R ²	0.119		
R ²	0.128		

*Significant at 10% level; **Significant at 5% level, ***Significant at 1% level

Note: TOBINS_Q is Tobin's Q, ROA is Return on Assets, TIME is Timeliness of Financial Reporting, FIN_VOL_DISC is Financial Voluntary Disclosure, and SIZE is firm size

Hypothesis 1 predicts that there is a significant relationship between the timeliness of financial reporting with firm's performance, using ROA. The regression result in Table 5 shows that the timeliness of

financial reporting has a significant relationship with firm's performance is significant at $p=0.000$, thus Hypothesis 1 is accepted. The findings indicate that timeliness of financial reporting has significant relationship with firm's performance, as less number of days in announcing the annual report could increase the firm's performance. This is in line with a study by Alkhatib and Marji (2012), which states that timeliness of financial reporting has significant relationship with firm's performance. Hence, timeliness of financial reporting is important in order to attain efficiency of the management to report on time. Hypothesis 2 predicts that there is a significant relationship between the financial voluntary disclosures with firm's performance. However, there is no significant relationship exist, thus Hypothesis 2 is rejected. This might be due to low level of financial voluntary disclosure in the annual report, which does not give effect to firm's performance. Another reason might be due to the investors' inability to obtain the information earlier or the content of the information disclosed might not satisfy the needs of the investors (Hassan et al., 2008). The results under Tobin's Q are not disclosed in this study due to insignificant relationships between timeliness of financial reporting and financial voluntary disclosure with firm's performance.

5.0 CONCLUSION

This paper applies agency theory in examining the relationship between timeliness of financial reporting and financial voluntary disclosure with firm's performance in Malaysia. Based on a sample of 294 firm's year observation in construction, mining and property sectors, the descriptive analysis has been performed on dependent, independent, and controlled variables. The results show that timeliness of financial reporting has positive and significant relationship with firm's performance, under Return on Asset (ROA). It indicates that shorter time of audit report lag taken by firms resulted in better performance (Alkhatib and Marji, 2012). However, financial voluntary disclosure has insignificant relationship with firm's performance. Thus, Malaysian firms specifically construction, mining and property sectors should focus more on financial voluntary disclosure items that should be disclosed in the annual report. Several limitations should be taken into consideration to provide some guidelines for future research. Firstly, the sample used in this study is limited to construction, mining and property sectors. The findings focus on these three sectors which accounts for 294 firm's year observation after deducting firms with insufficient or incomplete data. Thus, the result might not be generalized to other sectors. Secondly, only two measurements were used for firm performance, namely, Tobin's Q and Return on Assets. It is important to highlight that the firm's performance is not limited to only these two measurements, but may extend to other measurement such as Return on Equity (ROE), Price-to-Book-Ratio (PBR), Economic Value Added (EVA) and others. Lastly, the data collection is only limited to the secondary data of which the data was extracted from annual reports. Therefore, other methods such as in-depth interviews are proposed for preliminary study and part of information gathering for future research.

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