THE INFLUENCE OF CORPORATE GOVERNANCE AND OWNERSHIP CONCENTRATION ON THE TIMELINESS OF FINANCIAL REPORTING IN JORDAN

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THE INFLUENCE OF CORPORATE GOVERNANCE AND OWNERSHIP CONCENTRATION ON THE TIMELINESS OF FINANCIAL REPORTING IN JORDAN

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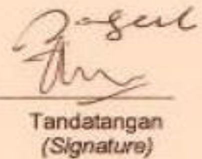

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ABSTRACT

This study investigated the influence of corporate governance mechanisms and company attributes on the timeliness of financial reports among Jordanian listed firms. It also explored the moderating effect of ownership concentration on the relationship between internal corporate governance (board of directors and audit committee) and timeliness. Timeliness is measured using audit report lag (ARL), management report lag (MRL) and total report lag (TRL). This study covered 114 listed companies on the Amman Stock Exchange from 2009 to 2012 (N= 448). It was found that the firms, on average, took more than three months to release their financial reports. Hierarchical regression analysis was employed to examine if ownership concentration moderates the relationship between internal corporate governance and timeliness. The findings show that board independence, board diligence, audit committee presence, auditor's opinion and institutional ownership are significantly related to ARL. Board size, CEO duality, audit committee presence, auditor's opinion, auditor independence and institutional ownership are related to MRL. For the TRL model, the results also indicate that board independence, size, diligence, financial expertise and audit committee are related to total report lag. In addition, this study shows that company profitability, leverage and type of sector are related to timeliness. The results show that ownership concentration moderates the relationship between internal corporate governance and timeliness for all models (ARL, MRL and TRL). The findings indicate that a higher level of ownership concentration affect timeliness by confining the functions of the audit committees and the board of directors, and results in a delay in the financial reports. This means that a high ownership concentration which represents principal conflicts among the firms' managers hinders the firms' decisions to release their financial reports in a timely manner. This study concludes that good structures of corporate governance play a key role in improving the timeliness of financial reports.

Keywords: timeliness of financial reports, audit report lag, management report lag, Jordanian firms

ABSTRAK

Kajian ini meneliti pengaruh mekanisme tadbir urus korporat dan atribut syarikat terhadap ketepatan masa laporan kewangan di kalangan firma yang tersenarai di Jordan. Kajian ini turut meneroka kesan penumpuan pemilikan terhadap hubungan antara tadbir urus korporat dalaman (lembaga pengarah dan jawatankuasa audit) dan ketepatan masa. Ketepatan masa diukur menggunakan laporan lag audit (ARL), laporan lag pengurusan (MRL) dan jumlah laporan lag (TRL). Kajian ini meliputi 114 syarikat yang tersenarai di Amman Stock Exchange dari 2009 hingga 2012 (N = 448). Secara purata, firma mengambil masa lebih daripada tiga bulan untuk mengeluarkan laporan kewangan mereka. Analisis regresi hierarki digunakan untuk mengenal pasti jika penumpuan pemilikan mempunyai hubungan antara tadbir urus korporat dalaman dan ketepatan masa. Dapatan kajian menunjukkan bahawa kebebasan lembaga, ketekunan lembaga, kehadiran jawatankuasa audit, pendapat juruaudit dan pemilikan institusi berhubung kait secara signifikan dengan ARL. Saiz lembaga, dualiti ketua pegawai eksekutif, kehadiran jawatankuasa audit, pendapat juruaudit, kebebasan juruaudit dan pemilikan institusi adalah berkaitan dengan MRL. Untuk model TRL, keputusan juga menunjukkan bahawa kebebasan lembaga, saiz, ketekunan, kepakaran kewangan, dan jawatankuasa audit adalah berkaitan dengan jumlah laporan lag. Di samping itu, kajian ini menunjukkan bahawa keuntungan syarikat, leveraj dan jenis sektor mempunyai kaitan dengan ketepatan masa. Hasil kajian juga menunjukkan bahawa penumpuan pemilikan mempunyai hubungan antara tadbir urus korporat dalaman dan ketepatan masa untuk semua model (ARL, MRL dan TRL). Selain itu, dapatan kajian menunjukkan bahawa tahap penumpuan pemilikan yang lebih tinggi menjejaskan ketepatan masa dengan mengehadkan fungsi jawatankuasa audit dan lembaga pengarah, dan menyebabkan kelewatan dalam laporan kewangan. Ini bermakna penumpuan pemilikan mencerminkan konflik utama di antara pengurusan firma yang menjadi penyebab kepada kelewatan dalam mengeluarkan laporan kewangan. Kajian ini menyimpulkan bahawa struktur tadbir urus korporat yang baik memainkan peranan penting dalam meningkatkan ketepatan masa pelaporan kewangan.

Kata kunci: ketepatan masa laporan kewangan, laporan lag audit, laporan lag pengurusan, firma Jordan

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LIST OF ABBREVIATIONS

ABN	Auditor Brand Name
ACH	Auditor Change
ACM	Audit Committee
AGE	Age of Company
AIND	Auditor Independence
AOP	Auditor Opinion
ARL	Audit Report Lag
ASE	Amman Stock Exchange
BDILIG	Board Diligence
BFEX	Board Financial Expertise
BIND	Board independence
BSIZ	Board size
CBJ	Central Bank of Jordan
CEO	Chief Executive Officer
FASB	Financial Accounting Standards Board
FOW	Foreign Ownership
IFRS	International Financial Reporting Standards
IFRS	International Financial Reporting Standards
IOW	Institutional Ownership
JSC	Jordan Securities Commission
KLSE	Kuala Lumpur Stock Exchange
LEV	Leverage

LOGSIZ	Logarithm of Total Assets
MRL	Management Report Lag
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Square
PROFIT	Profitability
SCTR	Type of Sector
SOX	Sarbanes-Oxley Act
TRL	Total Report Lag

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Corporate financial statements are the primary channel providing financial information that enables external users and investors to reach informed decisions. The significance of financial reporting is stressed by the Financial Accounting Standards Board (FASB, 1980) in the Statement of Financial Accounting Concepts No.1 (paragraph 56). The Statement notes that financial reporting should furnish information on a timely basis to potential investors, creditors, and other users who need to make rational investment decisions at an appropriate time in a fiscal year.

Timeliness is a critical qualitative characteristic of financial reports (APB, 1970; AICPA, 1973; FASB, 1979: FASB, 1980; GASB, 2011). Timeliness is an essential ingredient because of timeliness influences decisions financial report users and beneficiaries make. Information contained in financial reports, however, must be made available within a short period of time; otherwise, that information loses some of its economic value (Al-Ajmi, 2008). Timeliness of financial reports also has become a buzzword because many companies currently are late in submitting financial reports to capital market authorities.

In addition, regulators of the accounting profession, organizations and relevant agencies all over the world have a big focus on timeliness. In the United States, regulators like the New York Stock Exchange (NYSE), the Securities and Exchange Commission (SEC), and National Association of Securities Dealers Automated Quotations (NASDAQ) oversee the requirements for timeliness in publishing financial reports (Abdelsalam & Street, 2007).Financial report timeliness has been considered by accounting standards-setting entities all over the globe to be the top crucial quality of financial information as the delay in its publication may lead to costs to both decision makers and relevant users (Brown, Dobbie, & Jackson, 2009).

A number of studies have concluded that the timeliness of financial reports is the cornerstone of corporate governance because such timeliness is related to companies' transparency (Abdullah, 2006), affects firm value (Al-Khouri & Balqasem, 2006; Chambers & Penman, 1984) and is necessary for healthy economic markets (Aktas & Kargın, 2011). Owusu-Ansah (2000) states that timeliness of financial reports is a significant tactic for reducing insider trading, leaks and rumors in emerging capital markets. Ku Ismail and Chandler (2004) support the opinion that timeliness is a relevant characteristic of accounting information usefulness.

Many organizations, researchers and regulators have shown interest in the concept of timeliness of financial reports. Leventis, Weetman, and Caramanis (2005) define timeliness of reporting as the “gap” between the end of the fiscal year and date of issuance of the audited financial reports, and claim that reduction of this gap enhances market efficiency. Abdulla (1996) argues that timeliness should be the shortest period

between the end of the accounting year and the date of publishing reports. The International Financial Reporting Standards IFRS (2008) also defines "timeliness" as "having information available to decision makers before it loses its capacity to influence decisions" (paragraph 40).

Financial information that is timely and reliable is a must in obtaining investor confidence. In the context of emerging capital markets, the only reliable source of financial information available to the capital markets is likely to be the audited financial statements contained in the annual reports. Inevitably, a gap exists between the end of the fiscal year and the publication of audited financial reports, minimizing this gap would enhance the efficiency of capital markets. It is important for regulators to determine the reasons behind this gap prior to creating legislation designed to minimize delay (Leventis *et al*., 2005).

Timely financial information contained in annual reports of companies is more important than other sources of information, such as releases in media, news conferences and forecasts by financial analysts. However, compared to developed countries in the West, regulatory bodies in emerging economies are not as effective (Wallace, 1993). Therefore, companies in developing countries tend to release less information and are slower to report than firms in developed countries (Errunza & Losq, 1985). Jordan is one of those developing countries that need more research to be carried out in order to enhance published financial reporting and help uplift the economy to higher levels in the future.

There are two aspects of timeliness of financial reports: (1) the frequency of the reports and (2) the financial reporting lag. Frequency of reports made by companies or enterprises can be semi-annually, quarterly or monthly (Ku Ismail & Chandler, 2007). The financial reporting lag is the time lag that is the period between the end of the reporting period and the date of the issuance of financial statements either to the stakeholders or the date of submission to regulatory bodies. Generally, there are two types of delay of financial reporting globally: (1) the audit report lag, and (2) the management report lag. Afify, (2009) state that audit report lag is the period of time from a firm's year-end date and the audit report date. Al-Ajmi (2008) and Zaitul (2010) state that management report lag is the difference between the time an auditor signs the audit report and the time the company releases its financial report to the public. Timeliness of financial reports in this study is measured using three models: (1) audit report lag (ARL), (2) management report lag (MRL) and (3) total report lag (TRL).

Currently, corporate governance is a global phenomenon and plays a critical role in promoting financial reporting timeliness (Sharar, 2007). In the wake of the financial crisis that hit Jordan in 2008, great efforts have been made to restore public confidence that had been eroded significantly. Consequently, the need and desire for veritable industry standards to improve structures of corporate governance arose. Among those organizations that have been examined to provide these standards are the Organization for Economic Cooperation and Development (OECD) and the Jordanian Forum for Economic Development (JFED), with the support of the Global Corporate Governance Forum (GCGF). The main objective of these organizations is to enhance the role of Jordanian firms in adopting and enforcing laws of conduct for companies and good

corporate governance principles (Al-Tahat, 2010). Achieving these objectives is vital. Afify (2009), for example, supports the notion that a corporate governance structure could enhance monitoring of management and minimize mismanagement or erroneous reporting and delays in publishing financial reports. Corporate governance characteristics have been found to be associated significantly with the timeliness of financial reports (Abdel Salam & Street, 2007).

Often, corporate governance of Asian companies does not function effectively, primarily because of the weak legal system, concentrated ownership, or the firms fact that are predominantly family-controlled (Globerman, Peng, & Shapiro, 2011). Similarly, Singam (2003) states that highly concentrated ownership creates a challenging environment in which to realize effective corporate governance practices. One of the elements that lead to the lack of effective governance mechanism, which results in conflicts among controlling shareholders and minority shareholders, is concentration of ownership (Morck *et al*., 2005; Young, 2008). Concentration of ownership is counter-productive in firms with large shareholders, who are able to influence company decisions, obtain greater advantages for themselves and deny the same to small owners (Kuznetsov & Muravyev, 2001).

With regards to the current status of ownership concentration in Jordan, as in other emerging economies, numerous empirical studies provide strong evidence of the existence of highly concentrated ownership. Abu-Serdaneh *et al*. (2010) claim that the ownership concentration is relatively high among Jordanian listed firms compared with those in western economies (e.g. USA and UK). The study measured ownership

concentration by the ratio of total percentage of shareholdings by persons who have five percent or more of firms' shares. They find that concentrated ownership is 40%, on average. Zureigat (2011) and El-shawa and Jaafar (2009) has highlighted the importance of concentrated ownership of companies listed in Jordan, based on who owns more than five percent of shareholders. They found that mean ownership concentration of a company was 55% and 53% respectively. This reflects a relatively high level of ownership concentration between Jordanian companies. In addition, family-owned shareholdings account for a higher proportion of total shareholdings (51%) than institutional shareholdings (35%) and government shareholdings (9%). Generally, the results of the above studies reveal that the level of concentration of ownership in the Jordanian companies is high. Such a percentage gives big investors great power over management; therefore, it may have a negative effect on the governance mechanisms.

As has been noted above, the timeliness of financial reports is, in fact, a pivotal issue because of the financial reporting lag issue. The Jordanian Stock Market probably faces a greater amount of asymmetrical information, moral hazards, and adverse selections due to untimely accounting information. Further, the management of Jordanian firms may have incentives to exercise dysfunctional behavior with respect to the publication of financial reports. Ultimately, untimely reporting probably contributes to inefficiencies in the Jordanian Stock Market and increases opportunities for insider trading, leaks and rumors in the capital market. If the delay of financial reporting is maintained for a long time, the Jordanian Stock Market perhaps will not contribute appropriately to Jordan's sustained economic growth because performance of the stock market is a

macroeconomic performance factor that enhances growth. Hence, studying the relationship between corporate governance and financial reporting timeliness is critical for emerging capital markets regulators so that new policies enhancing financial reporting timeliness can be legislated

Jordan has shown keen interest in corporate governance in terms of enhancing the quality of financial statements. Legislators have enacted laws to ensure that public companies apply corporate governance, in addition to identifying the responsibilities and formation of the relevant committees (JSE, 2007). This current study will help measure the effectiveness of the application of the rules of corporate governance adopted in Jordan in 2009.

1.1 Problem Statement

Delay of financial reporting is a great concern both on the domestic and international levels. At the global level, many researchers have criticized audit report lag as being responsible for the delay of financial reporting and lead to lower quality of financial reports (Al-Ajmi, 2008; Bean & Bernardi, 2003; Brown et al., 2009; Leventis *et al.*, 2005; Ika & Ghazali, 2012). Audit report lag appears to play a role in delays of financial reports (Bean & Bernardi, 2003). Another point of contention with regard to the timeliness of financial reports is the possibility of manipulation in the release date of financial statements by management and managers in firms. In other words, managers of companies may abuse the release of financial statements by delaying their publication.

According to Errunza and Losq (1985) firms in emerging capital markets tend to be slower to report than firms in developed markets. Although the Jordanian Securities Commission has taken measures to protect investors and to create sanctions against report delay, the World Bank and the International Monetary Fund (IMF) in 2004 suggested that the timeliness of financial reports of Jordanian firms remained at a relatively underdeveloped stage. This assessment indicates that the timeliness of financial reports of Jordanian Firms remains an issue (Berg & Nenova, 2004). The IMF's assessment is an extremely serious issue for several reasons. First, firms do not provide the results of the business to shareholders on time. Second, they do not supply information on company developments to shareholders, which may offer the opportunity for manipulation by managers in the company.

Timeliness of financial reports among Jordanian firms remains below standard, thus, the delay in the issuance of the financial statements by Jordanian companies is still an issue. A Jordanian Securities Commission inquiry about the timeliness of financial reports showed that a delay exists in publishing financial reporting. Up until May 2011, 48 companies did not meet the requirements of the General Authority for the issuance of financial statements, which necessitated the referral of the companies to the Attorney General for violating the instructions of the Jordanian Securities Commission. This delay has continued over the years, leading to companies having to pay fines to the government (http://www.ccd.gov.jo/).

The need to investigate the relationship between corporate governance mechanisms and the timeliness of financial reports is motivated by the recent interest shown by the government of Jordan in corporate governance, especially after the Companies' Law No. 23, of 1997 was issued. The Law states that firms listed on the Amman Stock Exchange (ASE) must form boards and committees to apply corporate governance mechanisms. The Securities Law issued in 2002 also requires public companies in Jordan to apply corporate governance to enhance the transparency and accountability of financial statements and control the directors' actions in an attempt to prevent manipulations in financial reporting (i.e., trying to delay publishing of financial reports).

A review of the corporate governance literature reveals many attributes that can influence the timeliness of financial reports. These attributes include board characteristics, audit committee, auditor quality and ownership structure. However, many researchers (i.e., Abu-Hija & Al-Hayek, 2012; Afify, 2009; Chiang, 2005; McGee, 2010) show that corporate governance mechanisms can enhance management monitoring and lower the occurrence of mismanagement or misreporting as well as delays in financial reporting. This suggests that corporate governance mechanisms that are effective can improve internal control and limit business risks and lead to shorter audit delays in a way that could contribute to enhancing timeliness. However, a review of literature shows that very limited research exists in corporate governance attributes. This study aims to bridge the gap in this aspect to provide better understanding and offer more insights.

The delay in publishing financial reports of Jordanian-listed firms is attributed, amongst others causes, to weakness in corporate governance practices. The World Bank and IMF in 2004, evaluating the status of corporate governance in Jordan, both concluded that the corporate governance of Jordanian companies remains at a relatively immature stage. Abdullatif and Al-Khadash (2010), Ajeela and Hamdan (2011) and Bawaneh (2011), confirmed these findings. Nimer, Warrad, and Khuraisat (2012) show that the performance of the audit committees in Jordanian-listed firms seems to be ineffective due to the constraints on the audit committee members' work as well as the weak independence of the members. Their results also indicate that the majority members of audit committees often have close relationships with firm management and the board of directors. Abed, Al-Badainah and Serdaneh (2012) show that there is a weakness in the monitoring function of the board of directors of Jordanian firms. They attribute this weakness to the existence of more than 14 members on the board and the dual roles of CEO/chairman.

These practices are not consistent with the Corporate Governance Code issued by ASE, which recommends that members of a board should not exceed 13 and that the roles of CEO and chairman role should be separated. This means that many Jordanian companies do not comply with ASE-issued corporate governance instructions ASE, and therefore should be penalized. Thus, shareholders and investors in Jordan face many increased business risks because of poor corporate governance systems, weak control systems and non-existent or unclear corporate strategies and objectives (Abdullatif & Al-Khadash, 2010).

In the United States and the United Kingdom, corporate shareholdings are highly diffused, while in developing countries, ownership tends to be more highly concentrated. In developing countries, major shareholdings are often held by a small number of individuals, families, and institutions or the government (Omran, Bolbol & Fatheldin, 2008). In the context of Asian countries, highly concentrated ownership is often the reason behind ineffective corporate governance (Globerman *et al*., 2011). The argument has been that controlling shareholders may influence the board of directors and the audit committee's decisions and, in Jordan's case (Omran *et al*., 2008; Zeitun & Tian, 2007), family-owned businesses dominate the market. This domination often prevents the implementation of appropriate corporate governance measures and limits the decision makers' roles and responsibilities. Sharar (2007) argues that managers do not seem to have the objectivity or flexibility necessary in highly concentrated ownership company structures to monitor firm activity well enough so as to achieve company objectives. Abdullatif and Al-Khadash (2010) assert that corporate governance structures in Jordanian firms are not working effectively due to the effect of the ownership concentration.

In light of the lack of previous studies in addressing the relationship between corporate governance practices and the timeliness of financial reports by Jordanian firms, this study addresses the issue of whether corporate governance practices have any relationship with the timeliness of financial reports. Therefore, the present study investigates whether the controlling shareholders reduce the effectiveness of internal governance mechanisms (board of directors and audit committee) in terms of providing timely financial reports, by examining the moderating impact of concentrated ownership

on the relationship between a firm's internal governance and the timeliness of financial reports. This study proposes that firms employing effective governance practices provide reporting in a timely manner, but concentrated owners may confine the functions of corporate governance that promote the delay of financial reporting.

1.2 Research Questions

The following questions address the issue of timeliness of financial reports in Jordan.

1. What is the current status of the timeliness of financial reports in Jordanian firms?
2. What is the relationship between board characteristics (i.e., independence, size, CEO duality, diligence, and expertise and knowledge) and the timeliness of financial reports?
3. What is the relationship between the presence of an audit committee and the timeliness of financial reports?
4. What is the relationship between auditor quality (i.e., opinion, change, brand name and independence) and the timeliness of financial reports?
5. What is the relationship between ownership structure (i.e., foreign ownership and institutional ownership) and the timeliness of financial reports?
6. What is the relationship between selected company's attributes (i.e., profitability and leverage) and the timeliness of financial reports?
7. Does ownership concentration moderate the relationship between corporate governance and the timeliness of financial reports?

1.3 Research Objectives

The main objective of this study is to identify the relationship between corporate governance and the timeliness of financial reports. Additionally, this study is interested in identifying if concentrated ownership limits the effectiveness of a firm's governance. The sub-objectives are to:

1. Identify the current status of timeliness of financial reports in Jordan;
2. Examine the relationship between board characteristics (i.e., independence, size, CEO duality, diligence and expertise and knowledge) and the timeliness of financial reports;
3. Examine the relationship between the presence of an audit committee and the timeliness of financial reports;
4. Examine the relationship between auditor quality (i.e., opinion, change, brand name and independence) and the timeliness of financial reports;
5. Examine the relationship between ownership structure (i.e., foreign ownership and institutional ownership) and the timeliness of financial reports;
6. Examine the relationship between a company's attributes (i.e., profitability and leverage) and the timeliness of financial reports; and
7. Examine whether ownership concentration moderates the relationship between corporate governance and the timeliness of financial reports.

1.4 Motivation for the Study

This study provides outputs that are beneficial to investors, legislators and decision-makers and also will bridge the existing gap between the requirements of Companies Controlling Departments (CCD) and Jordanian Securities Commission (JSC) on the one side with those companies that tend to delay the financial reporting on the other. This study is also motivated by the absence of empirical studies on the role of corporate governance in mitigating the delay of financial reporting. To the best of the researcher's knowledge, very few studies have been carried out in Jordan to examine the relationship between corporate governance mechanisms and timeliness of financial reports. Among the studies conducted Abu-Nasser and Lotfe (1998); Abu-Hija and Al-Hayek (2012); Al-Khouri and Balqasem (2006); Alkhatib and Marji (2012) and Nour and Al Fadel (2006).

Previous studies argue that corporate governance structures in Asian countries are not generally effective due to shareholders' control (Abdullatif & Al-Khadash, 2010). This study will provide empirical evidence on the moderating effect of ownership concentration on the effectiveness of the firms' governance mechanisms, which has not been fully investigated so far by other studies on Jordanian firms. Moreover, the findings of this study could be helpful in enhancing the timeliness of financial reports in Jordan. In fact, current practices related to the timeliness of financial reports in Jordan needs to be evaluated in light of the Securities Law No. 23 of 1997. Such evaluation is necessary to ensure that the objectives of encouraging, attracting, and protecting investors, and establishing a transparent market are met effectively.

The primary contribution to knowledge of this current study is to extend the literature of the role of corporate governance in constraining the practice of delaying financial reports in Jordanian firms. Its results would be usable by stock market participants in their evaluation of the roles of corporate governance systems in enhancing the timeliness of financial reports. The results would also help regulators to define effective corporate governance attributes and to assess the requirements for disclosure of corporate governance practices. Furthermore, the results of this study provide evidence that corporate governance reforms in Jordan improved timeliness of financial reports measured by audit report lag, management report lag and total report lag. The results of this study also show that internal firms' governance is effective when there is no interference from the concentrated owners.

1.5 Significance of the Study

Obviously, studies on the timeliness of financial reports in Jordan are very limited, and this is what motivates the present study to be undertaken. This study used data from Jordan; an emerging market economy. Previous studies of timeliness of financial reports have focused heavily on developed nations, especially the United States and the United Kingdom. Hence, this study provides insights into conservative accounting practices through the lens of an alternative country. This study aims to provide a better understanding regarding the existing knowledge about financial reporting timeliness in Jordan. This study gives insights on the applications of the instructions, standards, and regulations regarding corporate governance and ownership concentration in Jordan. It will also demonstrate the need for amendments in the regulations related to corporate governance and timeliness of financial reports.

Traditionally, corporate governance studies have been guided by looking at them from the agency perspective, in which companies employ corporate governance mechanisms to control agency conflict in companies. Governance mechanisms include ownership structure, board of directors, auditors and the audit committee. These are developed both to meet the purposes of the firm and to minimize the manager-shareholders conflict. This study's contribution is its support and understanding of the agency theory in highlighting the corporate governance practices and the financial report timeliness in the context of the Jordanian business environment. In this regard, the majority of studies have been confined to the evaluation of corporate governance structure via firm performance, earnings management and disclosure in order to minimize agency conflict. The study contributes by supporting the agency theory's contention that financial reports timeliness is invaluable in decreasing agency conflict. This information will benefit researchers in the form of empirical evidence that highlights agency conflicts among the firms in developing nations, particularly Jordan.

Furthermore, to assess the effectiveness of the corporate governance structure in Jordanian firms, a major outcome from this study will show whether the existing corporate governance structure is effective in enhancing the timeliness of financial reports. Evidence from the United Kingdom and the United States supports the agency theory because companies in these countries with their good governance structures produce timely financial reports more frequently (Ahmed & Duellman, 2007; Pourkazemi & Abdoli, 2011). The outcome of this study will reduce the gap in literature on corporate governance and provide evidence about whether the same instruments and

metrics used in developed countries can be employed in emerging economies like Jordan.

This study provides a novel contribution to the timeliness of financial reports literature, and, to the best of the researcher's knowledge, is the first research to investigate the effects of several corporate governance mechanisms on the timeliness of financial reports. This study also contributes to the literature both by examining corporate governance mechanisms and by using more representative measures for previously used variables as follows:

First, previous studies related to the timeliness of financial reports have focused on examining the relationship of corporate governance and timeliness of financial reports using the audit report lag model with limited attention on management report lag and total report lag (Abd- Elsalam & El-Masry, 2008; Abdelsalam & Street, 2007; Afify, 2009; Ahmad *et al*. 2005; Dogan *et al*., 2007; Mohamad-Nor, Shafie & Wan-Hussin, 2010; Shukeri & Nelson, 2011). This study fills this gap by examining the relationship between corporate governance mechanisms and company attributes and timeliness of financial reports by using three measurements of timeliness of financial reports: (1) the Audit Report Lag (ARL), (2) the Management Report Lag (MRL) and (3) the Total Report Lag (TRL).

Second, a number of previous studies examined the association between corporate governance mechanisms and the timeliness of financial reports to a limited extent. Such studies focused on a single aspect of governance by looking into board composition, the audit committee or timeliness individually (Hashim & Rahman, 2011; Ika & Ghazali,

2012; Mohamad-Nor *et al*., 2010). This study addresses all corporate governance mechanisms (e.g., board of directors, audit committee, auditor quality and ownership structure) with timeliness of financial reports in Jordanian firms with regards to corporate governance instructions the ASE has issued.

Third, previous literature related to timeliness has focused on examining the influence of corporate governance mechanisms on the timeliness of financial reports, with limited attention to ownership structure (Ishak, Sidek, & Rashid, 2010; Klai & Omri, 2011; Lim, 2012). This study fills this gap by examining the relationship between timeliness and ownership structure. Additional new variables related to ownership structure, namely, institutional ownership and foreign ownership are investigated in the present study. Institutional ownership is considered to be an important group of investors who demand timeliness of financial reports as a governance device, while foreign ownership is another dimension due to its significance in an emerging market such as Jordan.

Fourth, this study also provides a more comprehensive examination of the relationship between timeliness and the presence of an audit committee in Jordanian firms. This study thus focuses on the presence of an audit committee within a holistic framework, hopefully contributing to the body of knowledge about the timeliness of financial reports.

Fifth, in Middle Eastern countries, such as Jordan, ownership concentration as a moderator variable is a distinct factor, but previous research dedicated to investigating timeliness of financial reports has not incorporated ownership concentration into their studies. Hence, the present study sheds light on the influence of concentrated ownership

on the financial reports and corporate governance mechanisms firms used. Thus, this study will help motivate the development of other studies to further examine the subject in-depth, as the generalization of the findings could offer meaningful interpretation to the phenomenon.

1.6 Scope of the Study

This thesis is organized into three phases. The first phase involves an analysis of financial reports to determine the timeliness of financial reports. The second phase will examine if board characteristics, presence of an audit committee, auditor quality, ownership structure and company's attributes impact the timeliness of financial reporting practices in Jordanian firms. In addition, this study explores if ownership concentration moderates the influence of internal firms' governance on the timeliness of financial reports. Jordanian firms may be divided into three main sectors: (1) services, (2) industrial and (3) financial sectors. The sample for this study will be companies listed on the Amman Stock Exchange during the four-year period from 2009 to 2012. These years are selected due to the implementation of the corporate governance policy in Jordan. This study examines the industrial and services sectors.

This study has chosen the industrial and services sectors, because these sectors make up about 60% of the ASE. Besides, the industrial and services sectors are suitable for testing the causes of delays of financial reporting and to provide better indicators of the relationships between the application of corporate governance, ownership concentration, and the timeliness of financial reports in the capital market of Jordan. The financial

sector is not included because this sector has special regulations pertaining to financial reporting, issued by the Insurance Commission and the Jordan Central Bank.

1.7 Definitions of Key Terms

1. Audit report lag: Audit report lag is the number of days from the financial year end to the date of signing the annual audit report (Shukeri & Nelson, 2011; Afify, 2009). The longer the ARL, the less timely the report will be.
2. Management report lag: Management report lag is the difference between the time an auditor signs the audit report and the time the company releases its financial report to the public (Al-Ajmi, 2008; Zaitul, 2010)
3. Total report lag: Total report lag is the number of days between the financial year end and the date firms release their financial reports to the public. The longer the MRL, the less timely the report will be (Al-Ajmi, 2008)
4. Corporate governance: According to the OECD (2005), corporate governance is composed of procedures and processes based upon which the firm is directed and monitored. The structure of corporate governance defines the distribution of rights and responsibilities among various firm participants, including the board, managers, shareholders and other stakeholders, and it establishes the decision-making rules and procedures
5. Timeliness of financial reporting: Timeliness of financial reports is the passage of time between a firm's year-end and the date the financial reports are released to the public. It is argued that the more number of days a firm takes to issue the financial reports, the weaker the quality of reports will be, and vice versa (Al-Ajmi, 2008; Krishnan & Yang, 2009).

1.8 Organization of the Study

This study is divided into five chapters. The first chapter discusses the problem statement, research questions, research objectives, motivation for the study and the study's contributions, as well as the scope of the study. Chapter Two gives an overview of the timeliness of financial reports and corporate governance. It also describes qualitative characteristics of accounting information and reviews previous studies associated with issues surrounding the timeliness of financial reports. The chapter discusses the underlying theories and the relationship between corporate governance and the timeliness of financial reports, as well as discusses ownership concentration as a moderating variable. Chapter Three presents the research framework developed for this study. It elaborates the relationship between the independent variables and the dependent variables and discusses the relationship between ownership concentration as a moderating variable with the independent variables and dependent variables. This chapter explains how the research hypotheses are formulated based on the framework of the study and describes the data collection, the sample and the methods of measuring the variables.

Chapter Four presents the descriptive analysis of the data, the regression analysis, and discusses the findings of the study in relationship to the hypotheses and moderating variable. Finally, Chapter Five briefly discusses overall findings, presents limitations, implications of the study and identifies potential issues for future research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter begins with a discussion on the theoretical background underlying this study. This chapter is organized as follows: (1) it gives the overview of the qualitative characteristics of financial reporting quality; (2) it gives the overview of the concept and importance of timeliness of financial reports; (3) it gives the historical development of timeliness of financial reports in a set of countries; (4) it reviews the literature on ownership concentration, corporate governance, and timeliness of financial reports; and (5) it focuses on the issue of timeliness of financial reports, by reviewing empirical findings associated with corporate governance issues and timeliness of financial reports.

2.1 Theoretical Background

There are several main theories involved in the timeliness of financial reports. Numerous theoretical perspectives on the relationship between corporate governance and timeliness of financial reports have been discussed in the literature. The agency theory is the basic theory that supports the relationship between corporate governance and timeliness of financial reports (Afify, 2009; Hashim & Rahman, 2010; Shukeri & Islam, 2012).

2.1.1 Agency Theory

Corporate governance studies stem from the agency theory perspective's contention that firms employ corporate governance mechanisms to minimize agency conflict (Yunos, 2011). Mechanisms of corporate governance including a board of directors, the ownership structure, and auditor and audit committee help minimize the agency conflict within firms (Anderson *et al*., 2008; Yunos, 2011; Rasmussen & Schmidt, 2012) and effective corporate governance limits such conflicts particularly when the interests of all shareholders are considered (Mallin, 2004). One of the major pillars of agency theory is the corporate managers who are seeking to maximize their personal wealth at the expense of creditors or shareholders by providing financial information that is different from the essence of the financial transactions. Thus, the core issue raised by the agency theory is to ensure that corporate managers are expected to meet the interests of the company and not just their personal interests (Habbash, 2010).

The agency theory is basically concerned with the contractual relationship between the manager and the shareholder, upon which the latter grants the former the responsibility of running their business (Jensen & Meckling, 1976). This is a contractual relationship between two or more individuals or entities to perform specific services on behalf of the principal, with the agent authorized to make decisions. The agency theory also provides an overview of the board of directors' oversight of majority shareholders and management, and safeguarding the interests of the minority shareholders (Fama & Jensen, 1983).

In addition, Jensen and Meckling (1976) state that there exists justifiable reasons as to why the agent will deviate from acting towards the best interests of the principal. The principal, on the other hand, can minimize variations from his interest by laying down effective incentives for the agent, and by spending costs on monitoring in order to lessen the agent's erroneous activities. Additionally, in some instances, the agent will be forced to expend resources to make sure that he does not embark on any self-serving activities and to guarantee that the principal will receive compensation in case he is tempted to go through such activities. Stated differently, agency theory assumes that individuals act to serve their interests under general conditions, goals, interests and risks of the principal and agent which are dissimilar. In such a background, the agency problem can be remedied through corporate governance practices (Al-Ajmi, 2008).

From the agency theory's point of view, an effective corporate governance model may lead to greater monitoring of controls and environment, and eventually lower assessments of control risk, and lesser audit work (Cohen, Krishnamoorthy, & Wright, 2004). More importantly, corporate governance refers to a system by which firms are directed and monitored to guarantee their continuous existence, and, in this scenario, the board of directors and senior management are the leaders. As such, additional reforms have been established for the promotion of effective corporate governance including, mandatory independence of board members, establishment of audit professional committees, frequent audit committee meetings, mandatory minimum number of audit committee members, and review of the performance of the board of directors as a whole and individually (Shukeri & Islam, 2012).

Effective corporate governance should be viewed as a way to minimize agency conflict particularly when it concerns the entire shareholders' interests (Mallin, 2004). Aligned with Hashim and Rahman's (2010) contention that corporate governance functions as a control tool to safeguard against selfish management behavior, Al-Ajmi (2008) and Shukeri and Islam (2012) cited agency theory in that corporate governance mechanisms safeguard financial reports timeliness.

The most appropriate method of managing agency conflict as well as problems that may occur between managers and shareholders is good corporate governance. Good corporate governance practices reduce audit business risk and consequently the work and time expended by the auditors to complete the report (Shukeri & Nelson, 2010). Moreover, corporate governance not only acts as a monitoring tool for the behavior of the directors, but also for monitoring the overall performance of the company, which includes assuring the quality of the financial reports. The above statement shows the importance of corporate governance in a company and this is best justified by the agency theory (Hashim & Rahman, 2010).

The OECD (1998) indicates that transparency is one element of good corporate governance, since it provides evidence of a significant association between timeliness of financial reports and characteristics of good corporate governance (McGee, 2007). Abdullah (2006) argues that timeliness of financial reports is an important issue in corporate governance because it is related to companies' transparency. In addition, the Governmental Accounting Standards Board (GASB, 2011) determined that timeliness of financial reports is one of the qualitative attributes to financial information effectiveness,

along with reliability, understandability, relevance and comparability. According to the Statement of Financial Accounting Concepts (FASB, 1980), timeliness of financial reports is one of the three components of relevance. Moreover, reducing financial reporting lag is considered as another element of good corporate governance practices (Kulzick, 2004; Prickett, 2002). Besides that, empirical research indicates that an issuance of timely financial reporting can also govern the companies as it limits managers' opportunistic behavior and increases company value (Watts, 2003). Yee (2004) notes that more frequent reporting would help investors monitor the performance of management and reduce agency frictions.

2.1.2 Internal Reporting Theory

According to the internal reporting theory, management is concerned with internal performance evaluation (Lurie & Pastena, 1975). Management tends to delay reporting bad news concerning the firm until its verification as performance evaluation and/or compensation is related to earnings performance. As such, managers need more time to prepare their responses and to rectify poor performance. This argument is also employed by Kross (1981, 1982) to provide an explanation of management's tendency to delay reporting negative news. However, good news receives less scrutiny and management has a tendency to publicize it earlier than bad news.

According to Dogan, Coskun, and Celik (2007), internal financial reporting theory states that administrators handle internal performance evaluation. If it looks like firm performance evaluation is related to profit performance, administrators tend to delay

reporting bad news until the news is verified, which also gives administrators more time to prepare replies for criticisms as well as improve poor performance.

2.1.3 Resource dependence theory

The resource dependence theory posits that organizations are primarily dependent on their external environment for resources and that their effectiveness stem from their ability to manage such resources and their ability to obtain them from the environment. In this regard, board member networks and contracts are the basis of his ability to perform the role of boundary spanners that obtain contract for his organization (Ruigrok *et al*., 2007). This theory underpins the relationship between board of directors (resource providers) and quality of financial reporting. Moreover, the resource dependence theory sheds a light on the way organizations determine methods to develop connections with the environment for the purpose of securing resource flow (Pfeffer, 1972). According to the theory, the board can connect with its environment by creating important linkages and facilitating access to accurate and expedient information via networks that are of personal and professional in nature (Ees & Postma, 2004). One of the variables generally utilized in this area is directors interlock while the other is multiple board membership.

The theory is suitable for corporate governance as it suggests effective corporate governance structures in organizations that could result in the development of ample resources. For instance, board of directors can facilitate connections with other institutions and organizations and the board members expertise in order to positively contribute and valuate the company's reputation (Hillman & Dalziel, 2003; McGregor, 1960; Pfeffer, 1972). As to the external corporate governance mechanisms, the resource

dependence theory posits that companies adopt governance mechanisms to satisfy the needs of strategic resource management; for instance, the external auditor is an external governance mechanism often used by firms as he benefits the firm with his expertise in advanced IT resources (Haislip, Peters & Richardson, 2013).

2.2 Qualitative Characteristics of Financial Reporting Quality

Qualitative characteristics are described as features that facilitate the usefulness of financial reporting. They are complementary concepts and each of them adds to the financial reporting information's usefulness. The information in financial reporting exhibits various usefulness levels to different investors (IFRS, 2008).

The qualitative characteristics of accounting information are adopted by the International Accounting Standards Board (IASB) as laid down by the International Accounting Standards Committee (IASC) in 2001. This entails relevance, truthful representation, comparability, verifiability, timeliness and understandability. The above attributes facilitate high financial reporting quality and offer invaluable information to all users (Abu Haija, 2012). Both the IASB and the FASB published an exposure draft entitled, "An Improved Conceptual Framework for Financial Reporting" in May 2008 (FASB, 2008; IASB, 2008; Van Beest, Braam & Boelens, 2009). In this regard Abu Haija (2012) and IFRS (2008) contend that this framework is categorized into basic and enhancing qualities. The former qualities comprise relevant and faithful, whereas the latter qualities encapsulate comparability, verifiability, timeliness and understandability. Alshami and Noor (2009) confirm a significant relationship between qualitative

characteristics of accounting information and the financial reports quality. They reveal a positive association between the two variables.

These qualitative characteristics are shown in Figure 2.1. They are the primary qualities that make the accounting information useful for decision making.

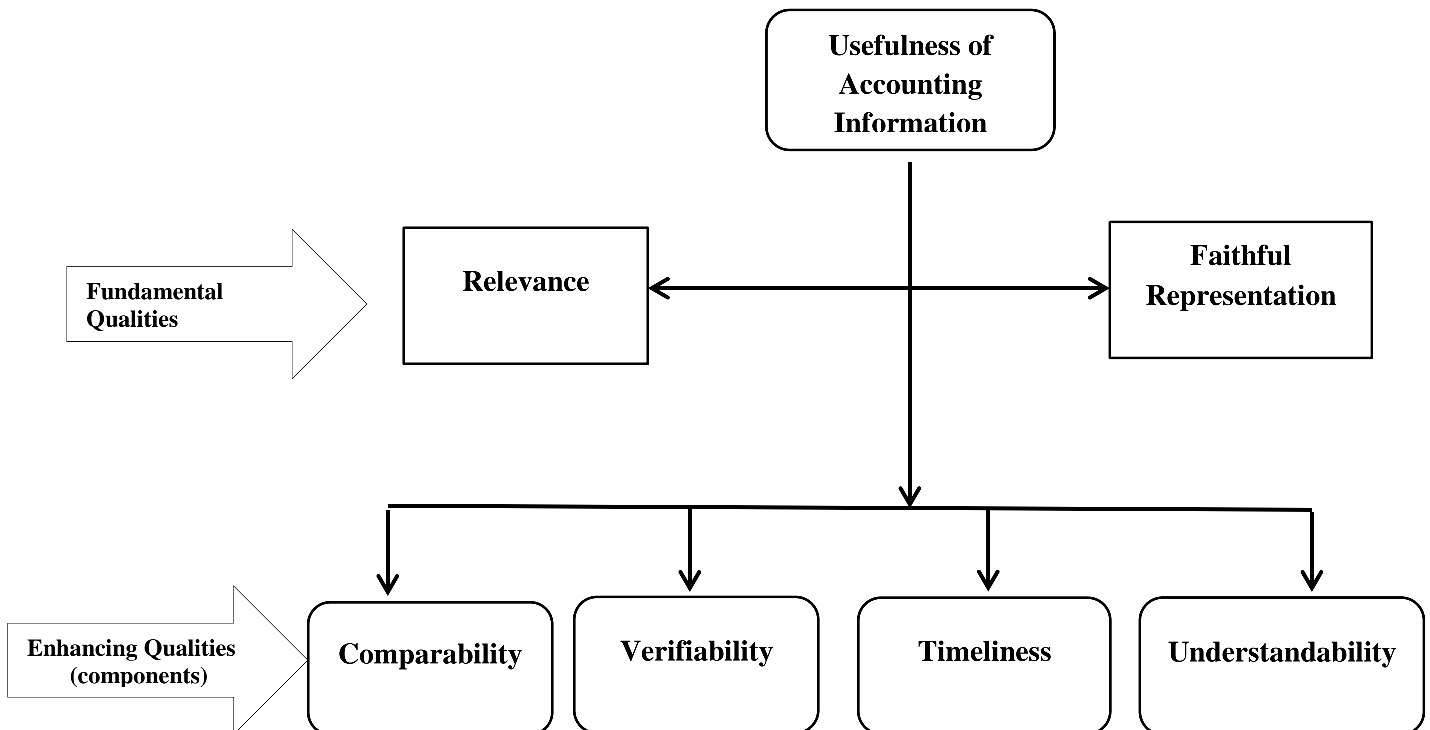

Figure 2.1

The Qualitative Characteristics of Accounting Information

Source: (IFRS, 2008; Abu Haija, 2012).

2.2.1 Fundamental Qualitative Characteristics of Accounting Information

According to FASB, superior quality is a desired feature in financial reporting information as well as financial reporting standards which is expected to result in superior quality financial reporting information that is invaluable for decision making (IFRS, 2008). Financial information is considered useful if it embodies to main qualitative characteristics namely, relevance and faithful representation.

Relevance

Information should be relevant to investors and creditors for making investments, credits, and decisions (Obaidat, 2007). Information is considered relevant if it can make a difference in the user's decisions in their capacity as investors. In addition, information concerning economic phenomenon can make a difference if it is independent from information that made a difference in the past or that which would make a difference in the future. Therefore, information is said to be relevant and capable of making a difference to user's decision if some users do not misuse it (IFRS, 2008, p. 35; Abu Haija, 2012).

Faithful Representation

The second important qualitative criterion that enhances the conceptual framework of financial reporting (IASB) is known as faithful representation. The faithful representation has an obvious effect on FASB's conceptual framework, which is presented, for example, through the combination of FASB and IASB conceptual framework. This results in a new model to raise representational faithfulness to one of

two fundamental qualities of financial information (Botosan, McMahon, & Stanford, 2011). Moreover, faithful representation is important in financial reporting because information must be a clear representation of the economic issues. Faithful representation also is achievable when economic issues are complete, and free from material mistakes. Besides that, financial information encompassing economic issues shows the economic substance through transactions and circumstances (IFRS, 2008).

2.2.2 Enhancing Qualitative Characteristics of Accounting Information

Enhancing qualitative characteristics is aligned with the basic qualitative characteristics. By enhancing characteristics, they discern more useful information from the useless ones. Some enhancing characteristics include comparability, verifiability, timeliness and understandability. They enhance the usefulness of financial reporting information for decisions if the former is relevant and faithfully represented. On the other hand, the enhancing qualitative characteristics (individual or interrelated) are not capable of making financial information useful for decisions if the information is irrelevant or unfaithfully represented (IFRS, 2008, p. 38).

Comparability

Comparability is considered as the information quality that enables the comparison between two sets of economic phenomena by users; while consistency is considered as the utilization of the same accounting policies and procedures from a specific period to the next within an entity or in a single period across entities. Comparability is similar to a goal, while consistency is similar to an achievement of the goal.

Verifiability

Verifiability is considered as the quality of information that ensures users of faithfully represented information concerning the economic phenomenon that is known to present. Verifiability indicates that various knowledgeable and independent observers are able to achieve general consensus but not necessarily a conclusive agreement (IFRS, 2008, p. 38).

Timeliness

The IFRS noted that timeliness is a crucial element of relevance. Information is said to be timely when users have it at their disposal at a time that it is useful for them in their decision making. The requirement of timely information dictates that external users are provided with it on a periodic manner. The SEC mandates that its registrants hand over financial statement information on an annual basis and on a quarterly basis for the initial three quarters of every fiscal year (IFRS, 2008).

Timeliness of financial information is available to decision makers (investors and creditors) at the time to make the predictions and decisions before it loses its ability to effect decisions (Ku Ismail & Chandler, 2004). Filipović (2012) also argues that timeliness is significant because financial reporting is of great value for decision-makers. Furthermore, both the FASB and IASB recognize that timeliness of financial reports is an important characteristic to determine the relevance of accounting information (Ku Ismail & Chandler, 2004).

Understandability

Understandability refers to the information quality that allows users to understand what it is meant to inform. It is improved when financial information is classified, characterized and clearly and concisely presented. Financial report users are expected to have sufficient knowledge of business and economic activities and to be able to understand a financial report. In decision making, users should also have reasonable diligence to review and analyze the information provided (Obaidat, 2007; IFRS, 2008).

2.3 Overview of Timeliness of Financial Reports

2.3.1 Concept of Timeliness of Financial Reports

The idea of producing the annual reports in time, known as its timeliness, has attracted the attention of many regulators, organizations and researchers. As an example, Shukeri and Nelson (2010) designate timeliness as the time between end of the financial year period and the date on which the audited annual report is finally issued by the external auditor. Dyer and McHugh (1975) describe three types of financial report delays: (1) preliminary lag is the number of days that lapse between the end of the financial year and when the preliminary statement is received by the Stock Exchange; (2) auditor’s signature lag, is the number of days that lapse from the time the financial year ends and when the auditor’s signatures are applied to the report; and (3) total lag is the time period counted in days between the financial year's end and the date on which the report is received by the Stock Exchange.

Carslaw and Kaplan (1991) suggest that the report being made available to its users as early as possible is the requirement of timeliness. Owusu-Ansah and Leventis (2006) measure timeliness as the time that lapses between the end of the fiscal year and the release of the audited financial report, counted in days. Abdulla (1996) opines that timeliness is associated with the minimum number of days that lapse between the end of the fiscal year and the publishing of the financial reports. The timeliness of a report depends upon the time taken to prepare it. Stated otherwise, it is the time gap between the end of the financial year and the distribution of the audited report. If this delay is minimized, it will increase the efficiency of the market (Leventis *et al*., 2005). It is an unambiguous requirement of the SEC that duly completed reports must be filed within 90 days of the end of the financial year (Givoly & Palmon, 1982).

From the above definitions, the researcher concludes that timeliness is considered as an important element to enhance timely decision making and to help provide a clear demonstration of financial reporting in accordance with generally accepted accounting principles. Hence, it can be said that timeliness of financial reports contributes to capital markets' efficiency.

2.3.2 Importance of Timeliness of Financial Reports

The timeliness of financial reports is considered to be one of the qualitative characteristics of a general purpose financial report (FASB, 1980; GASB, 2011). Studies also show the importance of timeliness of financial reports to corporate governance because it contributes to companies' transparency and their value, and has an effect on financial markets by reducing insider trading and rumors in emerging capital markets

(Abdullah, 2006; Aktas & Kargın, 2011; Al-Khouri & Balqasem, 2006; Chambers & Penman, 1984; Haw & Wu, 2000; Ku Ismail & Chandler 2004; Owusu- Ansah, 2000).

Abdulah (2006) and Errunza and Losq (1985) state that timeliness of financial reporting in emerging capital markets is significant since the data in these markets are relatively limited and there is a longer period lag. In addition, timeliness of financial reports provides an opportunity to enhance the efficiency and time allocation of resources to reduce publishing of asymmetric information, i.e., financial information to all users should be available fast to enable relevant financial and investment decisions (Ahmed, 2003). Moreover, the undue delay in issuing of financial reports can lead to uncertainty in investment decisions and the increase of financial reporting delay decreases the financial information content and relevancy of the information (Türel, 2010).

Timeliness of Financial Reports in Organizations' Frame

According to Che-Ahmad and Abidin (2001), the timeliness of financial reports has been recognized as a useful tool for financial information by professional bodies, investors and financial analysts. The increasing attention given to timeliness by accounting organizations is noticeable worldwide. For example, the NYSE and NASDAQ in the USA have issued requirements and recommendations which are related to the timeliness of published financial reports (Abdelsalam & Street, 2007). Furthermore, the AAA (AAA, 1954 and 1957), and APB in the USA, ICAC and ICAEW show the necessity for timeliness of financial reports by statement No. 4 of the APB (1970) which defines

timeliness as one of the main objectives of the accounting profession (Givoly & Palmon, 1982).

According to the Statement of Financial Accounting Concepts (FASB 1980) No. 2, the characteristic of timeliness of financial reports is associated with relevance of information. In other words, beneficiaries, creditors, analysts, and investors consider timeliness of financial reports as important due to the accuracy of disclosure information, usefulness of economic decision, and the ability to influence decision making. Furthermore, paragraph 56 of FASB 1980 indicates that lack of information, and delay of information of reported matters will make information be of no value or of little use. McGee (2007) believes that one of the most important requirements of financial reporting standards that can be trusted is when it has been reported in a timely manner. Besides that, the Governmental Accounting Standards Board (GASB) determines the qualitative attributes of timeliness of financial reports as affectivity, reliability, and understandability (GASB, 2011).

The regulations of Securities Commission in most capital markets of the world limit the timeliness of disclosing of financial information in order to ensure that financial reporting users are able to access financial data on time. For example, the regulations of Jordan Securities Commission (JSC) requires companies to issue the annual statements within three months (90 days) and the preliminary business results within 45 days after the end of the financial year (JSC, 2007). Offering another example, financial reporting of the U.S companies should be disclosed to public within 90 days and quarterly financial reporting should be disclosed to public within 45 days after the end of financial

year (Dogan *et al*, 2007). In addition, the regulatory requirements have a significant influence over the timeliness of financial reports when firms release their financial statement information within the regulatory window (Kumar & Chawla, 2014).

Timeliness of Financial Reports As Information Source

A number of studies on the timeliness of financial reports provides evidence that timeliness is very important in investors' decisions (Ahmad, 2003; Chambers & Penman, 1984; Ku Ismail & Chandler, 2004; Shukeri & Nelson, 2010). Furthermore, Owusu-Ansah (2000) argues that timeliness of disclosing financial information is also important in reducing trading activities of insiders, unofficial disclosure of news and market rumors. McGee (2007) hypothesizes that timeliness of financial reports is a measure of transparency and quality of financial reporting.

The usefulness of the timeliness of financial reports could also be assessed by observing the effect of financial reporting system on the investors. However, effective and efficient capital markets involve a transparent financial reporting system to enhance investors' confidence in making investment resolutions. The financial information should be of the highest quality prior to delivery to external stakeholders because the beneficiaries of financial information, characterized by transparency and timely reporting, will lead to high quality decisions (Shukeri & Nelson, 2010). Much evidence supports timeliness of financial reports advantages to investors, particularly as an agency tool. McGee (2007) infers that financial information becomes meaningless after a few months, and is less significant to potential investors, companies and creditors. Leventis *et al*. (2005) indicate

that timely accounting information will enhance the confidence of investors. Atiase *et al*. (1989) state that the value of information relevance declines because of information delay. In other words, information delay makes information be of not much use to decision makers.

According to Ishak *et al*. (2010), the timeliness of financial reports is considered as a qualitative characteristic of good corporate governance. Moreover, the beneficiaries and shareholders in firms need timely and fresh financial data because the longer the time that passes between year-end and disclosure of information will cause meaningless financial information and lower value to shareholders and stakeholders (McGee, 2007). In addition, financial reports should be available to users as rapidly as possible to make financial statements extremely useful (Türel, 2010).

Many studies highlight the importance of timeliness of financial reports in the quality of financial reporting. In other words, timeliness provides a platform for market integrity and efficiency to ensure fairness, efficiency, transparency, protect investors and reduce risk, which will in turn, promote financial reporting quality (Al-Ajmi, 2008). The timeliness of financial reports also is considered as one of the determinants of quality financial reporting as the greater number of days taken to announce a firm's annual report will lead to lower quality of these reports. On the other hand, lesser number of days to announce the annual report will cause higher quality of reports (Ika & Ghazali, 2012). In addition, Givoly and Palmon (1982) claim that companies which advertise their earnings late in the year are more likely to have low stockholder returns than those that advertise their earnings early during the year.

2.4 Empirical Studies of Timeliness of Financial Reports

A number of empirical studies have discussed the aspects, components, and effects of timeliness of financial reports. Generally, there are two aspects of timeliness of financial reports: (1) audit report lag, (2) financial reporting lag. This section reviews some of the previous studies that have examined the impact of corporate governance on timeliness of financial reports, based on the theoretical background. It begins by presenting studies conducted in developed countries, followed by those in developing countries.

2.4.1 Studies in Developed Countries

The extant literature on the relationship between timeliness of financial reports and corporate governance is still few and scarce, although several empirical studies have documented the merits of the financial reports timeliness in light of the agency relationship. Moreover, such studies were carried out in the context of developing nations. The understanding and assessment of the governance mechanisms' role on financial reports timeliness requires the review of the topic on the basis of other financial reporting aspects that can be found in literature.

One of the earliest studies that addressed the issue of the timeliness of financial reports was conducted in the U.S by Ashton, Willingham and Elliott (1987). They investigate the determinants of timeliness of annual reports, measured by audit report lag. The results of the study indicate that audit delay is significantly associated with audit opinions, internal control, audit technology, industry type and end of fiscal year. Studies of this caliber include that of McGee and Yuan (2012) who conducted a comparison

between corporate governance and financial timeliness in China, the U.S. and the EU using the number of days elapsed from year-end and the date of the report drawn up by the independent auditor. They show that Chinese firms took considerably longer time to issue financial reporting compared to its counterparts while the EU firms took significantly longer compared to the U.S. firms. Ashton, Graul and Newton (1989), in their study of firms listed on the Toronto Stock Exchange, find that audit firm size, extraordinary items, net income, industry type are related to audit delays.

Billing (2008) investigate whether managers' disclosure delays relate to the opportunity to decrease their equity position in the company, and investigated whether this trading behavior is related to increased litigation consequences. The study also sought to investigate the disclosure and trading behavior of managers in the U.S companies, facing big negative earnings news. The study finds that managers who are less timely in their disclosure are more likely to engage in abnormal trade prior to releasing the news. In addition, the study indicates that this trading behavior is related to increased litigation consequences for a company (in the form of increased likelihood of litigation and higher lawsuit settlement amounts) and only limited repercussions for managers.

In another study, Abdelsalam and Street (2007) argue that there is a significant association between corporate governance characteristics and corporate internet reporting timeliness by UK firms on the London Stock Exchange. The results show that boards of directors' experience, less cross directorships and lower length of service for executive directors, correlate positively with timeliness of financial internet reporting. However, the study finds a negative relationship between board independence and

timeliness of financial internet reporting. In contrast, Beekes *et al*. (2004) state that companies whose boards have a higher percentage of outsiders exhibit greater ability to recognise bad news in time as well as be more pragmatic in recognition of good news. These results suggest that the quality of UK firms' reported earnings depends upon the independence of their boards.

Significant studies related to timeliness of financial reports were also found in Greece, Korea, Ireland and Turkey. In Greece, Owusu-Ansah and Leventis (2006) investigate non-financial companies listed on the Athens Stock Exchange for the factors which have a bearing on their timely reporting of their financial reports. The results show that large firms, service firms and those audited by the former Big-5 audit firms have shorter final reporting lead-time. The study also finds that firms which were owned, directly or indirectly by insiders (i.e. top management and directors) delayed releasing their audited financial information.

In Korea, Lee and Jahng (2008) claim that audit report lag directly affects the timeliness of financial reports in Korean firms. They find that audit report lag is negatively associated with non-audit fees paid to incumbent auditors, consistent with "knowledge spillover" from the provision of non-audit services. They also find also that audit report lag is negatively associated with the appointment of Big 4 auditors and unqualified audit opinions. However, they find no evidence of association among audit report lag and auditor tenure, or abnormal audit fees paid to incumbent auditors. In addition, the study provides evidence that abnormal audit hours and the provision of tax services, and services relating to the design of internal control systems, significantly reduce audit

report lag. In Ireland, Abdelsalam and El-Masry (2008) examine the influence of ownership structure and board independence on the timeliness of corporate internet reporting (TCIR) in Irish firms. They conclude that these two determinants affect timeliness of internet reporting. In addition, they discover that larger companies publish their reports on the internet sooner than others.

In Turkey, Dogan *et al*. (2007) investigate the correlation between factors such as profit or loss, financial risk, the size of the firms and the industry, and timeliness. As can be expected, companies that had good news to report published their reports earlier. It was also found that increased financial risk, company size, and company characteristics had a bearing on timeliness. Türel (2010) studies timeliness of financial reports among Turkish firms. He discovers the existence of an association between the auditor firm, the industry, the income levels, and auditor opinion and the timeliness of reports. His study indicates that firms which receive an unqualified audit report tend to take less time than others in publishing their reports. Firms that have a positive income taken a shorter time to announce their results. No variance in delay was found between industry firms.

Audit committees' characteristics influence the timeliness of reporting. Leventis *et al*. (2005) examine the timeliness of firms listed in the Athens Stock Exchange. The study observed that the number of observations made in the report, the type of auditors, and their fees all affected timeliness. The study proposed that appointing an international auditor or paying premium fees would improve timeliness.

2.4.2 Studies in Developing Countries

Many studies in developing countries have showed mixed conclusions regarding the relationship between timeliness of financial reports and the quality of the financial information. Some studies indicate good news is published before bad news (Chambers & Penman 1984); some other studies show the contrary. Some researchers posit that companies are not willing to report bad news and hence, take more time to apply creative accounting techniques to release bad news. The present section highlights literature concerning the timeliness of financial reports in the context of developing countries.

In Malaysia, a recent study by Hashim and Rahman (2010) explore the relationship between corporate governance characteristics (e.g., board independence, board expertise and board diligence) and timeliness of the audit report in Malaysia. The findings show significant negative link between the variables of board diligence and audit report lag. According to the authors, the frequency of meetings by the board reduces the lag in audit report. The study however failed to show any evidence on the relationship between board independence and financial expertise among the board members, and audit report lag.

A similar study was carried out by Mohamad-Nor *et al*. (2010) in Malaysia. A sample of 628 Malaysian firms was examined. It studied the association between mechanisms of corporate governance and timeliness. Audit committees and board of directors were studied as proxies of corporate governance mechanisms. The study hypothesized that

timely submission of financial reports will be ensured by affective audit committee and board of directors. This will be the likely outcome of appropriate and effective oversight of the process of financial reporting. The study determined that audit reports are more likely to be produced in a timely manner in companies with more frequent audit committee meetings and large number of audit committee members. However, the study found that timeliness of audit report have no correlation with the audit committee expertise and independence. This suggests that more focus should be provided to enhance the audit committee's expertise and independence. Also in Malaysia, Shukeri and Nelson (2010) examine the factors impacting annual audit report among 300 firms listed in the Kuala Lumpur Stock Exchange (KLSE) for the year end 2009. The results show that audit report lag is significantly affected by the audit opinion, type of auditor and firm performance. No evidence showed that the impact of board independence, audit committee qualifications and audit committee meetings upon audit report lag.

Ahmed (2003) studies the timeliness of financial reports in three countries (i.e., Bangladesh, India and Pakistan). The study shows that audit report lag is 162, 92 and 145 days in Bangladesh, India and Pakistan, respectively. He finds that large audit companies take significantly less time in India and Pakistan. He reports that profitability and firm size are significant determinants that affect audit lag only in Pakistan.

In Egypt, Afify (2009) studies the effects of corporate management style and their interfacing with audit reporting on the audit report lag among Egyptian companies. His study focuses on the influence of some mechanisms of corporate governance, namely the presence of an audit committee, CEO duality and board independence on audit report

lag. In addition, he studies the effect of company size, industry and profitability on the lag of the financial reports. It was found that the presence of an audit committee, CEO duality and board independence affect the audit report lag significantly. The study also shows that company size, industry and profitability influenced the audit report lag significantly.

Akle (2011) explores the relationship between the timeliness of financial reports and corporate governance of listed firms in the Egyptian Stock Exchange during the period 1988 to 2007. The study also investigates the relationship between industry type, leverage, size, gearing, earnings quality, audit opinion, earnings management and electronic disclosure with the timeliness of companies financial reports. The results show that corporate governance has an important role in the timeliness of financial reports in Egyptian companies. The results also show a decrease in number of days between the end of the financial year and publication of financial reports from 134 days in 1998 to 95 days in 2002; 68 days in 2006 and 72 days in 2007.

In Kuwait, Al-Ghanem and Hegazy (2011) conduct an empirical analysis of audit delays and timeliness of corporate financial reports in Kuwait by investigating the relationship between potential factors that affect delay in the signing by auditors, on a sample consisting of 149 and 177 companies during 2006 and 2007. The results indicate that there is a negative relationship between firm size and audit delay during the period 2006 and 2007; while the leverage, liquidity and type of auditors are negatively correlated with audit delay in 2006.

Haw, Qi, and Wu (2000) investigate the association between firm performance and the timeliness in China during 1994-1997. As can be expected, it was found that firms that had good news tended to publish their reports earlier than others. These results comply with the stakeholder theory and the internal reporting theory. Based on the internal reporting theory, managers are apprehensive about the assessment of internal performance. Since performance assessment and reward are linked to earnings performance, managers at all echelons are driven to delay reporting bad news until it can be managed (Lurie & Pastena, 1975). According to the stakeholder theory, mandatory disclosure requirements deny a company the chance to conceal bad news. The managers have a motivation to delay its issuance. By delaying publishing, the management gives the shareholders an opportunity to rid themselves of the firm's shares before the market learns the situation (Watts & Zimmerman, 1990).

Azubike and Aggreh (2014) seek to investigate the determinants of audit report timeliness among Nigerian firms during 2010 to 2012. The study examined the relationship among a set of explanatory variables (such as board size, board independence and type of audit firm) and the audit report timeliness. The results indicated that there is a significant relationship between board size and board independent and audit report lag. However, the study did not provide any evidence on the relationship among type of audit firm and audit report lag. The study also indicated that the time lag prescribed by the regulatory bodies were usually too long, thus encouraging firms to delay the issuance of financial reports.

Tazik and Mohamed (2014) examine the impact of information accounting system effectiveness and foreign ownership on the audit report lag of firms listed on Bursa Malaysia in 2011 and explore the moderating effect of foreign ownership on the relationship between information accounting system effectiveness and audit report lag. The results indicate that information accounting system effectiveness and foreign ownership structure significantly affect the audit report lag. The study found that foreign ownership is a strong moderator on the association between information accounting system effectiveness and audit report lag. In addition, the results showed that the control variables (i.e, company size and audit committee expertise) have a significant negative relationship with audit report lag.

In the context of timeliness of quarterly financial reporting, Boritz and Liu (2006) investigate the determinants of the timeliness of quarterly financial reporting among Canadian companies. They find that companies which do not have their interim financial reporting reviewed by their auditors are less timely to release their interim financial reporting than companies having their interim financial reports reviewed. The findings of the study indicate that audit reviews, the company's earnings performance, its information environment, and its agency costs may affect the incentives of the companies to delay interim financial reporting. In another study, Ku Ismail and Chandler (2004) examine the timeliness of quarterly reports published by firms listed on the Kuala Lumpur Stock Exchange. Timeliness was measured in terms of financial reporting lag, in days between the end of a quarter and the issue of its related report. They show that only 0.9% of the companies report after the due date, and the financial reporting lag is 64 days. This means that the overall compliance rate is very high (99.1%). Evidently, the

financial reporting lag of companies in this study is between 32 and 64 days with a mean and median of 55.7 days and 58 days, respectively. The study also shows that there is a significant association between timeliness and each of the four companies attributes (i.e, size, profitability, growth and capital structure).

2.4.3 Studies in Jordan

A small number of empirical studies have examined the timeliness of financial reports in Jordan. Al-Tahat (2010) examines timeliness of interim financial reports in Jordanian firms. The study finds that reporting lag is positively related to profitability, leverage and foreign ownership. The study also shows that reporting lag is negatively related to age of a company. This means that companies with a relatively higher percentage of shares owned by foreigners and firms with high profitability are more likely to comply with the requirement of publishing within one month. The results also show that firms which are more profitable, older and have lower leverage are more likely to take a shorter time to publish their half-yearly financial reports. Abu-Hija and Al-Hayek (2012) explore whether audit committee size, meeting, independence and the presence of financial expertise are related to issuance of the audit report, for 144 public companies listed on the ASE. They find a significant impact of number of members and financial expertise of its members on the issuance of audit report represented by a decrease of the issuance of audit report.

Nour and Al-Fadel (2006) investigate the factors associated with the delay in the timeliness of financial report of Jordanian companies, i.e., factors associated with the audit, factors associated with the office of audit and the factors associated with the company. They agree that all these factors, no matter the size of the corporation and the size of its operations, are realistic reasons for the delay. They further conclude that an average duration of delay in signing an audit report in Jordanian companies is about 91 days. Moreover, the average duration of delay for the meeting of the Public Authority on date of signing an audit report in Jordanian companies is about 64 days. They also indicate if this delay is still the same in the future, it would affect the Amman capital market.

Abu-Nasser and Lotfe (1998) analyze the importance of the factors that affect the delay of issuing financial reports of listed firms in the Amman Financial Market. They find that weakness of the accounting system and internal control system which have an impact upon the company's auditor significantly delay the issuance of financial reports. The results also indicate that the size of a company's operations has an impact in delaying the issuance of financial reporting in Jordanian firms.

2.5 Overview of Corporate Governance

The term ‘corporate governance’ has many definitions. Many academics, researchers and organizations have paid great attention to the corporate governance term. According to the OECD (2005), corporate governance is composed of procedures and processes based upon which the firm is directed and monitored. The structure of corporate governance defines the distribution of rights and responsibilities among various firm

participants, including the board, managers, shareholders and other stakeholders, and it establishes the decision-making rules and procedures. Similarly, corporate governance is defined by Gillan and Starks (1998), as a set of regulations and rules, and the factors governing the company processes. Berndt and Leibfried (2007) describes the term as the group processes, laws and policies that impact the direction of the firm.

The Public Oversight Board (POB 1993) defines corporate governance system as “those oversight activities undertaken by the board of directors and audit committees to ensure the integrity of the financial reporting process.” In the same vein, Anandarajah (2004) defines corporate governance as the activities undertaken to increase justice and transparency in public shareholder companies.

The world witnessed a big financial disturbance during the recent years, which led many big companies to go bankrupt. Moreover, beneficiaries and investors became distrustful about the reliability of the global financial markets and the companies' financial information. As a consequence, a focus on corporate governance in capital markets has increased in both developing and developed countries, in an attempt to restore the lost confidence (Abu Haija, 2012). Against this background, the need for corporate governance originates from a firm’s potential insiders-outsiders conflict. Sometimes this conflict includes asymmetric information that allows management to achieve personal and selfish objectives that may go against the objectives of the firm. Al-Najjar’s (2010) stated that management might function to meet their self-interests although this may be detrimental to the rights of the shareholders.

Issues of corporate governance have been focused on in recent years by several organizations and researchers (Akhtaruddin, 2005). This intensified focus was compounded by the crisis of the late 1990s that emphasized the significance of corporate governance practices to bring back the confidence of investors in financial markets (Azman & Kamaluddin, 2012). Accordingly, several organizations have assisted in the adoption and implementation of effective good corporate governance principles. These include the World Bank, IMF, OECD, and the United States Trade Representative, among several others. These organizations aim to improve the role in governments and firms in Eastern Europe through the adoption and enforcement of laws of conduct and principles of effective corporate governance (McGee, 2010).

Corporate governance has now become one of the most important subjects in the business environment (Yuksel, 2008). Based on the OECD principles, good corporate governance should offer suitable incentives and rewards for the board of directors and management in their pursuit of the firm's and shareholders' interests for effective monitoring, and efficient use of resources. Effective systems of corporate governance in a company and throughout the economy can add to confidence levels that are required for market performance. Hence, the cost of capital is minimal and companies are urged to efficiently use their resources (OECD, 2004; Al-Najjar, 2010). In the timeliness of financial reports context, timeliness is often discussed in the OECD, corporate governance principles. Both disclosure and transparency are described in the principles; for instance, the principle states that it is important for the corporate governance system to make sure that timely and accurate disclosures are carried out in all matters

concerning the firm, with the inclusion of financial situation, ownership, performance and firm governance (Aktas & Kargyn, 2011).

Studies on corporate governance are motivated by the agency theory, whereby companies employ corporate governance mechanisms to control managers' opportunistic behavior and reduce agency conflict (Yunos, 2011). According to some studies (Afify, 2009; Shukeri & Nelson, 2010), effective corporate governance structures will improve monitoring of management and minimize the occurrence of mismanagement or misreporting and untimely financial reporting processes. Others (Cohen *et al*., 2004; klai & Omri, 2011) contend that among the most crucial functions of corporate governance system, is to ensure quality financial reporting process. Cohen *et al*. (2004) argue that corporate governance has become the starting point for the preparation of financial reporting and the main factor in producing the financial reports. A number of studies have documented that corporate governance contributes to better timeliness of financial reports in companies (Afify, 2009; Mohamad-Nor *et al*., 2010). Moreover, Akle (2011) indicates that companies have taken less time to publish their annual financial reporting since applying corporate governance principles.

2.5.1 Corporate Governance in Jordan

Corporate governance rules have become one of the most important issues discussed globally (Abu-Tapanjeh, 2009; JSC, 2009). Jordan has displayed more interest in consolidating the pillars of corporate governance. Jordan undertook a series of legislative, financial and economic reforms for regulating and developing the capital market. A series of actions were taken to ensure fairness, efficiency and transparency to

protect investors and reduce risk in Jordanian firms, and to improve financial reporting quality. Accordingly, the legislators have enacted laws to ensure public firms apply corporate governance (Abu Haija, 2012; Al-Tahat, 2010).

In the context of Jordan, the development of corporate governance can be traced back to 1997 when the Jordanian government initiated the privatization program under the purview of the World Bank and the IMF. The main objective of the program is to boost the economy and minimize government expenditures. The achievement of these objectives would minimize the budget deficit of the Jordanian government and promote productivity and efficiency. These developments served as a means to enable Jordan to be a competitive contender in the global market (Sharar, 2007). The Jordanian government passed the Companies Law No. 23 in 1997, aiming to restructure and regulate the country's capital market. This is aligned with the International Accounting Standards (IAS) for transparency, securities safe trading and investors' confidence promotion in Jordan's capital market (ASE, 2007; Al-Akra *et al*., 2010). The law monitored the establishment of three organizations to replace the Amman Financial Market (AFM), namely the Jordan Securities Commission (JSC), Amman Stock Exchange (ASE), and Securities Depository Centre (SDC).

In addition, the Company Law 1997 provided the initial provisions of the governance-policy framework to concentrate on protecting the shareholders' rights, their equitable treatment, their role in corporate governance, and the board of director's responsibilities. The Law also mandated that listed firms create audit committees comprising three non-executive directors. Nevertheless, the said audit committee's responsibilities,

specifically their compliance with the JSC requirements, were not addressed until the 2002 Securities Law enactment which mandated that all companies comply with the requirements set out by the IFRS in their annual financial reports and that they should file audit reports to JSC. On the basis of such law, listed firms should form audit committees comprising of three non-executive directors who should hold meetings at least four times a year to address and investigate the internal control mechanisms of the firms with the inclusion of the external and internal auditor's work and to make sure that the companies complied with the Securities Law requirements (ROSC, 2004).

In the context of Jordan, the government's privatization program entails the introduction and use of IAS/IFRS. Moreover, Jordan's commitment to the adoption was highlighted with the passing of the Accountancy Profession Law in 2003, which led to the establishment of a High Council for Accounting and Auditing in the following year, headed by the Ministry of Industry and Trade and the launching of the improved Jordanian Association of Certified Public Accountants (JACPA) (ROSC, 2004). Therefore, with the evident local and global focus in corporate governance, the Jordanian group discussion was held on 8th July, 2003, to rehash the issue of corporate governance in the country at the promotion of JFED's (Al-Urdun Al-Jadid Research Center) economic arm, and with the help of the Center for International Private Enterprise (CIPE) along with the Global Corporate Governance Forum (GCGF) (Tahat, 2010).

Consistent with global trends that stemmed from the financial crises, a set of governance codes was formulated on a global level. More specifically, Jordan developed its corporate governance framework under OECD sponsorship (Akra *et al*., 2010). By September 2009, the JSC issued the code of corporate governance for shareholding firms that are ASE listed and the codes laid down the committees' responsibilities, authorities and formation. For instance, the code enumerates the following responsibilities of the board of directors;

1- To set up policies, plans, procedures and strategies for the realization of the company objectives.
2- To define firm executive management's authority and duties.
3- To take the required procedures in ensuring compliance with the laws and instructions provided.
4- To lay down a risk management policy that addresses the firm's present and future risks.
5- To set up plans and procedures preventing insiders from taking advantage of inside information to their benefit.
6- To employ the necessary measures to make sure that the laws in force are complied with.
7- To adopt certain criteria for granting privileges, compensations and incentives to the members of the board of directors and management.
8- To evaluate and review the management's performance in order to make sure that the policies, plans, strategies and procedures in force are implemented.

9- To set up strategies and policies to organize relations with stakeholders in a way that protects their rights, guarantees fulfillment of the firm's commitments to them, offers them with enough information and maintains good relations with them (JSC, 2009, p. 8).

The corporate governance code also deals with the committees which are formed by the board, such as audit committees. The JSC (2009) suggests that the audit committee members must have the ability and knowledge in accounting or finance with at least one of them having worked before in finance or accounting sectors; and those members must have a professional or an academic license in finance, accounting or related fields.

In addition, this code requires audit committees to meet from time to time and at least one meeting with external auditor must be held. The duties of an audit committee are specified as follows: (1) discuss issues which are related to the nomination and working of the external auditor to review the company's correspondence with the external auditor; (2) supervise the company's compliance with laws and instructions by requirements of regulatory institutions; (3) monitor any change in the company's accounting policies, and accounts as a consequence of the auditing procedures; (4) assess internal control, auditing processes, and auditor evaluation for internal control; and (5) ensure that no conflict of interest may appear from the company's transactions and projects with related parties. Moreover, the code indicates that the authorities of an audit committee are to: (1) demand the existence of the external auditor if the committee believes in the necessity to meet him regarding the work; (2) promote the external auditor to the board of directors for election by the general assembly; and (3) nominate

the qualified candidates to be assigned as the company's internal auditor (JSC, 2009, p. 15).

However, the World Bank in 2004, assessed the issue of corporate governance in Jordan. The organization issued a Report on the Observance of Standards and Codes (Corporate Governance Country Assessment [ROSC]) that highlights some of the weaknesses in corporate governance applied in the Jordanian corporate governance framework. The report, generally, indicates that the corporate governance framework in Jordan is inappropriate, because board practices were developed recently and are still at a preliminary stage. The assessment offers slight evidence of corporate governance scandal in Jordan and sheds light on some points that need to be revised so that shareholder rights can be developed and improved.

2.6 The Organization of the Jordanian Capital Market

Back in the earlier period of the 1930s, public shareholder companies which were established prior to the setting up of the Jordanian Securities Market proceeded to subscribe and trade in shares. Additionally, the pioneering bank that was considered as a public shareholding company was the Arab Bank established in Jordan in the same era and the first corporate bonds were issues in the early 1960s. This led to the emergence of non-organized securities of non-specialized offices. The JSC (2007) stated that the Jordanian government is thinking about establishing a market that regulates the issuance and monitoring of securities to ensure their safety, timeliness and easy trading and to safeguard the rights of small investors. Hence, successive economic plans encouraged the setting up of markets and parties began preparing the government for organized securities market. The first financial market in Jordan was

established in 1973 and was referred to as the Amman Financial Market. The Jordanian capital market has made considerable qualitative transition of operations on the basis of international accounting and auditing standards.

2.6.1 The Jordanian Securities Commission (JSC)

The objectives of the JSC is to make sure that issuance firms adhere to the specified dates in the securities law and the regulations of disclosure, accounting and auditing standards (Suwaidan & El-Khouri, 2000). The JSC urges public shareholding companies to report initial business results, annual reports and semi-annual data and material facts of any major event that concerns investors and influence the security price. The enforcement of instructions of disclosure and firm's heightened awareness have added to the increased compliance to data disclosure and firms' annual reports as mandated by the instructions. In addition, the JSC can enforce sanctions on firms that violate the law and fail to provide periodic data within certain dates as stipulated by the instructions. This is particularly true following the implementation of the Securities Law no. 76 (2002). In 2003, the JSC began issuing fines and is proceeding towards full execution of the law (JSC, 2007).

2.6.2 The Securities Depository Center (SDC)

The Jordanian Securities Depository Center or SDC is described as a public utility institution set up in the country under the Securities Law No. 23 of 1997 and is among the main institutions in the Jordanian Capital Market as it has in its possession the ownership registers of all issued shares. The SDC is responsible for developing and improving the Jordanian Capital Market with cooperation of the JSC and ASE as specified and assigned by the Securities Law

(2002). Moreover, the SDC commenced operations in May 1999 and is the sole entity in the country that has the legal authority under Securities Law No. 76 (2002) to monitor the deposit and registration of securities and clearance and settlement of securities transaction and to transfer securities ownership and provide safekeeping.

2.6.3 The Amman Stock Exchange (ASE)

The Amman Stock Exchange (ASE) is a non-profit private institution holding financial autonomy established in 1999. It is authorized to offer secure exchange and trade, and is presided over by a seven-member board of directors that guarantees investors' rights. The members to the ASE include 68 brokerage companies in Jordan that uphold the principles of fairness, transparency and efficiency by implementing internationally acknowledged directives market divisions and listing conditions (JSC, 2007).

2.6.4 The Instructions of Issuing Companies Disclosure in Jordan

The instructions for issuing firms' disclosure, accounting and auditing standards for the year 2004 was issued under article 12/Q of the Securities Law No. 76 of 2002. This is what is currently applied and it encapsulates the provisions of disclosure instruction of financial reports. According to Article 6 of the instructions, the issuance of the financial report should be conducted as explained in the following points. The issuing firm should publish period reports according to the instructions of the Board in the following manner;

1. It is important for issuing companies to publish annual statements in the three months prior to the end of the financial year, following approval by the company's board of

directors and after the release of the report of the auditors prior to its release to the shareholders.

2. The issuing companies should publish their initial business results following the completion of an initial audit by the company auditors, in the forty-five days of the end of the fiscal year and shall submit a copy to the Commission.
3. The board of directors of the issuing firm should draw up a comparative semi-annual report and submit it to the Commission – such a report is published within one month from the end of period.

Moreover, the companies' annual audited financial statements that are based on the prior year should encapsulate the following documents; cash flow statement, balance sheet, profit and loss account, changes in shareholders' equity statement and finally, explanatory notes concerning the Financial Statements.

2.7 Overview of Ownership Concentration

The relationship between corporate governance and ownership structure has been examined in the literature dedicated to corporate governance (Abu-Serdaneh *et al*., 2010; Javid & Iqbal, 2008). The most critical distinction among corporate governance systems is the ownership and control difference among countries. Corporate governance is evident in the proportion of ownership and control and the identity of controlling shareholders. Some systems have concentrated ownership control or insider systems while others have widely diffused ownership or outsider systems (Maher & Andersson, 2000).

Extant literature reveals particular features of Asian corporate governance and relates them to the Asian firms' behavior and performance. Some of the features of Asian corporate governance mentioned in literature include: concentrated ownership, extensive family ownership having a significant level of overlap between controlling family ownership and management, considerable cross-ownership relations and a pyramidal ownership structure, huge state owned ownership having direct political impact of management appointments, and finally, the confined utilization of professional managers in the top echelons of management (Globerman *et al*., 2011). According to La Porta *et al*. (2000), in countries having weak legal environment, the original owners hold majority of the company's positions which results in concentrated ownership.

Several studies have stressed on their claims that Asian companies' corporate governance is ineffective owing to weak legal system or high concentration of ownership and family-monitored firms (Abdullatif & Al-Khadash, 2010; Borhanuddin & Ching, 2011; Caprio & Levine, 2002; Globerman *et al*., 2011; Maher & Andersson, 2000; Young *et al*., 2008; Yunos, 2011). Omran *et al*. (2008) show that Jordan is one of the countries with the highest ownership concentration. Based on the largest five shareholders, the average ownership concentration in Jordanian companies is 40%, with more than 80% of company ownership being in the hands of individuals and private institutions. Similarly, Zeitun and Tian (2007) emphasize the importance of ownership concentration in Jordanian listed companies. They find the average of ownership concentration amongst Jordanian companies is 35% for non-defaulting companies and 40% for defaulting companies.

2.7.1 Ownership Concentration as Moderator Variable

A moderator is a variable that affects or modifies the relationship between (x) and (y). In a conceptual sense, if (z) is a moderator, it interacts with the predictor (x) to alter the effect of the latter variable to the response (y) (Tang *et al*., 2009). A number of studies have been conducted on the issue of moderating governance factors worldwide. These studies aimed to ascertain ownership concentration as a moderator variable on the association between internal mechanisms of corporate governance and the timeliness of financial reports of listed firms in Jordan.

In the context of developed countries like the U.K. and the U.S., corporate shareholdings are diffused, and hence, the possibility of conflict mostly occurs among managers and shareholders. On the contrary, in the context of developing countries, ownership is more highly concentrated as major shareholdings are concentrated in the hands of a minority (families, individuals, institutions or government) (Omran *et al*., 2008). The nature of firm's ownership structure impacts the nature of the agency issues that arise between management and external shareholders, and the shareholders in general. With diffused ownership like the one found in the U.K. and the U.S., agency issues originate from the conflicts of interest among external shareholders and managers who are owners of minimal amount of company equity (Jensen & Meckling, 1976).

In addition, Young *et al*. (2008) state that in the past few years, there is significant number of calls for reform of corporate governance structures in Asian firms. Currently, concerns regarding family control and state ownership of Asian big businesses are high. In

addition, there are significant uncertainties concerning the economic outcome of the present corporate governance rules, both in the light of performance of firms and for the performance of the economy at the macroeconomic level. Among the OECD principles is the protection of shareholders' rights which is a significant issue in corporate governance (Clarke, 2003).

Highly concentrated ownership was a contributing factor in the financial crisis in 1997 and remains a problem today (Yunos, 2011). Muhamad Sori and Karbhari (2005) indicate that one of the characteristics of the ownership of listed firms in emerging Asian markets has been the high degree of ownership concentration, as opposed to a wider institutional ownership. Arthur and Tang (2009) argue that the degree of ownership concentration is an important determinant of financial reporting quality in many countries. Thus, decreasing the degree of ownership concentration is expected to be a potentially effective way to promote financial reporting quality. The lag in financial reporting is more pronounced in firms with greater block ownership and those firms with complex operations (Aubert, 2009). In this regard, Bedard and Gendron (2010) contend that the governance characteristics effectiveness differs from one country to another because of the different environments. In Malaysia, high concentrated ownership makes it challenging to establish effective corporate governance models (Singam, 2003).

The Jordanian Code on Corporate Governance establishes that Jordanian firms have to adopt the corporate governance best practices to guarantee superior monitoring ability (Jaafar & El-Shawa, 2009). Moreover, prior studies, such as Young *et al*. (2008), Claessens and Fan (2003) show that the corporate governance system, in the context of

Asian and developing nations, such as Jordan, is ineffective, primarily because of the concentrated ownership; while Globerman *et al*. (2011) attribute this to family-controlled firms. This is consistent with the statements of other authors, including Cho and Kim (2007), Chen *et al*. (2011) and Hu, Tam and Tan (2010) who claim that owners confine the firm's governance effectiveness. Meanwhile, Javid and Iqbal (2008) demonstrate that firms that have concentrated ownership do not employ effective corporate governance practices and they disclose less in response to their weak legal environment. Abdullatif and Al-Khadash (2010) further claim that in Jordanian firms, corporate governance structures are ineffective because of the concentrated ownership. In addition, the assessment made by the World Bank and IMF in 2004 suggests that the corporate governance structures of Jordanian firms remains at a relatively under-developed stage (Berg & Nenova, 2004). Barton, Coombes and Wong (2004) state that good practices of corporate governance could not be realized when there is weakness in the application of legal regulations.

Despite the fact that Jordan is considered to be among the developing nations, the Amman Stock Exchange is a well-regulated mechanism, in which all listed firms are mandated to create audit committees to ensure boards of directors that quality audit processes and financial reporting are being conducted (Nimer *et al*., 2012; www.asc.com.jo). In relationship to this, according to Abu-Serdaneh *et al*. (2010), corporate governance primarily aims to enhance the value and performance of the company. Furthermore, Alzoubi and Selamat (2012) argue that the responsibility for financial reporting quality depends on the effectiveness of the board and its committee. Nimer *et al*. (2012) described the audit committees as the fundamental entities in the

corporate governance system in the context of Jordanian firms as they help the board of directors in achieving their responsibilities to the shareholders, in terms of finance and credit. The present study considers that the board of directors and audit committee expedite publication of information as that publication assists them in their role as governance bodies.

Several studies relating to corporate governance have proposed that concentration of ownership can have an impact the financial reporting process. Klai and Omri (2011) provide substantiation of the influence on the quality of financial reporting of corporate governance. They find that firms with poor quality of accounting have higher degree of ownership concentration. These studies indicate that institutional ownership can affectively discipline and monitor discretionary powers of managers to control the reporting process. Furthermore, manufacturing firms in Jordan display decreased profitability with high ownership concentration and increased high portion of equity owned by institutional investors according to Abdullatif and Al-Khadash (2010). They claim that ownership dispersion between shareholders or low concentration should be opted for as it can increase the performance of the firm. In the same line of contention, Labelle and Schatt (2005) report a negative association between insider ownership and disclosure quality in the context of firms in France. Based on the findings, the annual report quality is superior in firms with less ownership concentration, with the shares proportion held highest in the public’s hands.

Evidence regarding the financial reports timeliness indicates that ownership concentration results in the delay of financial reports publication. While firms employing effective good governance practices regularly released timely reporting,

concentrated owners may, on the other hand, constrain the governance function of the firm, which could result in delay and inferior financial reporting quality. In addition, Aubert (2009) reveals that ownership concentration is linked to the financial reporting timeliness and that reporting lag is higher for company having block ownership and complex operations. Afify (2009) claims that ownership concentration is found not to be significantly associated with audit report lag. Generally, the results of the above studies show that the inside concentrated ownership have a negative effect on the governance mechanisms, whilst the outside concentrated ownership has a positive effect on the governance mechanisms.

2.7.2 Empirical Evidence of Corporate Governance as a Moderator

A number of studies has implicitly examined corporate governance mechanisms as a moderating variable. Yunos *et al*. (2011) looked into the effect of inside concentrated ownership and board of directors on accounting conservatism and examined whether inside concentrated ownership moderates the variables that affect the board of directors' conservatism. The sample consisted of 300 listed firms on the KLSE for the years 2001-2007. Based on the findings, inside ownership did not significantly affect conservatism and significant proportion of independent board members and financial expertise relate to conservatism. In terms of the moderating impact, inside ownership negatively moderated the relationship between board composition and financial expertise, and conservatism but it positive moderated the relationship between tenure and conservatism.

Schnake and Williams (2008) examine the potential effect of both board size and the proportion of outside directors on the relationship between directors holding multiple directorships and firms misconduct. The results indicate that small board but not outside directors, is an effective moderating factor. In a related study, the moderating effect of five corporate governance variables (i.e., equity-based executive compensation, block ownership, outside directors, institutional ownership and market for firm's control) was examined by Johnson and Kim (2009) on the managerial ownership-discretionary disclosure level relationship. They contend that ownership structure mechanisms lead to managements' disclosure of ownership and investor-related information, whereas the outside directors' level leads to management's report of board and management process disclosure. Based on the results, the variables under study minimized management incentives to disclose significant and invaluable financial information to the stakeholders. In a related study, the impact of large shareholder's ownership was examined by Cho and Kim (2007) on the independent directors-firm performance relationship. According to the findings, the independent directors proportion on the board positively impacts the performance of the firm and that the performance showed a decline when the directors began interacting with large shareholders.

2.8 Corporate Governance and Timeliness of Financial Reports

This section discusses the association between the independent variables and timeliness of financial reports. Five groups of variables are involved: (i) board characteristics (board independence, board size, CEO duality, board diligence, board expertise & knowledge); (ii) presence of an audit committee; (iii) ownership structure (foreign ownership and institutional ownership); (iv) auditor quality (opinion, change, brand

name and independence); and (v) company's attributes (size, profitability, age, leverage, and type of sector).

2.8.1 Board characteristics

The board of directors has been acknowledged as a crucial tool of corporate governance that can balance the management and stakeholders' interests. One premise is that the adoption of corporate governance mechanisms for such a purpose (aligning interests) was motivated by both the agency problem and the free-rider problem that prevents the investor/stakeholder from affording the monitoring costs (Sanda, Garba, & Mikailu, 2011). In the context of Jordan, the Jordanian Corporate Governance Code dictates that Jordanian companies are mandated to employ the best corporate governance practices to guarantee superior oversight. In this sense, the board of directors is the core institution of a firm's internal governance and characteristics of corporate governance are deemed to be the means by which to resolve various categories of problems related to the agency phenomenon.

The board of directors plays a key role in the companies' governance and is responsible for overseeing the information quality in the financial reporting. Additionally, they control senior managers behavior to guarantee that their activities are aligned with the interests of stakeholders (i.e., investors, shareholders and debtors) (Dimitropoulos & Asteriou, 2010). According to Fama and Jensen (1983), the existence of independent directors on the board facilitates the independence of the board from management as it distinguishes management from control functions. Also, independent directors can tackle

issues that arise between internal managers, or those between internal managers and residual claimants. In this regard, Che Haat *et al*. (2008) show that an effective board is a significant characteristic of internal governance that assists in resolving the company's agency issues.

Board characteristics are important factors for the timeliness of a company's annual report (Abdelsalam & Street, 2007; Chiang, 2005; Wu, Wu, & Liu., 2008; McGee & Yuan, 2012). The literature reveals that the existence of an effective corporate governance system ensures overseeing of management. It reduces the likelihoods of mismanagement and misreporting, (Dimitropoulos & Asteriou, 2010). Shukeri and Nelson (2011) show that agency conflicts may be caused by the agency relationship among managers and shareholders. Effective corporate governance is presumed to reduce such problems. The existence of corporate governance mechanisms may reduce the audit labor and time required to complete the audit. Afify (2009) shows that effective corporate governance improves control and management of processes and reduces business errors. This leads to a shorter reporting time.

2.8.1.1 Board Independence

The presence of external directors, termed independent directors, leads to independence of the board (Yunos, 2011). Fama and Jensen (1983) opine that independent directors enhance the firm's value by injecting experience and able supervision. Givoly and Palmon (1982) have the opinion that firm's management has great motivations to maintain control over the timeliness. Afify (2009) asserts that the composition of a board is closely related to its independence. It tends to be less independent as the number of

outside directors decreases. He finds that the lesser the proportion of independent directors on the board, the less efficient it will be in overseeing the management's behavior. Abdelsalam and Street (2007) support that board independence is proportional to report timeliness. While company management may obtain individual advantage by delayed disclosure, "outside board members usually derive no advantage from delayed disclosures". They may suffer loss of reputation in case of litigation.

Board independence plays a main role in the timeliness of financial reports. Firm managers may reap self-serving benefits by delaying financial reporting, but outside board members generally have little or nothing to gain by selective reporting or delaying disclosures. In fact, outside directors may face reputation and pecuniary costs if litigation arises and hence, they may be motivated to facilitate timely disclosure (Abdelsalam & Street, 2007). Moreover, Anderson *et al*. (2008) suggest that board independence is an important factor that affects the reliability of financial reporting. Williamson (1981) indicates that the independence of corporate boards is necessary to protect investors' interests. Board independence is very important to ensure high-quality of financial reporting (Jaggi, Leung & Gul., 2009).

Studies dedicated to the independent directors' effectiveness and efficiency on the board have primarily stated that independent directors positively impact the financial reports (Cheng & Courtenay, 2006; Klein, 2002; Yunos, 2011). In terms of disclosure, the presence of a high proportion of independent directors on the board contributes to increases monitoring of managerial opportunism and decreased management's opportunities for withholding information, leading to enhancements in disclosure inclusiveness and quality of financial reporting (Kelton & Yang, 2008). Moreover, a

positive relationship has been highlighted between the proportion of outside directors and voluntary disclosure. For instance, Chen and Jaggi (2000) and Cheng and Courtenay (2006) state that a higher independent directors' proportion on the board is linked to higher degrees of voluntary disclosure. Also, independent directors having financial expertise are invaluable in conducting oversight responsibility over the financial reporting process of the firm (Agrawal & Chadha, 2005).

Afify (2009) provides evidence that board independence is negatively associated with audit report lag. This means that the monitoring role of the more independent board could have a positive effect on financial disclosure quality and timeliness of financial reports and more effective and efficient audit, thus reducing the audit report lag. Moreover, board of directors with a higher percentage of independent directors, would have more tendencies to employ specialized brand name auditors compared to board of directors with less percentage of independent directors. Hence, companies with independent directors will have financial reporting ready in a shorter time. (Beasley & Petroni, 2001). In another study, Abdelsalam and El-Masry (2008) claim that board independence is positively associated with the timeliness of financial internet reports.
Klein (2002) contended that board that is independent from the CEO shows greater effectiveness and efficiency in its oversight role of the corporate financial accounting process. Ajinkya, Bhorjraj and Sengupta (2005) argue that firms with a larger number of outside directors have the greater likelihood of more frequently publishing earning reports. On the other hand, Wu *et al*. (2008) show that the presence of independent boards is related to reporting lag. This may be caused by these directors overseeing the operations more intensely. Finally, Braswell *et al*. (2012) argue that independent boards

are indicative of strong governance structures and are more likely to encourage management oversight activities.

2.8.1.2 Board Size

Corporate governance characteristics are viewed as a means for resolving diverse categories of agency problems. Moreover, the board of directors monitoring role is a crucial aspect in corporate governance, where its strength in terms of efficiency and effectiveness is based on its size, independence and its composition (John & Senbet, 1998). A large board of directors can be a problem to a company. A big board is difficult to coordinate, compared to the smaller boards. However, small boards can suffer from a lack of competence and experience of its members (Matoussi & Chakroun, 2007). As for small-sized board, Lipton and Lorch (1992) claim that they can assist in improving performance. They add that a reduced number of directors (seven to eight) would be suitable as the CEO would not face problems in controlling them. They also add that a large board may result in useless discussion, where feedback from a large board generally takes time and effort and eventually leads to dispersion of board members' opinions. The Jordanian Code of Corporate Governance advocates that the size of a board should be sufficient enough for members to effectively perform their task without being overly large. The exact number is left to be decided by the functioning of the firm but should be in the range of five to thirteen members (Abed *et al*., 2012).

The board of directors size has been a topic of interest in recent years. Supporting a small board, several studies report that large board size is associated with low firm performance. Yermack (1996) finds a fewer number of board members encourages

board unison and involves a high degree of coordination. Xie *et al*. (2003) suggest that smaller boards of directors provide better financial reporting oversight. Bradbury, Mak, and Tan (2006) show that a small board is more efficient and effective in observation and monitoring management. Dimitropoulos and Asteriou (2010) state hat one of the defects related to a large board is a communication and coordination problem between members of board, leading to less efficient monitoring, compared to a small board. Jensen (1993) proposes that a value-relevant attribute of a company board is its size. Furthermore, Meca and Ballesta (2009) find a negative relationship between board size and discretionary accruals. Mohamad-Nor *et al*. (2010) argue that the large board size leads to exacerbated audit report lag; while the small board size contributes to shorter audit report lag. Wu *et al*. (2008) provide evidence that weakness of communication and coordination have nothing to do with the magnitude of the board size; also large board size has no positive relation with reporting lag.

2.8.1.3 CEO Duality

CEO duality refers to the situation where the chief executive officer (CEO) is also the chairman of the board of directors (Abdelsalam & Street, 2007). The CEO duality issue is significant to shareholders, lawmakers and regulators who advocate the separation of CEO roles from the Chairman of the Board to ensure board independence and effective corporate governance. As the directors generally monitor the CEO, it is in the latter's interest to relate information to the board that would serve his interests. But this dual position leads to conflicts of interest (Habib & Hossain, 2012) and it may also result in concentration of decision making power in the hands of the CEO. This may prevent

board independence and minimize the board's capacity for effective monitoring (Mohamad-Nor *et al*., 2010).

Based on the agency theory, the CEO and chairman positions should be separate as the board is mainly responsible for monitoring and controlling management, and the CEO. Aligned with the agency theory, the Jordanian Code of Corporate Governance establishes that the Chairman of the board and the CEO should hold separate responsibilities, and hence, to steer clear of conflicting interests and to uphold management supervision, the two positions should be filled by two individuals. If possible, it is important for the board to appoint the chairman from the independent directors (JSC, 2009).

The agency theory explains that the combined functions of both the chairman and CEO could prevent the key functions of the board in terms of monitoring and disciplining senior management. It also serves as an incentive to the CEO to involve himself in opportunistic activities as he dominates over the board of directors (Barako, Hancock, & Izan, 2007). Moreover, the agency theory indicates that the separation of functions may lead to efficient monitoring over the board's processes. Hence, CEO duality will weaken the oversight role of the board. CEO duality implies that less control is likely to be exerted over management's activities and behavior (Meca & Ballesta, 2009).

Prior studies have reported mixed findings on the relationship between CEO duality and earnings management. Gulzar and Wang (2011) and Roodposhti and Chashmi (2011) showed a positive relationship between the two variables. Similarly, Habib and Hossain (2012) evidenced that CEO duality decreases audit committee effectiveness and its

financial reporting credibility. Along the same line, Saleh *et al*. (2005) examined Malaysian firms and conducted an assessment of the board's effectiveness and its role in minimizing earnings management. They revealed that CEO-Chairman duality is associated positively with earnings management.

Afify (2009) finds a positive relationship between duality of CEO and audit report lag. In other words, CEO duality, pose a threat to monitoring quality by withholding undesirable information to outsiders; thus increasing the audit report lag. Moreover, according to Abdullah (2006), a relationship exists between the separation of CEO and board chairman roles and financial reports timeliness. An executive chairman could provide better motivation for a board to be open, which, in turn, results in timely reporting. The separation entails the non-executive chairman, as opposed to the CEO, acting on behalf of the shareholders. In contract, Mohamad-Nor *et al*. (2010) argue that the presence of CEO duality contributes to reducing audit lag.

2.8.1.4 Board Diligence

The Jordanian Code of Corporate Governance establishes that the board meeting should take place on a regular manner in order for the board to carry out its roles and responsibilities effectively – this should at least take place once a quarter to allow the board to discuss various important issues concerning the firm, particularly the management performance. Vafeas (1999) argues that board activity, measured by board meeting frequency, is a very important component of board of directors' operations. Also, board of directors with high meeting frequency, leads to improvements in operating performance. Similarly, Conger *et al*. (1998) indicate that board meeting

frequency is a significant resource in improvement of the effectiveness of board of directors.

Jensen (1993) posits that well-performing company boards should be relatively inactive and face few conflicts. Here, boards carry out routine functions. During a crisis, the role of corporate boards becomes more important, particularly when shareholders' interests are at risk. With low performance, boards are likely to become more effective to deal with these problems. Hashim and Rahman (2010) argue that diligent board of directors will be more anxious over the financial reporting aspects of the firm.

Earlier research suggest that the effectiveness of the board of directors is related to frequency of board of directors' meeting (Greco, 2011). Similarly, Carcello *et al*. (2002) indicate that frequency of board of directors' meeting improves level of control of the financial reporting process. Zhou and Chen (2004) assert that the number of board meetings play a significant role in constraining earnings management for low earnings management banks. Hashim and Rahman (2010) demonstrate that more frequent board meetings would enable the auditors to rely more on the strong internal control of the firms and reduce their workload. As a consequence, this would lead to decreasing audit report lag. In contrast, Tauringana *et al*. (2008) show a significant negative association between board meetings and timeliness of financial reports.

2.8.1.5 Board Expertise & Knowledge

The members of the board's accounting and financial expertise have also been addressed by media and regulators. According to Kroll, Walters and Wright (2008), the members' ownership of appropriate knowledge learned through experience could be significant in explaining board effectiveness. Similarly, Dahya, Lonie and Power (1996) contend that the experience of the board will assist in the transparency of the financial information as this can be compared to the knowledge and experience of counterpart organizations. Carpenter and Westphal (2001) indicate that advanced governance research emphasizes on the board's tendency to participate in decision control to see whether directors have the associated experience that enable them to exercise more control and advise management effectively.

The possession of suitable knowledge acquired from the experience of the directors is significant in explaining the effectiveness of the board (Kroll *et al*., 2008) because inexperienced directors may not be capable of fully contributing to the strategy of the company. According to Agrawal and Chadha (2005), the rules expect that the inexperienced members in the accounting and financial field are not as prone to discover glitches in the financial reports. Directors who are experienced may be better in monitoring and advising individuals and they may be able to positively contribute to the firm's outcomes (Kroll *et al*., 2008).

A positive effect on financial reporting quality by experienced directors has been proposed by a number of empirical studies. These studies examined the effectiveness and efficiency of independent directors on the board. An experienced independent

director can help the company to prevent accounting snags that could otherwise force them to prepare the report again. An experienced independent director with financial expertise is an asset to a company for overseeing its financial reporting practices (Agrawal & Chadha, 2005). Moreover, Abdelsalam and Street (2007) show a significant positive relationship between board experience and the timeliness of internet financial reports. They show that experienced directors utilize their longer expertise to effectually discern management, function as finest board members and ensure timely financial statement.

The summary of the previous studies related to board characteristics and the timeliness of financial reports (measured by audit and management report lag or total reports lag) is shown in Table 2.1

Table 2.1

Summary of Major Previous Studies that Examining Board of Director Characteristics and Timeliness of Financial Reports

No.	Author/ year	Sample	Board of Directors Characteristics (Independent variables)					Dependent Variables	Significant variables (Main Result)
			Independence	Size	CEO	Diligence	Experience	ARL / MRL/ TRL	
1	Afify (2009)	85 Egypt firms 2007	Independence	----	CEO	------	-----	Audit Report lag	Board independence and duality of CEO significantly affect ARL. found the positive relationship between duality of CEO and audit report lag
2.	Abdelsalam and El-Masry (2008)	44 Irish Firms	Independence	----	CEO	-----	-----	Timeliness internet financial reporting	found a link between timely internet reporting and board independence and CEO
3.	Mohamad Nor *et al*. (2010)	628 malaysin firms 2002	-----	Size	CEO	-----	-----	Timeliness (ARL)	Large board size lead to exacerbate audit report lag. While the small board size contribute to make the shortest audit report lag. The presence of CEO duality contributes to reduces audit lag
4.	wu & Liu (2008)	2976 Taiwan firm 1998-2004	Independence	Size	-----	-----	-----	Timeliness (ARL)	Independent directors on the board increases the financial reporting lag. Found that there is no weakness of communication and coordination with the magnitude of the board size, as it has no positive relation with the reporting lag.

5.	Abdelsalam and street (2007)	115 U.K. firms 2006	Independence	-----	CEO	-----	experience	Timeliness internt reporting	CEO duality is associated with less timely corporate internet reporting. Board independence is significantly negatively associated with CIR timeliness. Boards with more experience provide more timeliness
6.	Abdullah (2006)	355 listed firms in KLSE 1998 to 2000.	-----	-----	CEO	------	------	Timeliness	The separation of the roles of board chairman and CEO significantly is associated with timeliness
7.	Hashim and Rahman (2010)	806 Malaysia firms 2007-2009.	independence	----	----	diligence	expertise	Timeliness	The more frequent board meetings has an significant influence on timeliness of financial reporting, thus lead to decreasing audit report lag This study not provide any evidence on the link between board independence and board expertise on audit report lag.
8.	Tauringana *et al*. (2008)	36 Firms of Kenya. 2005 - 2006.	-----	-----	-----	meetings	-----	Timeliness	Found that significant negative relationship between board meetings and timeliness of financial reporting.

2.8.2 Audit Committee

The first recommendation of the formulation of the audit committee was made by the NYSE in 1939, followed by the SEC in 1972. Recently, most authorities of capital markets have made formulation of an audit committee mandatory by all listed companies. The Jordanian SEC created a code of corporate governance in 1999, which mandates the establishment of audit committees. Consequently, all listed companies have to create audit committees that allow boards of directors to gain assurance about the financial reporting quality (www.asc.com.jo).

Audit committees are tasked with overseeing timely preparation of the financial reports. The Jordanian Code of Corporate Governance suggests the audit committees to possess the following characteristics as best practices: (1) "should be composed of at least three members of whom two are independent; (2) all members should be financially literate and at least one of them should be a financial expert, a member of an accounting association or body; and (3) they ought to assemble regularly with due notice of issues that will be discussed" (Article (15) JSC, 2010). The corporate governance guide stresses the committee should meet at least once a quarter.

According to the agency theory, audit committees are crucial mechanisms that ensure that the agent is working to increase the wealth of all shareholders. The role of the audit committee in the internal corporate governance is to minimize the information asymmetry that could in turn, result in decreased agency problems. More importantly, investors make use of corporate financial statements as their source of financial

information. However, it is suggested that audit committees should possess some crucial characteristics, such as independent members, sufficient size, expert members, and frequent meetings, to perform its duties more effectively.

The utility of an audit committee is based on the assumption that its ability to carry out its task will impact the quality of reporting and thus lead to releasing the report on schedule. In addition, firms that intend to enhance timeliness should take steps to improve audit committee effectiveness (Ika & Ghazali, 2012). Hashim and Rahman (2011) advocate that audit committee expertise and its independence are key factors that can remove lag and thus enhance timeliness. Additionally, the same contention is made by Turley and Zaman (2004) who demonstrate that effective audit committee's oversight protects the interests of shareholders in light of financial reporting, external auditing activity and internal control.

The relationship between the presence of an audit committee with financial reporting quality has been made known in earlier studies. The audit committee independence, size competency, and meetings have greatest influence on the quality of financial reporting (Bedard & Gendron, 2010). Ika and Ghazali (2012) investigate the relationship between the effectiveness of audit committee and reporting timeliness. They evidenced that companies with larger audit committees, greater independence of committee members, more frequent audit committee meetings and more experienced members, are more likely to release audit reports on schedule.

Along the same line, Islam *et al*., (2010) revealed that an audit committee is a mechanism that controls management incentive issues including the manipulation of financial statements to obtain the best rewards. In this regard, an effective audit committee enhances the quality and credibility of annual audited financial reporting. Also, an effective committee could guarantee the financial reporting, internal control and management risk reliability (DeZoort *et al*., 2002). Moreover, according to Boo and Sharma (2007), audit committees have a key positive role in resolving audit-management conflict and Goodwin and Seow (2002) revealed that an effective audit committee minimizes financial statement errors and maximizes the probability of detecting management fraud.

The general objective of an effective audit committee is to reinforce the quality of financial information and to encourage investor confidence in the quality of financial reports and the timely submission of financial reports to the public. Furthermore, the association between the presence of an audit committee and the timeliness of financial reports is examined in this study. The audit committee is an essential part of a firm's management. It is especially related to quality of audit and maintaining an overview of financial reporting. The audit committee is expected to counsel the management to prepare the financial report on schedule. Bedard and Gendron (2010) show that financial reporting quality is impacted by independence, competency, size and number of meetings.

The summary of the previous studies related to the audit committee and timeliness of financial reports is shown in Table 2.2.

Table 2.2

Summary of Major Previous Studies that Examining Audit Committee and Timeliness of Financial Reports

No.	Author/ year	Sample	Audit Committee (Independent variables)					Dependent Variables	Significant variables (Main Result)
			Independence	Size	Diligence	Experience	Audit Committee Effectiveness	ARL / MRL/ TRL	
1	Hashim and Rahman (2011	288 malaysia firms from 2007 to 2009.	Independence	------	Diligence	Experience	-----	ARL	Found a significant relationship between audit committee independence and timeliness of financial reporting. Not find any evidence on the link between audit committee diligence on audit report lag. Found significant association between the proportion financial expertise and timeliness of financial reporting
2.	Mohamad-Nor *et al*. (2010)	628 malaysia firms ended of 2002	Independence	Size	Diligence	Experience	-----	ARL	Firms with large number of audit committee members are more likely to produce audit reports in timely manner. Timeliness of reporting is significantly associated with more frequent audit committee meetings. Failed to find evidence that audit committee expertise and independence are associated with the timeliness of audit report.
3.	Ika & Ghazali, 2012	211 non-financial Indonesian firms	-----	----	----	-----	Audit Committee Effectiveness	Timeliness	Timeliness of reporting is significantly associated with audit committee effectiveness.

4.	Shukeri and Nelson (2011)	300 malaysian firms of 2009	-----	Size	Diligence	Experience	-----	Timeliness	Found significant relationship between audit committee with accounting financial expertise and timeliness of financial reporting Failed to find evidence support the effect of audit committee size and audit committee meetings and audit committee qualifications on audit report lag.
5.	Abu-Hija and Al-Hayek (2012)	(144) Jordanian companie on 2010	-----	Size	-----	Experience		ARL	Timeliness of financial reporting related positively to the number audit committee members and audit committee with financial expertise.
6.	Schmidt and Wilkins (2011)	409 U.S firms 2004 – 2009,	-----			Experience		Timeliness	Audit committee with the financial expertise are positively related with the timeliness of financial reporting
7.	Beyer and Stefaniak (2011)	---	-----	-----	------	Experience	------	ARL	Decrease audit report lag is related positively with the presence and proportion accounting financial expert

2.8.3 Auditor Quality

An external auditor plays an important role in helping to improve the quality of financial reports, and hence can be viewed as a significant participant in the governance process (Coheen, 2004). Afify (2009) argues that for audit efficiency, as proxied by the observable audit report lag, more efficient auditors should perform more timely audits. Lee and Jahng (2008) suggest that by employing more experienced and/or specialist audit partners and skilled staff, auditors are able to reduce audit report lag. Schmidt and Wilkins (2012) indicate that high quality auditors perform more efficient audits, resulting in the timely reporting of annual financial data. In other words, firms that appoint an external auditor are associated with more timely release of financial reporting to the public. Che-Ahmad and Abidin (2001) provide evidence to confirm that audit quality improves financial reporting timeliness. In contrast, Ashton *et al* (1987) states that the requirement of timely reporting of annual financial statements runs counter to the requirement that annual financial reporting be subject to external audit. According to him, auditing can well delay the release of the earnings announcement and the financial statements because it is a time-consuming activity.

2.8.3.1 Auditor Opinion

Earlier research show that audit delay is related directly to qualified audit opinion. Qualified opinion is an unwelcome development. It causes the audit process to slow down. Additionally, there is also the possibility of conflict of view developing between the firm and the auditors. This conflict may lead to introduction of further delay in

financial reporting (Ahmad & Kamarudin, 2003). As can be expected, Türel (2010) shows that the audit opinion affects timeliness of financial reports. He maintains that firms, with standard audit opinion publicize them earlier. Bamber *et al*. (1993) contend that qualified opinions are unlikely to be publicized even if the auditor has invested additional effort and time in the process.

In recent years, several studies have documented the relationship between auditor quality, as a proxy for audit opinion, and timeliness of financial reports. Lee and Jahng (2008) examine the relationship between ARL as a timeliness measurement and several audit-related factors, including the audit opinions. They reveal that the unqualified audit opinions are negatively associated with the ARL as the proxy for the timeliness of financial reports. In some other studies like Ahmad and Kamarudin (2003), audit delay is attributed to firms categorized to non-financial industry, and those receiving qualified audit opinions.

Soltani (2002) studies the effect that qualified reports have on the timeliness and the trends in reports delay. The study reinforced the belief that firms that had qualified reports tended to delay releasing them as compared to firms that had not. Shukeri and Nelson (2011) explore the factors that impact audit reports in Malaysia. They found that audit opinion has a pronounced effect on ARL. They assert that firms with qualified report reduce the time spent by the auditor to perform their audit work. This improves the quality of the work. Similarly, Ahmad *et al*. (2005) reveal a positive significant association between audit opinions and ARL. They show that audit opinion has a

significant relationship with timeliness. On the other hand, Iskandar and Trisnawati (2010) find that audit report lags are not caused by the audit opinion.

2.8.3.2 Auditor Tenure (Change)

Audit report lags, and the associated financial reporting lag, have recently become issues of significant concern for regulators and the auditing profession. In addition, any auditor change creates disruption, between the client and the auditor, incurring significant switching costs (Tanyi, Raghunandan & Barua, 2010). Carey and Simnett (2006) argue that periodic changing of auditors is being implemented around the world to deal with concerns about audit quality. The basis of this practice is the belief that engaging the same auditors for a protracted period causes a reduction in the quality of the audit.

The auditor change would affect the audit report lag as well as the timeliness of financial reports due to the new auditor-client relationship. This is because of the start-up time necessary to know in-depth concerning the client's business characteristics, internal control, and risk (DeAngelo, 1981 a). Ashton *et al*. (1987) on the other hand, feel that because of the start-up time required for an auditor to acquire familiarity with the client’s records, internal controls, operations, etc., there is probably an increase in audit reports lag with a new audit client. Tanyi *et al*. (2010) indicate that the audit risk is higher in the first year, suggesting that the auditor would likely perform more extra work in an initial audit engagement.

Studies on the association between auditor tenure and timeliness of financial reports have been conducted by some researchers. The findings show a significant association between auditor tenure and timeliness of financial reports. Lee *et al*. (2009) claim that as auditor tenure increases, an auditor's knowledge about customer processes and accounting systems increases, which leads to increased efficient audits, thus reducing audit report lag, which in turn leads to improved timeliness of financial reports. Tanyi *et al*. (2010) investigate audit report lags after voluntary and mandatory auditor changes. They provide evidence that voluntary auditor changes lead to slight increases in audit report lags, while mandatory auditor changes lead to significant increase in audit report lag (ARL), when compared to voluntary auditor changes. In terms of mandatory auditor rotation, some researchers, such as Geiger and Raghunandan (2002), argue against it and reveal that an inverse relationship exists between auditor tenure and failures of audit reporting. Based on their findings, more audit reporting failures are noted in the earlier years of the external auditor and client relationship compared to the later years.

Schwartz and Soo (1996) claim substantially longer financial report lag for companies that changed auditors late in the fiscal year. They also find that companies which replace their auditor early in the financial year are associated with shorter reporting lags. Lee, Mande, and Son (2009) demonstrate that as auditors' contracts lengthen, they are able to audit their customers more efficiently. Changing of auditors imposes additional costs on customers and increases inefficiency, resulting in delayed financial information.

2.8.3.3 Auditor Brand Name

The resources which are available to large firms and the pressure that is exercised by various stakeholders will cause short audit lag periods and early release of financial reports to the public (Al-Ghanem & Hegazy, 2011). The large audit firms also have a stronger incentive to complete their audit work faster and maintain their reputation and name (Afify, 2009).

The literature shows the relationship between auditor quality, proxied for audit firm size, and timeliness of financial reports. Many studies, such as Soltani (2002) and Türel (2010), find that large audit firms are related with high quality of timeliness of financial reports. Lee and Jahng (2008) examine the relationship between ARL and type of auditors. They believe that the big four audit firms are negatively associated with the ARL as auditors spend much less time in completing an audit, which is an indication of efficiency and advanced technology. The big 4 companies are efficient because of the flexibility in scheduling complete audits on a timely basis to improve timeliness of financial reports (Türel, 2010). Lee *et al*. (2008) and Abdullah (2006) investigate the auditor type on timeliness of financial reports to measure whether the auditor is a Big 5 or a non-Big 5 audit firm. The result indicates a negative relationship between auditor type and timeliness of financial reports, which means that a Big 5 audit firm will have a shorter period for timeliness of financial reports.

Wilkins and Schmidt (2012) examine whether auditor quality is associated with improved timeliness as measured by the duration of a financial statement's restatement. They find that firms that engage Big 4 auditors have shorter lags than firms that do not engage Big 4 auditors. Al-Ghanem and Hegazy (2011), and Leventis *et al*. (2005) claim that the type of auditors is negatively correlated with ARL. They suggest that large firms that have a strong control system need less time for audit functions. In other words, large audit companies audit their accounts more quickly than smaller companies. In opposing arguments, Al-Ajmi (2008) finds no significant difference in audit report lag between big and non-big audit firms.

2.8.3.4 Auditor Independence

In order to steer clear of misstatements, an external audit is a mechanism of external governance that evaluates the internal controls and audits the financial statements of clients. High class professional auditors are more likely to pursue ethically approved methods of audit. Any irregularities or anomalies they detect during the audit work will be brought to light immediately. The worth of the company's monitoring function is affected by the external auditor (Knechel & Sharma, 2008). Employing auditors for providing non-audit services (NAS) has generated protracted controversy between regulators and the accounting profession regarding the threat of this to auditor independence. Walker and Hay (2011) maintain that providing NAS is detrimental to auditors' independence. It generates a conflict of interest situation that causes the auditor to be forced into compromising the accuracy of the financial statements. Of course there are those who maintain that providing NAS enables the auditors to gain extra knowledge that helps them to provide a more accurate audit.

Several researchers have considered the connection between auditor independence and timeliness of financial reports. Knechel and Payne (2001) find that companies with a longer audit report lag are those which purchase tax services from their auditors. They also find that firms purchasing management advisory services have a shorter audit report lag. This is ascribed to tax services adding to the complexity thereby increasing the required audit work and hence the lag, whereas, management advisory services have a synergistic relationship with audit report lag. Walker and Hay (2011) investigate the connection between NAS and audit reports. The results reveal that while there was no association between NAS and report lag in 2004, there is a small positive association in 2005. They offer substantiation that whereas NAS is indeed associated with a shorter audit report lag, this does not occur in the year in which the services are provided but later. The results seem to show that purchasing NAS from their current auditors subsequently enables companies to reap benefit in the form of a shorter ARL.

Along the same vein, Knechel and Sharma (2008) assert that NAS provision in the U.S. is related with shorter ARL indicating that audits are more efficient when they are conducted according to the auditor-provided NAS. Also, Lee *et al*. (2009) reveal a significant negative correlation between report lag and NAS fees. They state that NAS provision increased auditor learning and hence, minimizes audit delays and results in enhanced and timely financial reporting.

The summary of the previous studies related to auditor characteristics and timeliness of financial reports is shown in Table 2.3.

Table 2.3

Summary of Major Previous Studies that Examining Auditor Quality and Timeliness of Financial Reports

No.	Author/ year	Sample	Auditor Characteristics (Independent variables)				Dependent Variables	Significant variables (Main Result)
			Change	Opinion	Brand Name	Independence	ARL / TRL	
1	Afify (2009)	85 Egyptian firms on 2007	------	-------	Brand Name	----------	ARL	Found the type of auditor not significantly associated with audit report lag
2	Al-Ajmi (2008)	231 financial and nonfinancial Bahrain firms 1992- 2006	----	----	Brand Name	----		Finds no difference in audit delay between big and non-big audit firms.
	Abdullah (2006)	355 listed firms in KLSE 1998 to 2000.	----	----	Brand Name	----	ARL	Found that a Big 5 audit firm have a shorter period for timeliness of financial reporting.
3	Iskandar & Trisnawati (2010)	128 Indonicia firms 2003- 2007	----	Opinion	----	-----	ARL	Found that the audit opinion have no influence to audit report lag.
4	Al-Ghanem & Hegazy (2011)	149 and 177 firms listed on the Kuwait stock market in 2006- 2007	-----	-----	Brand Name	----	Timeliness (ARL)	Found that the type of auditors is negatively correlated with audit report lag

5	Lee *et al*. (2009)	22,651 Korean firms 2000 to 2005	Change	------	------	Independence	ARL	Found that both auditor tenure and non-audit services are significant negative association with ARL.
6	Schwartz & Soo (1996)	1,800 U.S firm 1988- 1993	Change	-----	-----	-----	ARL	Found that companies which replace their auditor early in the fiscal year are associated with shorter reporting lags.
7	Türel (2010)	211 non-financial Turkish firms 2007.		Opinion				Found that the firms which have standard audit opinion release their financial statements earlier than others
8	Lee & Jahng (2008)	1,560 Korean firms, from 1999 to 2005	Change	Opinion	opinion	Independence	ARL	ARL is negatively associated with non-audit fees ARL is negatively related with the use of Big 4 auditors and unqualified audit opinions. No association between ARL and auditor tenure
9	Shukeri & Nelson (2011)	300 Malaysian firms 2009	----	Opinion	----	----	ARL	find that audit report lag is significantly influenced by audit opinion
	Walker & Hay (2011)	260 of New Zealand public firms 2004-2005.	-----	----	----	Independence	ARL	found that non-audit services are associated with a shorter audit report lag, but that this occurs in a subsequent period, not in the year in which the services are provided
	Knechel & Payne (2001)	21,702 firms with audit and non-audit fee 2000 to 2003	-----	----	-----	Independence	ARL	found that firms with a longer audit report lag are those which purchase tax services from their auditors. found that companies purchasing management advisory services have a shorter audit report lag.

2.8.4 Ownership Structure

One of the basic dimensions of corporate governance is ownership structure and it is determined by the country-level corporate governance mechanisms, like the creation of the stock market and the country's regulation and intervention practices (La Porta *et al.*, 1998). The agency theory framework assumes a conflict between two groups: between managers and shareholders, and among stakeholders, especially, among shareholders and bondholders (Jensen & Meckling, 1976; Watts, 1977). At the same time, the owners of firms typically do not manage the company's assets especially in the case of large-public firms. This leads to issues arising from a separation among those who own the companies and those who run them. Professional managers (agents) are hired to operate the company creating the potential for moral hazard problems among shareholders and their agents. This separation will transfer the authority from shareholders to management who should be able to run the business more effectively (Monks & Minow, 2003).

More recently, ownership structure has become an issue for accounting profession's regulators, organizations, many researchers and existing authorities worldwide (Globerman *et al.*, 2011). Empirical and theoretical studies on ownership structure provide evidence that the ownership structure is very important in corporations because it is related to firm performance and firm value (Alkhawaldeh, 2012), and also affects financial reporting quality (Klai & Omri, 2011). Moreover, Demsetz and Lehn (1985) claim that the existence of blockholders may lead to the reduction of management discretionary behavior, encourage the adoption of profitable strategies and disclosure of reliable and relevant information. Dong and Zhang (2008) contend that ownership

structure is one of the most critical characteristics of corporate governance of listed firms and they added that the structure of ownership directly impacts the boards of listed firms. Meanwhile, Abdel Salam and El-Masry (2008) confirm a relationship between timely internet reporting and firm's ownership structure.

In Jordan, there is a scarcity of studies regarding the ownership structure and its effect on both firms' health and timeliness of financial reports quality, so that the evidence to date is quite limited regarding this issue. However, the ASE provides some evidence about the ownership structure of the companies traded on the ASE. There are five types of ownership in Jordan: government agency, institution, domestic individuals, managerial ownership and foreign investors.

2.8.4.1 Foreign Ownership

Foreign ownership may press firms to divulge private information and convey it to the various shareholders and bondholders on time. This is because increasing firms' quality of information improves investors' abilities to estimate firm value (Alkhawaldeh, 2012). Mitra, Hossain and Marks (2012) reveal that the corporate ownership characteristics, as a part of corporate governance mechanisms, play an increasingly critical role in influencing companies' decisions to immediately remediate their internal control problems and enhance the reliability of financial reports. Furthermore, foreign ownership arguably needs more information about the ability of companies to cover interest debts and capital repayments and needs more confidence about the capacity of

management to meet their needs, and provide timely repayments for investors through future and current cash flows (Alkhawaldeh, 2012).

Empirical studies have documented that the presence of foreign ownership contributes to better governance and is positively associated to the quality of financial reports. Klai and Omri (2011) find that foreign ownership is negatively related with the financial reporting quality of the Tunisian companies. In Jordan, Mohandi and Odeh (2010) find that firms with higher percentage of foreign ownership are positively related with the quality of financial reports. Similar argument is also proposed by Che Ahmad and Abidin (2001) that foreign companies have to disclose all information as soon as possible to their shareholders and investors who come from around the world.

In the timeliness of financial reports context, Al-Tahat (2010) finds that foreign ownership is positively related with the timeliness of interim financial reporting. He further concludes that firms with a higher proportion of shares owned by foreigners take a shorter time to publish their half-yearly financial reports. In another study, Ishak *et al.* (2010) reveal that the participation of foreign investors in the marketplace, especially in an emerging economy, has corporate governance side-effects that provide incentives for the firms and their auditors to provide timely financial reporting. They provide evidence that foreign ownership has some impact on audit delay. They find some evidence of significantly higher audit delays for firms with moderate levels of foreign ownership. Zureigat (2011) examines the effect of ownership structure on the quality of audit among Jordanian listed firms. The findings of the study show a positive correlation between

audit quality and foreign ownership of firms. Foreign owners and institutional investors tend to engage high quality auditors, thus improves the timeliness of financial reports.

2.8.4.2 Institutional Ownership

Institutional ownership is usually greater than the investments of individuals (Zureigat, 2012). Institutional investors exert a greater influence on corporate governance and are important performers in most financial markets due to their influence and the policy of privatization being pursued by several countries (Al-Najjar, 2010). Institutional investors consist of pension funds, trust institutions, insurance companies, financial and investment companies (Lang & McNichols, 1997).

Meanwhile, Alves (2012) contended that agency theory is covered by institutional ownership, a crucial governance tool. According to him, institutional ownership is able to monitor managers indicating its relationship to superior management monitoring activities. Additionally, institutional ownership monitoring provides pro-active monitoring that cannot be provided by less-informed investors (Almazan, Hartzell, & Starks, 2008). Similarly, Shleifer and Vishny (1997) argue that agency theory is important to control shareholders to use their power and undertake activities which are aimed at getting personal gain in relation to minority shareholders who cannot use that power.

Zureigat (2012) maintains that institutional ownership can participate vigorously in observing and correcting managerial option and in directing the preparation of the formal record of the financial activities of a business. Furthermore, institutional ownership is distinct from that of individual ownership as the former is able to monitor a firm's management performance in an effective way, and institutional owners are more informed, as they are able to acquire authentic information (Tong & Ning, 2004). On a similar note, Feldmann *et al*. (2003) demonstrated that institutional ownership has a significant role in a company's management structure, as institutional investors are able to access extensive resources and use those resources in management oversight in comparison to their individual counterparts. This gives institutional owners considerable leeway to influence the board. Shaikh, Iqbal and Shah (2012) find that institutional owners are considered more effective in improving corporate governance styles.

Theoretical and empirical studies have showed that institutional ownership can have a bearing on the financial reporting quality. Shaikh *et al*. (2012) show that it is an extremely effective instrument to help maximize the value of the firms. They find that institutional ownership has a negative impact on discretionary accumulations, as noted in Pakistani listed companies. Klai and Omri (2011) establish that institutional ownership has a positive correlation with the quality of financial reporting. Wan Abdullah, Ismail and Jamaluddin (2008) finds that institutional ownership could assist firms listed on Bursa Malaysia to perform more effectively. Hashim and Devi (2010) suggest that institutional ownership provides a motivation for better monitoring as the ownership is better positioned to monitor the management. Also, they find significant correlation between institutional ownership and earnings.

With respect to timeliness of financial reports, Ishak *et al*. (2010) suggest that the participation of institutional ownership in the marketplace, especially in an emerging economy, has corporate governance side-effects that provide incentives for the firms and their auditors to improve timeliness of financial reports. In a recent paper, Lim (2012) shows that companies with institutional ownership are more timely in their price discovery and financial reporting. Consistent with Lim's (2012) findings, Wu *et al*. (2008) find that firms with higher institutional ownership are associated with smaller audit report lags and financial reports lags.

The summary of the previous studies related to ownership structure and timeliness of financial reports is shown in Table 2.4

Table 2.4
Summary of Major Previous Studies that Examining Ownership Structure and Timeliness of Financial Reports

No.	Author/ year	Sample	Ownership Structure (Independent variables)		Dependent Variables	Significant variables (Main Result)
			Foreign Ownership	Institutional Ownership	ARL / MRL/ TRL	
1.	Ishak, Sidek & Rashid (2010)	198 Malaysian firms (2007)	Foreign	Institutional	Timeliness (TRL)	Institutional ownership related with more timely release of financial reporting to the public Found significant positive relationship between foreign ownership and timeliness of financial reporting
2.	Klai & Omri (2011)	22 Tunisian non-financial firms. (1997-2007)		Institutional	Audit Report lag	Institutional Ownership significantly affect improved the financial reporting quality
3.	Al-Tahat (2010)	165 Jordanian firms 2007	Foreign	-----	Timeliness (interim)	Foreign ownership is positively associated with the timeliness of interim financial reporting
4	Bagaeva, Kallunki & Silvola (2008)	listed and non-listed Russian firms	Foreign	-----	Timeliness	Found that firms with foreign ownership report earning with more timely recognition of economic gains than others companies

2.8.5 Company Attributes

2.8.5.1 Company Profitability

The negative association of audit report lag with profitability can be explained in several ways. Owusu-Ansah (2000) says that firms which have been successful will report this fact earlier than those that have losses to report. This is because a company's efficiency of operations is measured by their profitability. Similarly, Karim and Ahmed (2005) argue that firms are more relaxed when announcing satisfactory rather than unsatisfactory information. Higher than expected profits are good news for investors. It is anticipated that firms would be eager to release such information without any delay and be reluctant to release ‘bad news’ or ‘not so good’ news.

A majority of studies reveal a negative and significant association between company profitability and lag in financial reporting. Among them, Afify (2009) investigate the influence of corporate governance characteristics and company attributes upon ARL. He concludes that company profitability significantly impacts ARL. In addition, Dogan *et al*. (2007) show that the timing of annual financial report release is impacted by the company’s profitability and they conclude that the timely annual report release is impacted by news about the company (either bad or good) as measured through profitability; for instance, companies with good news publish their financial reports earlier than those with bad news. In a related study, Ahmed (2003) studies the timeliness of financial reports in a group of countries in Asia including Bangladesh, India & Pakistan. He concludes that profitability is a significant determinant only in Pakistan,

which affects ARL. Al-Tahat (2006) finds a significant association between leverage of firms and timeliness of half-yearly financial reporting. The results indicate that firms that are more profitable take a shorter time to publish their half-yearly reports.

2.8.5.2 Company Leverage

Leverage indicates that the firms depend on the debts to finance invested capital. The firms that achieve positive leverage (i.e., the rate of returns on owners' equity is greater than the rate of returns on the investment capital) aspire to publish financial reporting quickly, as, firms that achieve negative leverage (i.e., the rate of returns on owners' equity is less than the rate of returns on the investment capital) because increase in the cost of debt is greater than the operational profit rate, aspire to delay publishing financial reporting so as not to affect the stock prices (Akle, 2011). According to Ku Ismail and Chandler (2004), the leverage of a company is one of the main company attributes that has an influence on the level of timeliness of financial reports. They add that one of the competing views about the association between leverage and timeliness of financial reports is that highly leveraged companies report faster than the lowly leveraged companies.

Akle (2011) shows that firms that achieve positives leverage are quicker in releasing the financial reports than the firms that suffer negative leverage. In addition, the study finds that the delay period in the firms that achieve positive leverage is up to 78 days, while it is up to 116 days for the firms that suffer negative leverage over the same period. Ku Ismail and Chandler (2004) find that there is a significant positive association between leverage and reporting lag. In other words, firms which have a high leverage tend to

release financial reports more slowly than the relatively low leveraged firms. Al-Tahat (2010) claims that firms that have less leverage take shorter time to publish their half-yearly financial reports.

2.8.6 Control Variables

Company Size

The literature justifies company size negative association with the level of audit delay. According to agency theory, company size may be significant in raising firm capital. The pressure of increased disclosure stems from shareholders' expectations and their agents along with investment analysts. In addition, large companies are more inclined to disclose financial statements to stakeholders including customers, suppliers, and even to the general public (Cooke, 1996). Moreover, Ku Ismail and Chandler (2004) argue that one of the attributes that has often been associated with the reporting lag of a financial report is size of a company. Large companies are often argued to be early reporters for several reasons. Large firms are often associated with having more resources, more accounting staff, and more advanced accounting information systems compared to their smaller counterparts. A similar argument is proposed by Owusu-Ansah (2000) suggesting that large firms tend to have strong systems of internal control; as a result, external auditors spend fewer times in conducting substantive tests.

Numerous studies have shown that in both, developing and developed nations, there is a significant correlation between size of company and timeliness of reporting as well as the delay. Owusu-Ansah and Leventis (2006) investigate timeliness of publishing financial reports on the Athens Stock Exchange. They find that smaller firms take a

longer time to publish their financial reports than the large companies. In terms of firm size, in the Spanish market, Bonson-Ponte *et al*. (2008) conducted an analysis of the factors determining delays in the audit reports signing for the years 2002-2005. They revealed that the size of the firm impacts audit delay and that large-sized firms sign the audit report more expediently. Likewise, Akle (2011) finds that company size significantly affects timeliness of financial reports. He shows that large companies tend to take less time than do the small companies to publish their annual financial reporting.

Larger companies tend to be earlier than their smaller counterparts when it comes to auditing their financial reports in order to publicize them and this is attributed to several reasons. First, larger companies are more capable of exerting pressures on the external auditor to begin auditing and to complete it on time. Second, large companies are more likely to own up-to-date accounting systems and superior internal controls, and strict procedures and formal policies that will facilitate early completion (Ashton *et al*., 1989; Carslaw & Kaplan ,1991). Moreover, Afify (2009) and Al-Ajmi (2008) investigate the effect of company attributes on the timeliness of financial reports. The results show that company size significantly affects ARL. In other words, larger companies tend to complete their audit work as soon as possible in order to release their financial reports on time. A similar argument is also proposed by Ahmed (2003) who investigates the timeliness of financial reports in three Asian countries, namely, Bangladesh, India and Pakistan. The study finds that firm size is a significant determinant affecting audit lag only in Pakistan.

Company Age

Age of a firm is one of the main attributes considered in determining the level of timeliness. The older companies are likely to disclose more timely than younger companies because older companies might have enhanced their financial reports practices over time (Alsaeed, 2006). Earlier literature has identified company age as being an attribute that is likely to have a bearing on the timeliness of an audit report. It is expected that firms with longer experience are likely to have more robust procedures of internal control and thus, fewer operating weaknesses that could result in delays.

Recent examination of the relationship between company age and timeliness of financial reports has shown mixed results. Iyoha (2012) explores the impact of firm attributes on timeliness in Nigeria. The sample size was 61 financial reports for the years 1999-2008. The findings reveal that the overall quality of timeliness of financial reports in Nigeria is significantly influenced by company age. Lianto and Kusuma (2010) have also shown that differences in the timeliness of financial reports are significantly explained by company age. They found that older companies take shorter time to publish their financial reports than the younger companies.

Type of Sector

The type of sector is one of the explanatory variables for timeliness of financial reports. Some of the previous studies divided the type of sector into two groups: financial (e.g. banks and other financial institutions and insurance firms) and non-financial (e.g. manufacturing, services and constructing firms). Findings on the association between

sector and timeliness of financial reports show mixed results. Some studies find that the industry sector is better than others. Afify (2009) uses two sector types to examine the influence of type of industry on ARL as whether the companies belongs to a financial industry, or whether the companies belongs to a non-financial industry. The results indicate that financial companies take a shorter time to release their financial reports than non-financial firms. Similarly, Aktas and Kargın (2011) investigate the association between timeliness of financial reports in financial and non-financial firms in corporate companies listed on the Istanbul Stock Exchange. The results reveal that type of sector has a significant influence on timeliness of financial reports, in which non-financial companies publish their financial reports later than financial firms.

Owusu-Ansah and Leventis (2006) show that service firms tend to take a shorter time to release their financial reporting, while firms in the construction sector do not promptly release their annual financial reporting. Iyoha (2012) discovers that there is a substantial difference in the timeliness of financial reports between sectors in Nigeria. He found that the banking sector is timelier in publication of financial reports.

The summary of the previous studies related to company attributes and timeliness of financial reports is shown in Table 2.5

Table 2.5
Summary of Major Previous Studies that Examining Company Attributes and Timeliness of Financial Reports

No.	Author/ year	Sample	Company Attributes (Independent variables)					Dependent Variables	Significant variables (Main Result)
			Size	Profitablity	Age	Leverage	Type of sector	ARL / MRL/ TRL	
1.	Owusu-Ansah and Leventis (2006)	95 Athens non-financial firms	Size	-----	Age	-------	Industry	Timeliness	Found significant relationship between large firms and timeliness of financial reporting Age of company as statistically significant of the differences in the timeliness of financial reporting. Service firms tend to shorter time to release their financial reporting than firms in the construction sector.
2.	Afify (2009)	85 Egypt firms	Size	-----	-----	Leverage	Industry	ARL	Substantial relationship between company size and timeliness of financial reporting Profitability of company significantly affect audit report lag
3.	Al-Ajmi (2008)	231 Bahrain firms of financial, nonfinancial	Size	profitability	-----	leverage	------	ARL	Significant relationship between company size, profitability and leverage and audit report lag
4.	Akle (2011)	830 Egypt, firms from 1998 to 2007.	Size	-----	----	Leverage	Industry	Timeliness (TRL)	Company size significantly affects audit report lag Found significant relationship between leverage on audit report lag. Industry type effect on the timeliness of financial reports

5.	Dogan *et al*, (2007)	249 Turkey firms the period 2005	Size	profitability	------	------	industry	Timeliness	Substantial relationship between profitability of company and timeliness of financial reporting.
6.	Al- Tahat (2006)	166 jordan companies on 2007	-----	profitability	Age	Leverage	-----	Timeliness (interim)	Significant relationship between leverage and timeliness half-yearly financial reporting. Age and profitability significantly positively associated with the differences in the timeliness of half-yearly financial reporting.
7.	Ahmed (2003)	558 firms on 1998 Pakistan, Banglades h and India	-----	----	----	Leverage	-----	Timeliness	Significant relationship on audit report lag.
8.	Ku Ismail and Chandler (2004)	117 quarterly reports on 2001 malaysian firms	-----	-----	----	Leverage	------	Interim financial report	The substantial positive association between leverage and audit reporting lag
9.	Iyoha (2012)	61 Nigeria firms from 1999-2008	Size	------	Agre	-----	Industry	Tmeliness	Substantial variance in the timeliness of financial reporting between industrial sectors. Age of company is significant relationship Size (no relationship)

2.9 Chapter Summary

This chapter provides a review of the literature concerning corporate governance, ownership concentration and financial report timeliness. According to prior studies, strong board attributes are related to better governance of the firm and timeliness of financial reports. Given that good corporate governance is an effective characteristic, it could help the audit committees and board of directors to control the agency conflict. Hence, it is expected that such characteristic (i.e., audit committee and board of directors) can result in timely financial reports. The researcher notes that a majority of the previous studies have been conducted in developed nations, with only a few studies dedicated to developing ones. It can therefore be stated that parallel research is lacking in the Middle Eastern countries.

CHAPTER THREE

RESEARCH FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.0 Introduction

The last two chapters discuss subject outlines of this study, namely, timeliness of financial reports and its association with corporate governance. Another important issue discussed in Chapter Two is the corporate governance effectiveness and characteristics of ownership concentration, which will be used to determine the quality of corporate governance practices in Jordanian firms. The relevant studies are identified and gaps in the research specified, before the research hypotheses are developed for this study.

This chapter explains the conceptual framework of this study and discusses the development of hypotheses based on relevant theories and previous studies. In addition, this chapter highlights the data collection sources, explains the sample of study and the measurement of the variables.

3.1 Theoretical Framework

Corporate governance and timeliness of financial reports have received increasing emphasis, both in practice and in academic research (e.g., Ku Ismail & Chandler, 2004; Al-Ajmi, 2008; Afify, 2009; Brown *et al*, 2011). A number of governance codes have been developed as a consequence of the recent economic crisis. Under the patronage of OECD, Jordan has developed its own body of framework (Akra, 2010).

This study is concerned with the current status of timeliness of financial reports in Jordanian firms which remain below standard, since the delay in the issuance of the financial statements of Jordanian companies is an issue reported by the Securities Commission (2012) as well as by Abu-Hija and Al-Hayek (2012) & Nour and Al-Fadel (2006). In this study, corporate governance is given special attention because the current status of corporate governance of Jordanian companies is at a relatively underdeveloped stage as stated by the World Bank (2004), and also reported by Abdullatif and Al-Khadash (2010) & Abed *et al*. (2012).

Corporate governance is assumed to be the best monitoring and controlling mechanism to reduce agency conflict as well as agency problems, which may occur between the managers and shareholders. In relation to timeliness of financial reports and audit time, with the presence of corporate governance mechanisms, it may reduce the audit business risk of the firm, and hence reduce the audit work and hours taken by auditors to complete audit work (Shukeri & Nelson, 2010). In the above background of findings, it is important to view good corporate governance as a mechanism that limits the agency conflict, particularly when it considers the entire stakeholders' interests. Studies dedicated to corporate governance are based on the agency perspective, where companies utilized corporate governance mechanisms to resolve agency conflicts. Internal governance mechanisms, including board of directors, ownership structure, audit committee and auditor, are developed to achieve the purpose of monitoring and to minimize if not eradicate the conflict within firms (McGee, 2007; Afify, 2009).

Corporate governance mechanisms augment overseeing the management, prevent misreporting and delays in the report. This implies that delays are reduced by corporate governance impacting upon control and business risk (Afify, 2009). Hashim and Rahman (2010) indicate that corporate governance serves as a control mechanism to safeguard against inappropriate management behavior. Thus, based on the agency theory, the present study hypothesizes that the timeliness of financial reports is associated with board independence, board size, CEO duality, board diligence and board expertise and knowledge, as corporate governance characteristics.

In addition to the above, based on the agency theoretical framework, this study includes corporate governance mechanisms (i.e., board characteristics, presence of an audit committee, auditor quality and ownership structure) and company's attributes to examine if they affect the timeliness of financial reports. Additionally, this study is interested to identify if concentrated owners limit the effectiveness of firms' governance. This study examines the effect of ownership concentration as a moderating variable, as it is classified into inside concentrated owners.

3.1.1 Proposed Conceptual Framework

Previous studies have examined the relationship between some attributes of the board of directors and audit committee with the timeliness of financial reports to a limited extent (Ika & Ghazali, 2012; Al-Ajmi, 2008; Mohamad-Nor *et al.*, 2010). However, little attention has been given to the relationship between corporate governance characteristics and timeliness of financial reports, specifically for board characteristics, presence of an audit committee, auditor quality and ownership structure, which may enhance the

timeliness of financial reports. This study's model is developed from the main research question: How would corporate governance mechanisms affect the timeliness of financial reports in Jordanian companies?

Six models are proposed in this study. Model 1 investigates the effect of corporate governance mechanisms (board characteristics, presence of an audit committee, auditor quality and ownership structure) and company attributes with timeliness of financial reports using the audit report lag. Model 2 investigates the effect of corporate governance mechanisms and company attributes with timeliness of financial reports using the management report lag. Model 3 investigates the effect of corporate governance mechanisms and company attributes with timeliness of financial reports using the total report lag. Model 4 investigates the moderating effect of concentrated ownership on the relationship between firms' governance and timeliness of financial reports using the audit report lag. Model 5 investigates the moderating effect of concentrated ownership on the relationship between firms' governance and timeliness using the management report lag. Finally, Model 6 investigates the moderating effect of concentrated ownership on the relationship between firms' governance and timeliness using the total report lag. It is expected that firms that employ good governance practices would employ more timely financial reporting.

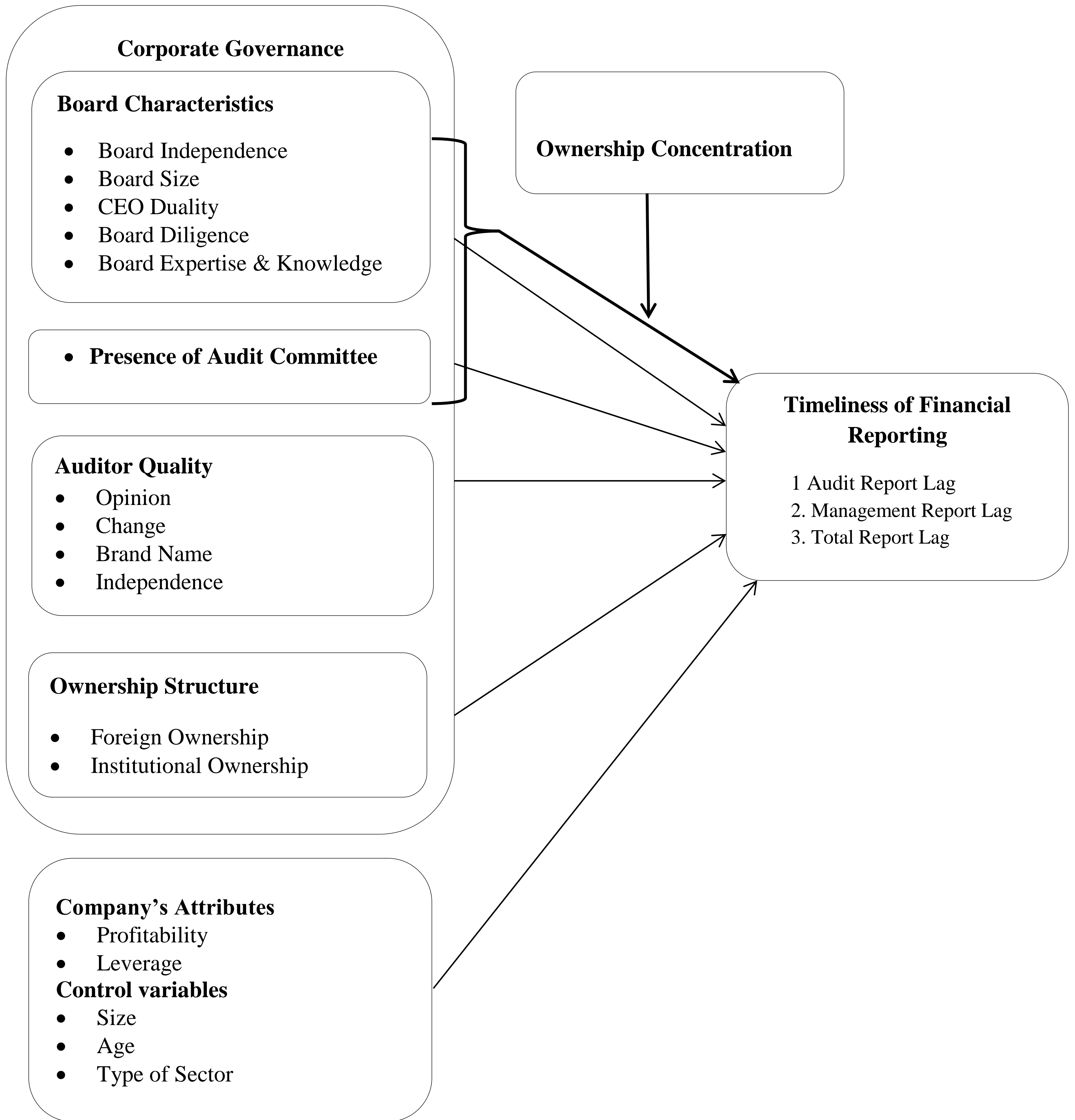

Figure 3.1

The framework of the Study

3.2 Hypotheses Development

After defining the framework of the study, this section discusses the relationship between the independent and dependent variables in formulating the research hypotheses. This section discusses the association between the five groups of independent variables highlighted above (i.e., board characteristics, presence of an audit committee, auditor quality, ownership structure and company attributes) and the timeliness of financial reports. In addition, the moderating effect of ownership concentration on the relationship between corporate governance and timeliness of financial reports is presented in this section.

3.2.1 Relationship between Board Characteristics and Timeliness of Financial Reports

Many studies have emphasized the importance of board of directors' characteristics as one of the corporate governance mechanisms (Al-Sa'eed, 2012; Ponnu, 2008; Yasser *et al*., 2011). Furthermore, the relationship between the board of directors and the timeliness of financial reports is expected to exist because of the fact that the directors have the rights to issue the company’s annual reports to the public. In other words, the board of directors can speed up or postpone the release of annual reports depending on the motivation (Abdullah, 2006).

This part discusses several board characteristics that are expected to have an influence on the timeliness of financial reports based on the agency theory perspective that was discussed in Chapter Two. The following is the discussion on the association between each variable of board characteristics and the timeliness of financial reports.

3.2.1.1 Board Independence

The independence of the board involves the participation of outside directors who are known as the independent directors of the board (Yunos, 2011). The higher the proportion of independent directors on the board, the greater will be the effectiveness of monitoring the behavior of management (Afify, 2009). Furthermore, board independence works towards the effective resolution of agency problems as it is an effective monitoring management mechanism (Johnson, Daily, & Ellstrang, 1996). On the other hand, Fama and Jensen (1983) stated that outside board of directors are more able to promote the value of the firm through their experienced monitoring. In this regard, they are deemed to be the monitors of the interests of shareholders through their control and oversight

Previous studies suggest that board members who are independent from management can have a positive effect on the timeliness of financial reports. Afify (2009) provides evidence that board independence is significantly associated with shorter audit report lag. This implies that monitoring role of the more independent board could have a positive effect on the timeliness of financial reports, through more effective and efficient audits, thus reducing the audit report lag. Abd-Elsalam and El-Masry (2008) claim that board independence is positively associated with the timeliness of financial internet reporting, because outside board of directors typically have little to gain from selective or delayed disclosures. Moreover, the independence of a board is related to a high quality of auditors as directors with a high percentage of independent directors employing specialized auditors than the board with less percentage of independent

directors. Therefore, a more timely financial reporting can be achieved (Beasley & Petroni, 2001).

Ajinkya *et al*. (2005) suggest that firms with more outside directors will issue earnings forecasts frequently and on a timelier basis. In addition, independence of boards is an indication of strong governance mechanisms that encourages management oversight activities (Braswell *et al*., 2012). This contention was extended by Wu *et al*. (2008) who stated that independent directors on the board are related with a longer financial reporting lag. This may be attributed to their thorough and strict monitoring role that entails verification of firm's events. According to the agency theory, board members who are independent from management has a positive relationship with the quality of financial reporting. Thus, based on the previous results and agency theory, this study presents the following hypothesis:

H1: There is a positive relationship between board independence and the timeliness of financial reports.

H1a: There is a negative relationship between board independence and audit report lag.

H1b: There is a negative relationship between board independence and management report lag.

H1c: There is a negative relationship between board independence and total report lag.

3.2.1.2 Board Size

As for the relationship of board size to financial report timeliness, prior studies have shown mixed results. The major contention is that larger boards are more effective than their smaller counterparts in monitoring firms (Klein, 2002). The strength of larger boards lies in the fact that they facilitate skills and knowledge exchange, although the risk of members' un-coordination may arise (Coles, Daniel, & Naveen, 2008). On the contrary, the problem of harmony with a large board size outweighs the benefit. For example, a big board can give rise to a less meaningful discussion since expressing opinions within a large group is generally time consuming, difficult, and causes lack of cohesiveness on the board (Jensen, 1993; Hermalin & Weisback, 2003). As a result, the relationship between board size and the effectiveness of board is complicated. This situation is due to larger boards being less effective in monitoring due to difficulties in harmonizing board directors' activities, whereas the smaller boards are more effective because they are able to commit less time and effort (Jensen, 1993; Lipton & Lorsch, 1992; Mak & Li, 2001; Guest, 2009; Wu *et al*., 2008).

From another view, the supervision, communication and participation of the board of directors have an important effect on the timeliness of financial reports. As a result, the timeliness of financial reports is affected if one or more of these factors become(s) a problem by increasing members of the board. For instance, timeliness of financial reports is affected by the big number of directors who take a lot of time communicating with the external auditor (Zaitul, 2010). Similarly, some researchers suggest that large boards contribute to increased audit report lag, while the small boards shortens audit

report lag (Xie *et al*., 2003; Mohamad-Nor *et al*., 2010). They also show that a small board may be more effective and capable of presenting better financial reporting which will improve the timeliness of financial reports. In contrast, in the notion of Wu *et al*. (2008) a large board will not delay its financial reporting since there are no weaknesses of coordination with the magnitude of the board size.

Based on theoretical arguments, the small boards are more effective in monitoring management behavior, and provide better skills and coordination because there is no problem of communication among members of boards of directors. Based on above, this study expects a negative relationship between timeliness of financial reports and board size, given that the previous studies indicate a small board size is more efficient in publishing timely financial reporting. Thus, the present study hypothesizes that:

H2: There is a negative relationship between board size and the timeliness of financial reports.

H2a: There is a positive relationship between board size and audit report lag.

H2b: There is a positive relationship between board size and management report lag.

H2c: There is a positive relationship between board size and total report lag.

3.2.1.3 CEO Duality

The agency theory posits that CEO and chairman of the board's roles should not be combined as the board is responsible to monitor and control the CEO (Yunos, 2011). Moreover, CEO duality potentially compromises firm value and performance, as it could

hamper the board's role in monitoring the CEO's actions. CEO duality could also weaken the balance of power at the top level, implying a need for effective governance to ensure shareholders' interests (Habib, 2012). The Jordanian Code of Corporate Governance, as mentioned earlier, is consistent with the agency theory in that it establishes that the Chairman of the board and the CEO hold different responsibilities, and as such, to steer clear of conflicting interests and to maintain effective management supervision. Thus, different individuals should be appointed to the two positions. If possible, one of the independent directors should be appointed by the board of directors as the chairman (Meca & Ballesta, 2009).

Previous studies report mixed results on the relationship between CEO duality and timeliness of financial reports. Afify (2009) shows a significant positive association between duality of CEO and audit report lag. In other words, a chairman who is also a CEO poses a threat to monitoring quality and withholds undesirable information to outsiders, thus, increasing the audit report lag. According to Abdullah (2006), if the role of CEO and board chairman is separate, it can provide greater incentives to the non-executive chairman to act in the interest of the shareholders and do not to act merely to protect the CEO's interests. He claims that the separation of the roles of board chairman and CEO is significantly associated with timely reporting of annual financial reports. On the other hand, some studies do not find that CEO duality hinders the timeliness of financial reports. In contract, Mohammad-Nor *et al*. (2010) find that the presence of CEO duality contributes to reduced audit report lag.

Based on the above findings, it is predicted that the separation between the CEO's and the chairman's roles will improve the timeliness of financial reports. Employing the agency theory which suggests that the role of CEO and chairman should be separate, this study presents the following hypothesis:

H3: There is a negative relationship between CEO duality and timeliness of financial reports.

H3a: There is a positive relationship between CEO duality and audit report lag.

H3b: There is a positive relationship between CEO duality and management report lag.

H3c: There is a positive relationship between CEO duality and total report lag.

3.2.1.4 Board Diligence

The board effectiveness is measured through the frequency of board meetings, where within these meetings; various issues are discussed by the board (Letendre, 2004). The latest guide on corporate governance by the ASE mentions that board of directors should meet on a quarterly basis to discuss a range of important issues which are related to the firm, such as performance of management. These meetings will enable the auditors to rely more on the strong internal control of the firms, reduce the load of work, and lead to timely financial reporting (JSC, 2009; Hashim & Rahman, 2010). Moreover, Ntim and Osei (2011) provide support for agency theory, which indicates that boards that meet more frequently have higher ability to effectively advice, discipline and monitor management, thus improving the firm's financial performance.

Previous studies show that the effectiveness of directors is related to the frequency of board meetings (Greco, 2011). The frequency of board of directors' meeting will improve the levels of control in the financial reporting process (Carcello *et al*., 2002). In other words, the number of board meetings will shorten the audit report lag of firms. Besides that, more frequent board meetings will enable the auditors to rely more on the strong internal control of the firms and reduce their workload since it will decrease the audit report lag (Hashim & Rahman, 2010). In fact, there is a significant relationship between number of board meetings held and timeliness of financial reports (Tauringana *et al*., 2008). They conclude that firms which hold meetings more frequently tend to release their financial reports earlier, an evidence of effective corporate governance structure.

Based on agency theory and the previous empirical findings which suggest the number of board meetings leads to increasing board of directors' effectiveness in the financial reporting process, this study proposes the following hypothesis:

H4: There is a positive relationship between board diligence and the timeliness of financial reports.

H4a: There is a negative relationship between board diligence and audit report lag.

H4b: There is a negative relationship between board diligence and management report lag.

H4c: There is a negative relationship between board diligence and total report lag.

3.2.1.5 Board Expertise & Knowledge

According to Jeanjean and Stolowy (2009), the presence of financial experts on the board of directors should facilitate the company's access to all financial resources and provide trust for creditors. They also claim that financial expertise is assessed on the basis of criteria related to the capacity to carry out the tasks and functions incumbent on a board of directors. Moreover, members of board with more experience in the field of accounting or finance are more able to discover problems in annual financial reports (Kroll *et al*., 2008; Agrawal & Chadha, 2005). Board expertise and knowledge can contribute to overall cognitive resources and to improving the scope and quality of the board's decisions and its effectiveness (Hilman & Dalziel, 2003; O'Neil & Thomas, 1996; Zaitul, 2010). According to Fama and Jensen (1983), the board of directors, with expertise and knowledge, such as accounting, finance, information technology and others would reduce the agency costs as well as agency problems.

A significant portion of literature dedicated to the independent directors effectiveness and efficiency on the board has primarily found that experienced directors positively influence financial reports timeliness. Stated differently, the existence of independent directors experienced in finance on a board helps a firm to steer clear of accounting issues that cause financial reporting delay (Agrawal & Chadha, 2005). Moreover, the presence of independent directors with financial expertise is valuable in providing oversight of a company’s financial reporting practices. A significant positive relationship between timeliness of internet financial reporting and board experience was tackled by Abdelsalam and Street (2007). They conclude that experienced directors

utilize their longer expertise to effectually discern management, function as finest board members and ensure timely financial statement.

This study expects a relationship between timeliness of financial reports and board expertise & knowledge, based on the argument of the previous studies. In addition, the presence of board of directors with financial expertise on the board helps firms avoid some problems that can force them to delay the publication of financial reports. Thus, this study hypothesizes that:

H5: There is a positive relationship between board expertise & knowledge and timeliness of financial reports.

H5a: There is a negative relationship between board expertise & knowledge and audit report lag.

H5b: There is a negative relationship between board expertise & knowledge and management report lag.

H5c: There is a negative relationship between board expertise & knowledge and total report lag.

3.2.2 Relationship between Audit Committee and Timeliness of Financial Reports

Audit committee has a vital monitoring role to play to ensure financial reporting quality and firms' accountability. The audit committee has become a liaison between board and the external auditor to avoid any information asymmetry between them (Azman & Kamaluddin, 2012). Klein (2002) supports these arguments by emphasizing that the main function of audit committees is to monitor and oversee the financial reporting

process. This objective is achieved by meeting regularly with the companies' external auditors and internal financial managers to review and revise the financial statements, internal accounting controls and audit process.

Most of the empirical studies find that audit committee effectiveness, measured using audit committee independence, size, financial expertise and diligence, improves the internal control system and leads to a high quality of financial reports in terms of timeliness (Klein, 2002; Carcello *et al*., 2002). In their recent work, Bedard and Gendron (2010) suggest that the audit committee independence, competency, size and meetings have a great influence on financial reporting quality. Moreover, audit committee effectiveness can play a positive role in the resolution of conflicts between auditor and management (Boo & Sharma, 2007).

An effective audit committee could facilitate financial reporting reliability, management risks and internal control (DeZoort *et al*., 2002). In a related study, Ika and Ghazali (2012) investigate the relationship between the audit committee effectiveness and financial reports timeliness and revealed a relationship between them. Specifically, they showed that audit committee effectiveness is likely to minimize the financial reporting lead time (i.e. the time taken by firms to release their audit financial reporting to the stock exchange). They add that large and independent audit committees who meet frequently and possess higher financial expertise are more likely to generate timely financial reports.

One of the many aims of this study is to investigate the relationship between the presence of audit committee and the timeliness of financial reports. An audit committee is generally viewed as a significant factor in the overall corporate governance structure of the firm, particularly in terms of audit quality and financial reporting oversight. Therefore, through its monitoring responsibilities, the audit committee is expected to provide feedback to management in order to generate timely financial information. Accordingly, the next hypothesis is formulated as follows:

H6: There is a positive relationship between the presence of an audit committee and timeliness of financial reports.

H6a: There is a negative relationship between the presence of an audit committee and audit report lag.

H6b: There is a negative relationship between the presence of an audit committee and management report lag.

H6c: There is a negative relationship between the presence of an audit committee and total report lag.

3.2.3 Relationship between Auditor Quality and Timeliness of Financial Reports

External audit refers to an external governance mechanism whose role involves the review and evaluation of the client's internal control and the auditing of their financial statements to avoid erroneous financial reporting (Habbash, 2010). An external auditor plays a key role in enhancing the financial reporting quality (Cohen *et al.*, 2004). Moreover, Che-Ahmad and Abidin (2004) argue that external auditors help to promote timeliness of financial reports by reducing audit lag. Therefore, given the importance of

external auditors as one of the external governance mechanisms, this study hypothesizes that the timeliness of financial reports is associated with auditors' opinion, brand name, change and independence.

3.2.3.1 Auditors' Opinion

The qualified audit opinion is considered bad news which leads to slow down of a reporting process. Firms that are recipients of unqualified (clean) audit opinions have a shorter audit delay compared to the firms that receive qualified audit opinions (Turel, 2010). Additionally, firms that are recipients of unqualified audit opinions are associated with effective management and internal control that decreases the time spent on audit work and related processes (Soltani, 2002). On the other hand, qualified audit opinions tend to be delayed as the auditor spends significant amount of time in additional audit procedures (Bamber *et al*., 1993).

The timeliness of financial reports is significantly influenced by an audit opinion. In other words, firms with unqualified report have fewer problems in financial reporting and thereby reduce the time spent by the auditors to perform their audit work (Shukeri & Nelson, 2011). Similarly, Soltani (2002) shows that firms which receive qualified audit opinions tend to have delays in releasing their financial reports compared to the firms that received unqualified opinions. Ismail, Mustapha, and Ming (2012) argue that audit lag is associated mostly with audit opinions. They conclude that qualified audit opinions are issued later than unqualified opinions. In opposing arguments, Iskandar and Trisnawati (2010) find that the audit opinions have no influence on audit report lag.

Based on the arguments of previous studies, this study expects that companies with unqualified report take less time to publish financial reporting compared with firms that receive qualified report. Thus, the present study hypothesizes that:

H7: There is a positive relationship between the audit opinion and the timeliness of financial reports.

H7a: There is a negative relationship between the audit opinion and audit report lag

H7b: There is a negative relationship between the audit opinion and management report lag.

H7c: There is a negative relationship between the audit opinion and total report lag.

3.2.3.2 Auditor Tenure (Change)

The effect of lengthy external auditor tenure on the timeliness of financial reports has been the topic of extensive discussion (Levitt, 2002). Auditor change would affect the audit report lag as well as the overall timeliness of financial reports due to the new auditor-client relationship (Tanyi *et al*., 2010). However, Lee *et al*. (2009) show that external auditors with lengthy tenure are able to audit their customer more efficiently, and reduce audit report lag, consequently would help to improve the timeliness of financial reports.

Ashton *et al*. (1987) posit a negative relationship between auditor change and timeliness of financial reports. The results suggest that there is an increase in audit report lag with a new audit client because of the start-up time required for an auditor to become familiar with the client's records, internal controls, operations and working papers. Schwartz and

Soo (1996) find substantially longer financial reports lag for companies that changed auditors late in the financial year. On the other hand, companies which replace their auditors early in the fiscal year are associated with shorter reporting lags. Tanyi *et al*. (2010) claim that voluntary auditor changes lead to slight increases in audit report lag, while mandatory auditor changes lead to significantly increasing the audit report lag, when compared with voluntary auditor changes.

Based on the argument of the previous studies, this study expects the auditor tenure to have a relationship with the timeliness of financial reports, based on the argument of the previous studies. It is expected that firms with longer auditor tenure take less time to publish financial reports compared to firms that have shorter auditor tenure. Thus, the present study hypothesizes that:

H8: There is a positive relationship between auditor tenure and the timeliness of financial reports.

H8a: There is a negative relationship between auditor tenure and audit report lag.

H8b: There is a negative relationship between auditor tenure and management report lag.

H8c: There is a negative relationship between auditor tenure and total report lag.

3.2.3.3 Brand Name

A number of previous studies suggest that big audit firms have many resources such as advanced technology and qualified employees which enable them to issue reports on a timely basis compared to small audit firms (El-Bannany, 2008; Lee *et al*., 2008).

Furthermore, big audit firms (Big-4 auditing firms) have a stronger incentive to complete their audit work faster in order to maintain good reputation (Afify, 2009). Agency theory supposes that the big audit firms perform much better than small firms in issuing financial reports of higher quality (Abu Haija, 2012).

According to Türel (2010), larger auditing companies are more efficient because due to their size, they may be able to audit more efficiently, and have greater flexibility in scheduling to complete the audit work on a timely basis. Other studies show that Big 4 auditors spend much less time in completing an audit, which is consistent with greater efficiency, possibly due to the better technology available to Big 4 auditors (Lee & Jahng, 2008). Similarly, Abdullah (2006) finds a significant relationship between auditor type and the timeliness of financial reports. This means that big audit firms will take a shorter period to complete their audit engagements.

Based on the agency theory and empirical evidence discussed above, this study predicts that the big audit firms may be positively associated with the timeliness of financial reports. Therefore, the next hypothesis is proposed as follows:

H9: There is a positive relationship between audit firm size and the timeliness of financial reports.

H9a: There is a negative relationship between audit firm size and audit report lag.

H9b: There is a negative relationship between audit firm size and management report lag.

H9c: There is a negative relationship between audit firm size and total report lag.

3.2.3.4 Auditor Independence

One of the crucial questions that are the source of debate between the accounting profession and regulators regarding potential threats to auditor independence has been the question of auditors who provide NAS (Amir *et al*., 2009). Independence of an auditor is likely to be demanded by external stakeholders as a mechanism that is efficient in reducing agency costs (Watts, 2003a; Jensen & Meckling, 1976).

Studies concentrating on the impact of auditor independence on financial reporting timeliness have come up with mixed findings. Specifically, Walker and Hay (2011) stressed that NAS or non-audit services can negatively impact an auditor's independence and lead to an economic relationship between the auditor and client that enables the latter to urge the former to manipulate the financial statements. On a similar note, Knechel and Payne (2001) contended that management advisory services are related with a lag in an audit report and that firms availing themselves to such services have a shorter audit report lag. On the contrary, firms purchasing tax services from their auditors have a larger audit report lag owing to the fact that tax services reflect added complexity that maximizes the required audit work and in turn, audit report lag.

Walker and Hay's (2011) view on the NAS provision is that it enables the auditor to obtain added knowledge that facilitates an efficient audit. Therefore, the provision of an audit and NAS are aligned with the qualitative characteristics of financial report timeliness and efficient auditing (Knechel & Sharma, 2008) in a manner that audit report lag is minimized with higher levels of NAS provision that will eventually assist the firm's efficiency. Similarly, Lee *et al*. (2009) asserted the presence of a significant

negative relationship between NAS fees and audit report lag indicated that the NAS provision adds to the auditor's experience and knowledge and leads to reduced audit delays and timely financial reporting.

Obviously, from the above discussion and arguments, the relationship between auditor independence and the timeliness of financial reports is still inconclusive. In addition, findings on the association between auditor independence and the timeliness of financial reports have shown mixed results. Given the previous studies which suggest that the provision of NAS allows the auditor to gain extra knowledge that helps to provide a more efficient audit, this study presents the following hypothesis.

H10: There is a negative relationship between auditor independence and the timeliness of financial reports.

H10a: There is a positive relationship between auditor independence and audit report lag.

H10b: There is a positive relationship between auditor independence and management report lag.

H10c: There is a positive relationship between auditor independence and total report lag.

3.2.4 Relationship between Ownership Structure and Timeliness of Financial Reports

Corporate governance, in its entirety, aims to improve performance of the firm and ensure effective administrative performance (Al-Haddad, *et al*., 2011). The ownership structure-corporate performance relationship is the primary issue among studies of corporate governance (Abu-Serdaneh *et al*., 2010). Agency theory suggests that models of corporate governance and control differ substantially between countries due to differences in ownership structures and composition of boards of directors (Li, 1994). The empirical and theoretical studies related to corporate governance suggest that the ownership structure can affect both the quality and timeliness of financial reports (Klai & Omri, 2011; Lim, 2012; Ishak *et al*., 2010).

To the best knowledge of the researcher, there is a lack of studies that focuses on the issue of ownership structure and its influence on the timeliness of financial reports in Jordanian firms. Therefore, in the absence of empirical studies on the relationship between ownership structure and the timeliness of financial reports in Jordan, this study hypothesizes that the timeliness of financial reports is associated with foreign ownership and institutional ownership. This study draws a new dimension of ownership structure in Jordan through the timeliness of financial reports. The following are the characteristics of ownership structure that are used in this study:

3.2.4.1 Foreign Ownership

The existence of foreign ownership reduces the agency cost especially in small countries (Abor & Biekpe, 2007). Moreover, the contribution of foreign investors in financial markets, especially in an emerging economy, has corporate governance side-effects that provide incentives for the firms and their auditors to provide timely financial reporting through more timely audit reporting (Ishak *et al*., 2010).

According to Al-Tahat (2010), companies with foreign ownership are more timely in releasing financial reports. He claims that companies with a higher percentage of shares owned by foreigners take a shorter time to publish their half-yearly financial reports. Bagaeva *et al*. (2008) posit that companies with foreign ownership report earnings with more timely recognition of economic gains than other companies. Other studies show evidence that foreign ownership has some impact on audit delay. In other words, companies with a moderate ratio of foreign ownership take more time to complete an audit work (Ishak *et al*., 2010). In addition, Mohandi and Odeh (2010) argue that companies with a higher percentage of foreign institutional ownership are positively associated with the quality of financial reporting in Jordan. This is because the foreign shareholders put pressures on firms to improve financial reporting quality.

Based on previous findings and the above discussion, this study expects the relationship between foreign ownership and the timeliness of financial reports to be positive. Therefore, this hypothesis is developed as follows:

H11: There is a positive relationship between foreign ownership and the timeliness of financial reports.

H11a: There is a negative relationship between foreign ownership and audit report lag.

H11b: There is a negative relationship between foreign ownership and management report lag.

H11c: There is a negative relationship between foreign ownership and total report lag.

3.2.4.2 Institutional Ownership

According to Black (1992), institutional ownership is deemed to be a primary monitoring tool that controls managers effectively as compared to smaller shareholders. In this regard, large institutional investors with considerable stakes, possess power, ability and resources for the monitoring and control, and they are highly motivated to discipline and influence the performance of management (Coffee, 1991). The power of institutional ownership also assists in the improvement of the quality of financial reporting (Klai & Omri, 2011).

The participation of institutional ownership in the marketplace, especially in an emerging economy, has corporate governance side-effects that provide incentives for the firms and their auditors to improve the timeliness of financial reports (Ishak *et al*., 2010). Some researchers have tried to highlight the relationship between institutional ownership and timeliness of financial reports. Lim (2012) claims that companies with institutional ownership are more efficient in their price release and timely financial

reporting. Consistent with the findings, companies with higher institutional ownership are associated with smaller audit lag and financial reports lag (Wu *et al*., 2008).

Thus, the proportion of institutional ownership is expected to be significantly associated with timeliness of financial reports. In other words, publishing financial reporting on time is expected to increase with high institutional ownership. The present study hypothesizes that:

H12: There is a positive relationship between institutional ownership and the timeliness of financial reports.

H12a: There is a negative relationship between institutional ownership and audit report lag.

H12b: There is a negative relationship between institutional ownership and management report lag.

H12c: There is a negative relationship between institutional ownership and total report lag.

3.2.5 Relationship between Company Attributes and Timeliness of Financial Reports

Given the importance of company characteristics, much attention has been paid to company attributes that might impact timeliness of financial reports (Iyoha, 2012). Many company attributes which may affect the timeliness of financial reports have been identified in previous literature. To examine their effect on the timeliness of financial reports in Jordan, this study hypothesizes that the timeliness is associated with the

company's attributes, namely size, profitability, age, leverage and type of sector. Following are the arguments on each of the independent variables and the formulated hypotheses related to timeliness of financial reports.

3.2.5.1 Profitability

One of the most important elements in determining the timeliness of financial reports is good and bad news. Moreover, the financial statements probably add value to investors, who can include it in their investment decision making process. Early release of financial reports is an indicator of positive news about firm performance, and vice versa (Al-Ajmi, 2008). Based on the internal reporting theory, the evaluation of the firm performance is related to profitability as managers tend to delay financial reports of bad news until the accuracy of the news is confirmed. As such, managers can have ample time to react to criticisms and to draw up a plan of action to enhance low performance (Dogan, 2007). Literature in this regard stresses that this claim is explanatory in light of the inclination of the managers to delay bad news reporting – good news is not as scrutinized as bad ones and is audited in a timely manner (Haw *et al*., 2000).

The timeliness of annual financial reporting is significantly affected by the profitability of a company (Ahmed, 2003). In other words, companies with good news take a shorter time to publish financial reporting than companies with bad news (Dogan *et al*., 2007; Iyoha, 2012). Afify (2009) contends that firms with higher profitability may be more inclined to complete the auditing of their statements earlier in order to publish their good news. Moreover, firms with bad news may be more inclined to delay divulging their misfortune to the public. Firms whose performance is less than expected may spend

more time confirming results or income. Al-Tahat (2006) shows a significant association between profitability of a company and the timeliness of half-yearly financial reporting. The results suggest that firms that are more profitable tend to take less time to publish their half-yearly reporting (i.e., good news will help to reduce financial reporting lag). Thus, based on the above findings, this study presents the following hypothesis:

H13: There is a positive relationship between company profitability and the timeliness of financial reports.

H13a: There is a negative relationship between company profitability and audit report lag.

H13b: There is a negative relationship between company profitability and management report lag.

H13c: There is a negative relationship between company profitability and total report lag.

3.2.5.2 Leverage

Leverage indicates the debt position of a firm. Moreover, the relationship between leverage and the timeliness of financial reports could be explained by agency theory which assumes that leverage is related with agency cost (Jensen & Meckling, 1976). Furthermore, higher leverage firms tend to have higher agency costs (Ashbaugh & Warfield, 2003; Al-Ajmi, 2008).

Previous studies have shown mixed views about the relationship between the timeliness of financial reports and the leverage of a firm. According to Akle (2011), firms that achieve positive leverage are faster in releasing financial reporting than firms that suffer a negative leverage. In addition, the delay period of financial reporting in the firms that achieve a positive leverage is up to 78 days, while it is up to 116 days for firms that suffer a negative leverage. Other researchers like Ku Ismail and Chandler (2004), Al-Ajmi (2008) and Al-Tahat (2010) argue that the leverage of firms is positively associated with the timeliness of financial reports. This means that firms that have less leverage take a shorter time to publish their financial reports. In other words, firms which have a high leverage tend to delay the publication of their financial reports and have a longer audit lag than the relatively low leveraged firms. This is because a high ratio of debt to total assets increases the prospect of the failure of the company, especially when economic conditions are unstable (Carslaw & Kaplan, 1991; Owusu-Ansah, 2000; Ku Ismail & Chandler, 2004).

In another view, highly leveraged firms have an incentive to complete their audit work in order to have the auditor's report to facilitate the monitoring of the firm's operations and financial position by the creditors (Ibadin *et al*., 2012). Moreover, Abdulla (1996) finds a negative significant relationship between the debt-equity ratio and audit delay. He further asserts that firms having more debt in their financial structure are likely to start and complete their audit faster than other companies' with less debt in their financial structure.

Obviously, from the above findings, the relationship between leverage and timeliness of financial reports is still inconclusive. It opens up ample research opportunities for researchers in Jordan to contribute in this respect. However, based on most of the empirical results and their arguments, this study proposes that firms with high leverage will take a longer time to release their financial reports compared to firms with a lower leverage. Hence, this study presents the following hypothesis:

H14: There is a negative relationship between leverage and the timeliness of financial reports.

H14a: There is a positive relationship between leverage and audit report lag.

H14b: There is a positive relationship between leverage and management report lag.

H14c: There is a positive relationship between leverage and total report lag.

3.2.6 Control Variables

Size

One of the company attributes that is often associated with the financial reporting lag (interim report or annual report) is the size of a company (Ku Ismail & Chandler, 2004; Al-Tahat, 2010). Large firms are under more pressure to release their financial reports on a timely basis in order to avoid speculative trading of its shares (Ku Ismail & Chandler, 2004).

A number of previous studies have shown a substantial positive relationship between size of a company and timeliness of financial reports. Afif (2009) and Bonson-Ponte *et al*. (2008) argue that company size significantly affects audit report lag, where large

firms take less time than small firms to publish annual financial reporting. In other words, large companies implies availability of more accounting staff, human resources and advanced accounting information systems that speed up the preparation of their financial reports compared to their smaller counterparts (Akle, 2011; Ku Ismail & Chandler, 2004).

In a similar argument, Al-Ajmi (2008) shows that company size significantly affects audit report lag for the three lag periods; audit report lag, interim period and the total audit lag. Large firms are less timely in publishing their financial reports (Owusu-Ansah & Leventis, 2006). The opposing arguments suggest that there is a substantial negative correlation between firm size and the timeliness of financial reports. The argument suggests that big firms tend to delay their financial reporting because they need more time, as a result of increased accounting processes and the large amount of financial information (Ahmad, 2003).

Age

The age of a firm has been identified in previous literature as an attribute that is likely to have an influence on the quality of financial reporting in terms of timeliness. The older the companies, the more likely to have more robust internal control procedures (Iyoha, 2012). On the other hand, younger companies are more likely to delay release their financial reporting and have less experience with accounting procedures and internal control (Owusu-Ansah, 2005).

According to Al-Tahat (2010), the negative relationship between financial reporting lag and age of the firm is consistent with the argument that firms that are older, are more likely to take less time to publish half-yearly financial reports. Similarly, Lianto and Kusuma (2010) and Owusu-Ansah (2000) show that age of a company has an influence on the timeliness of financial reports. They find that older firms take a shorter time to publish their half-yearly financial reports than younger companies. By contrast, Iyoha (2012) claims that older firms take a longer time to publish their financial reports than younger firms. He finds a negative relationship between company age and timeliness. He further concludes that in developing countries like Nigeria, there is not enough qualified and experienced staff to fill for positions in businesses. However, Mahajan and Chander (2008) assert that there is no association between age of a firm and the timeliness of financial reports.

Type of sector

Findings on the relationship between type of sector and timeliness of financial reports have shown mixed results. Aktas and Kargın (2011) provide evidence of the relationship between timeliness in financial and non-financial firms. They find that the type of sector has a significant effect on the timeliness of annual reporting. In other words, non-financial firms publish their financial reporting later than other companies. Iyoha (2012) discovers that there is a substantial variance in the timeliness of annual financial reporting between industrial sectors in Nigeria. He finds that the industry attributes contribute to the financial reporting lag in the industries concerned. He also finds that the banking sector takes less time to publish the financial reports.

Almosa and Alabbas (2007) show that the timeliness of financial reports varies based on sectors. They find that the financial sector (insurance companies and commercial banks) have a shorter audit delay, while the longest audit delay is found in the services sector. Owusu-Ansah and Leventis (2006) examine the elements that affect the timeliness of annual reporting in firms listed on the Athens Stock Exchange. The findings reveal that service firms tend to spend a shorter time to release their financial reporting, while firms in the construction sector do not promptly release their annual reports.

3.2.7 Ownership Concentration as a Moderator in the Relationship between Firms' Governance and the Timeliness of Financial Reports.

The Jordanian Code on Corporate Governance states that Jordanian firms should adopt the best practices of corporate governance to ensure better monitoring ability (Jaafar & EL Shawa, 2009). Recently, there has been an increase in the general level of corporate governance in Jordanian firms, but at a sluggish speed, which means that firm-level corporate governance quality in Jordanian firms is still unsatisfactory (Al-Najjar, 2010; Abed *et al.*, 2011). Moreover, the assessment made by the World Bank and IMF in 2004 suggests that the corporate governance of Jordanian firms remains at a relatively under-developed stage (Berg & Nenova, 2004).

In Jordan, firms have high levels of ownership concentration in which owners significantly participate in their management (Zureigat, 2011). Owing to such concentration, corporate governance structures in Jordanian firms are often ineffective (Abdullatif & Al-Khadash, 2010). Also, ownership-management separation in Jordanian

firms is limited, and major shareholders commonly occupy the position as the board's head while also serving as the general manager of the firm (Abdullatif & Al-Khadash, 2010). In developing nations, such a scenario of concentrated ownership adds to the inefficiency of the audit committees and board of directors (Yunos *et al*., 2011).

Furthermore, previous studies argue that corporate governance mechanisms in Asian companies do not function effectively mainly due to their high concentrated ownership, the weak legal system and family-controlled types of firms (Globerman *et al*., 2011; Yunos *et al*., 2011; Young *et al*., 2008; Yunos, 2011). Similarly, Borhanuddin and Ching (2011) argue that having a large or concentrated ownership will result in the company having poor corporate governance. In other words, less concentrated and more dispersed ownership are good for a company and to some extent, indicate good corporate governance practices. This evidence is documented by Cho and Kim (2007), Hu, Tam and Tan (2010) and Chen *et al*. (2011) that concentrated owners limit the effectiveness of the firms' governance mechanisms. La Porta *et al*. (1998, 2000) indicate that corporate governance systems are affected by several institutional factors, such as the legal protection of investors, the level of ownership concentration, the role of the market for corporate control, and the effectiveness of boards.

In this study, ownership concentration is given special attention because it can affect the corporate governance effectiveness. With regard to determinants of firm level of corporate governance quality, there are elements which can be classified as internal corporate governance, namely board of directors and audit committee effectiveness (Yunos *et al*., 2011). Furthermore, empirical studies show that internal corporate

governance mechanisms positively influence firm-level corporate governance quality. The findings also assert that firms that have good corporate governance practices have a higher quality of timeliness of financial reports compared to firms that practice poor corporate governance (Al-Ajmi, 2008; Afify, 2009; Akle; 2011).

The theoretical discussions and the arguments above suggest that controlling shareholders may influence the internal corporate governance mechanisms (i.e., boards of directors and audit committees) to delay publishing of financial reporting. Therefore, to test if controlling shareholders impede the effectiveness of the board and audit committee, this study examines the moderating effect of ownership concentration on the relationship between internal corporate governance mechanisms and the timeliness of financial reports. Thus, this study presents two hypotheses as follows:

H15: There is a positive relationship between a company's governance and the timeliness of financial reports.

H16: Ownership concentration negatively moderates the relationship between firm governance and the timeliness of financial reports.

3.3 Research Design

After explaining the framework of the study and formulating the hypotheses, this section illustrates the sample selection process, sources of data collection and measurement of variables of the study.

3.3.1 Sample

This study covers a four year period from 2009 to 2012. The main reason for choosing this period is because this study uses the Jordanian Code of Corporate Governance (2009) as a guide for corporate governance variables and this code has been effective since November 2009 (Abu Haija, 2012; Hamdan, 2012a). Jordan is chosen because the current practice of the timeliness of financial reports in Jordan needs to be evaluated since the issuance of the Securities Law No. 23 of 1997. The firms in Jordan are divided into three sectors: services, financial, and industrial sector. This study covers two out of the three sectors - industrial and services. The financial sector is not included because it has different regulations related to financial reports, issued by the Insurance Commission and the Jordan Central Bank. The industrial and services sectors make up about 60% of the Jordanian listed companies in the ASE (Al-Akra *et al.*, 2009; ASE, 2009).

3.3.2 Data Collection Sources

To meet the objectives of the present study, and to test the association between corporate governance and the timeliness of financial reports in Jordan, this study employs on the secondary data as the major source of information, which refers to the data that is obtained from the annual financial reports for each company, over the period 2009 to 2012. These years are selected due to the implementation of the corporate governance policy in Jordan in 2009. In addition, this study used secondary data from other resources like ASE and JSC. To examine the presence of delay in issuing of financial reporting, it is useful to adopt secondary data sources because it will save time and costs

of accessing data and provide much of the information for research and problem solving (Sekaran, 2003).

3.4 Measurements of the Study Variables

As mentioned in the hypotheses, this study has a number of variables. This part provides the measurement of each variable of the study. The dependent variables are categorized as audit report lag, management report lag and total lag. The independent variables are classified into board characteristics, presence of an audit committee, auditor quality, ownership structure and company attributes. The moderating variable is classified as ownership concentration (inside concentrated owners). The following explains how these variables are measured.

3.4.1 Measurement of the Dependent Variables

In this study, timeliness of financial reports is measured through the passage of time between a firm's year-end and the date of financial reporting which is released to the public and this is related to the quality of the information reported. The actual number of days that a firm takes to issue the annual financial report is taken into consideration. It is argued that the more number of days a firm takes to issue an announcement, the weaker the quality of reports will be, and vice versa (Al-Ajmi, 2008; Krishnan & Yang, 2009). This period is divided into other small units. In line with the previous literature, the present study used three measurements of timeliness of financial reports: (1) audit report lag as proposed by Cho (1987) and Afify (2009); and (2) management report lag,

introduced by Cho (1987) and Hashim and Rahman (2011). In addition, this study used the measurement of total reports lag for additional analysis.

Audit Report Lag (ARL)

Audit report lag is measured by the number of days from the interval period of financial year end date to the date of signing the annual audit report (Shukeri & Nelson, 2010, 2011; Afify, 2009).

Management Report Lag (MRL)

Management report lag is measured by the difference between the time an auditor signs the audit report and the time the company releases its financial report to the public (Al-Ajmi, 2008, Zaitul, 2010).

Total Report Lag (TRL)

Total report lags is measured by the number of days between the interval time of fiscal year end date and the firms releases their it's financial reports to the public (Al-Ajmi, 2008).

3.4.2 Measurement of the Independent Variables

Corporate Governance

In this study, corporate governance mechanisms are highlighted as significant elements that affect the timeliness of financial reports by reducing reports lag (Shukeri & Nelson, 2011; Al-Ajmi, 2008; Abdelsalam & Street, 2007). The corporate governance characteristics under this study are as follows:

3.4.2.1 Board Characteristics

Given the importance of board of directors' characteristics as one of the corporate governance mechanisms, this study employs the following characteristics of the board of directors:

Board Independence

Board independence is measured as a proportion of non-executive directors to the total number of directors at the end of the year. Such measurement was used by Ismail *et al*. (2008), Abdelsalam and Street (2007) and Afify (2009).

Board Size

Board size means the total number of directors on the board of a company including Chairman and CEO (Abu Haija, 2012). Board size was measured as the total number of board of directors, following numerous studies such as Ismail *et al*. (2008) and Lam and Lee (2008).

CEO Duality

Role duality occurs when the CEO is also a chair of the board of directors. To measure the CEO duality, a score of one (1) will be assigned if the same person occupies the position of the chairman and the CEO. Otherwise, a score of 0 will be assigned (Gill & Mathur, 2011; Afify, 2009).

Board Diligence

The Jordanian Corporate Governance Code recommends that the board should meet regularly to perform its roles and responsibilities, which should be at least once a quarter to discuss a range of important issues. Accordingly, board diligence was measured by the number of board meetings held during the fiscal year, with score 1 if board meeting is four times or more, and score 0 if board meeting is less than four times (Greco, 2011; Hashim & Rahman, 2010).

Board Expertise and Knowledge

Board expertise and knowledge is the percentage of members of the board of directors with experience or qualifications in finance or accounting. It was measured by the proportion of members of the board with financial expertise divided by the total number of board members of directors (Bedard *et al*., 2004; Saleh *et al*., 2007).

3.4.2.2 Audit Committee

Presence of an audit committee, measured by a dummy variable, 1 if a firm has audit committee and 0 otherwise (Afify, 2009).

3.4.2.3 Auditor Characteristics

This study highlights the following characteristics of auditor, namely opinion, change, brand name and independence as follows:

Audit Opinion

This study follows the previous studies to measure the audit opinion (Ashton *et al*., 1987; Soltani, 2002; Ahmad *et al*., 2005; Shukeri & Nelson, 2011). Type of audit opinions was measured by a dummy variable, with a score 1 if firms receive unqualified audit opinions, and 0 otherwise.

Auditor Change

Previous studies provide evidence that companies with recent external auditor changes are more likely to have problems in publishing timely reports (Tanyi *et al*., 2010). In this study, auditor change was measured by seeing whether firms have a different auditor compared to the prior year, with 1 being assigned if there is audit firm change during the year, and 0 otherwise (Schwartz & Soo, 1996; Tanyi *et al*., 2010).

Auditor Brand Name

Based on the agency theory that the big auditing firms perform much better than small firms (Abu Haija, 2012), this study used audit firm size (Big-4 auditing firms) to measure the auditor brand name, with a score of 1 if companies are audited by Big Four audit firms, and 0 otherwise. This measurement was used for example by Abdullah (2006) and El-Bannany, (2008) and Türel (2010).

Auditor Independence

Following Lee *et al*. (2009) and Ashbaugh *et al*. (2003), this study used non-audit service (NAS) to measure the auditor independence, with a score of 1 if an external auditor provides NAS, and 0 otherwise.

3.4.2.4 Ownership Structure

This study examines two types of ownership structure, namely foreign ownership and institutional ownership. This study excludes government ownership because the Jordanian economy is considered as a private sector, and state ownership is relatively small (Al-Fayoumi *et al.*, 2010).

Foreign Ownership

Foreign ownership is considered an additional dimension due to its importance in the Jordanian environment as an emerging market (Alkhawaldeh, 2012). In this study, foreign ownership was measured as a percentage of shares owned by foreigners to total number of company's shares, following Klai and Omri (2011), Al-Tahat (2010) and Ishak *et al*. (2010).

Institutional Ownership

In the present study, institutional ownership was measured as a percentage of shares owned by institutions to total number of company's shares, calculated by dividing the number of shares owned by institutions to total number of company's shares. Furthermore, institutional investors include shares owned through social security, insurance companies, investment companies, pension funds and other funds, following Al-Fayoumi *et al*. (2010), Ishak *et al*. (2010) and Lang and McNichols (1997).

3.4.2.5 Company's Attributes

This study examines five attributes of a company, namely size, profitability, age, leverage and type of sector.

Company Profitability

Several ways have been used to measure company's profitability: by earnings per share (EPS) of the firm (Ibadin *et al*., 2011), and profit margin (Ku Ismail & Chandler, 2005; Alsaeed, 2006). Al-Ajmi, (2008) and Alsaeed (2006) used return on equity. In this study, based on most studies, 'good or bad news' was used as a proxy of a company's profitability (Dogan *et al*., 2007; Afify, 2009).

Company Leverage

Several studies have used a number of different methods to measure leverage of the company. Al-Ajmi, (2008) and Ku Ismail and Chandler (2005), used the ratio of debt to total assets. Mahajan and Chander (2008) and Lopes and Rodrigues (2007), used the ratio of debt to equity. Following most studies, this study measured the leverage of the company by the ratio of debt to total assets.

Company Size

Company size has been measured in many different ways, for example number of shareholders (Cook, 1989), and net sales (Naser *et al*., 2002). One of the most generally used measures is total assets (Alsaeed, 2006; Afify, 2009; Akle, 2011; Ku Ismail & Chandler, 2003). This study measured the size of a company by its total assets.

Company Age

In this study, the number of years since listing on the ASE was used as a measure of company age. Number of years of presence of a company has been used to measure age of company in several previous studies (Iyoha, 2012; Al- Tahat, 2010; Owusu-Ansah, 2000).

Type of Sector

According to previous studies, type of sector was used as an explanatory variable in order to compare the different sectors on the level of timeliness of financial reports (Ashton *et al*.,1989; Afify, 2009). This study has classified companies into service sector and industrial sector to examine the impact of type of sector on the timeliness of financial reports.

3.4.3 Measurement of Ownership Concentration (Moderating Variable)

In this study, ownership concentration is considered the most important dimension of ownership structure and acts as a moderating variable to determine if the ownership of Jordanian firms is concentrated or diffused, which in turn verifies whether or not the ownership structure influences the timeliness of financial reports. Moreover, ownership concentration is useful to measure dispersion of ownership among all or certain shareholders. Consequently, some researchers, like Abu-Serdaneh *et al*. (2010) argue that one of the advantageous features of diffuseness is to produce ownership structure in which the shareholders are large enough to control the firm and extract their private benefits.

Ownership concentration has been measured in many different ways. Many of the previous studies have used the top ten largest, the top five largest or the largest shareholders as a proxy for ownership concentration (Yunos, 2011). According to Ishak *et al*. (2010), the concentration of ownership was measured by the percentage of shares held by the single largest shareholder relative to the total number of shares in the company. In this study, ownership concentration was measured by the total percentage

of shares owned by investors who own five percent and more of the total company shares (Zureigat, 2011). Moreover, this study has classified the substantial shareholders into insiders. Inside concentrated owners mean percentage of substantial shareholding held by executive and non-executive directors over outstanding shares (Yunos, 2011).

3.5 Models of the Study

3.5.1 Multiple Regression Analysis

In this study, three models were used to examine the influence of corporate governance mechanisms on the timeliness of financial reports.

Model 1 (Audit Report lag (ARL) model) - tests the interaction of board characteristics, presence of audit committee, auditor quality, ownership structure and company attributes on audit report lag.

The association between independent variables and audit report lag is represented as follows:

$$ARL=\beta 0+\beta 1BINDit+\beta 2BSIZit+\beta 3CEOit+\beta 4BDILIGit+\beta 5BFEXit+\beta 6ACMit+\beta 7AOPit +\beta 8ACHit+\beta 9ABNit+\beta 10AINDit+\beta 11FOWit+\beta 12IOWit+\beta 13PROFITit+\beta 14LEVRit+\beta 15LOGSIZit+\beta 16AGEit+\beta 17SECTRit + \varepsilon it$$

Model 2 (Management Report Lag (MRL) model) - tests the interaction of board characteristics, presence of audit committee, auditor quality, ownership structure and company attributes on management report lag.

The association between independent variables and management report lag is represented as follows:

$$MRL=\beta 0+\beta 1BINDit+\beta 2BSIZit+\beta 3CEOit+\beta 4BDILIGit+\beta 5BFEXit+\beta 6ACMit+\beta 7AOPit+\beta 8ACHit+\beta 9ABNit+\beta 10AINDit+\beta 11FOWit+\beta 12IOWit+\beta 13PROFITit+\beta 14LEVRit+\beta 15LOGSIZit+\beta 16AGEit+\beta 17SECTRit + \varepsilon\ it$$

Model 3 (Total Report lag (TRL) model) - tests the interaction of board characteristics, presence of audit committee, auditor quality, ownership structure and company attributes on total report lag.

The association between independent variables and total report lag is represented as follows:

$$TRL=\beta 0+\beta 1BINDit+\beta 2BSIZit+\beta 3CEOit+\beta 4BDILIGit+\beta 5BFEXit+\beta 6ACMit+\beta 7AOPit+\beta 8ACHit+\beta 9ABNit+\beta 10AINDit+\beta 11FOWit+\beta 12IOWit+\beta 13PROFITit+\beta 14LEVRit+\beta 15LOGSIZit+\beta 16AGEit+\beta 17SECTRit + \varepsilon\ it$$

Where:

For each company (i) and each year (t),

ARL= Audit report lag, measured by the number of days from the financial year end date to the date of signing the audit report.

MRL= Management report lag, measured by the difference between the time the auditor signs the audit report and the company releases its financial report to the public.

TRL=	Total report lags, measured by the number of days between the interval time of fiscal year end date and the firms releases their it's financial reports to the public.
OCN=	Ownership concentration, measured by percentage of shares owned by investors who own five percent and more of the total firm shares.
BIND =	Board independence, measured by ratio of non-executive directors to total number of directors on the board.
BSIZ =	Board Size, measured by total number of board of directors.
CEO =	CEO duality, measured by 1 if CEO-Chairman roles combined; 0 if separated.
BDILIG=	Board diligence, measured by the number of board meetings held during the financial year
BFEX=	Board Expertise, measured by proportion of board members with financial expertise to total board members.
ACM =	Presence of audit committee, measured by a dummy variable, 1 if firm has an audit committee, and 0 otherwise.
AOP =	Auditor opinion, measured by dummy variable, 1 if unqualified audit opinion, 0 otherwise.
ACH =	Auditor change measured by dummy variable, 1 if there is audit firm change, 0 otherwise.
ABN =	Auditor brand name, measured by dummy variable, 1 if audited by big 4 audit firm, 0 otherwise.
AIND =	Auditor independence, measured by dummy variable, 1 if auditor provides NAS, 0 otherwise
FOW =	Foreign ownership measured by percentage of shares owned by foreigners to total number of shares issued.
IOW =	Institutional ownership, measured by percentage of shares owned by institutions to total number of shares issued.
PROFIT=	Company profitability, measured by the change in profit from the previous year. Subsequently, it is measured by a dummy variable, 1 if the change is positive (good news) and 0 if the change is negative (bad news).

LEVR =	Company leverage, measured by the ratio of total debts to total assets.
SIZE =	Company size, measured by natural log of total assets.
AGE =	Company age, measured by the age of a company.
SECTR =	Type of sector, classified into industrial or services sector, measured by dummy variable, 1 if companies belong to an industrial sector, 0 otherwise.

3.5.2 Hierarchical Regression

The moderating variable in the current study is ownership concentration. This study investigates the moderating effect of ownership concentration on the relationship between internal firms' governance and the timeliness of financial reports. In other words, this study explores whether the controlling shareholders hinder the effectiveness of the companies' internal governance mechanisms in employing more timely financial reporting. Therefore, to achieve this objective, multiple hierarchical regression analysis is conducted to test the moderating effects.

Following Baron and Kenny (1986), using multiple hierarchical regression the data of this study are regressed in four steps. The first step the three control variables (i.e. company size, age and type of sector) are regressed on the dependent variable. In the second step, the main independent variables together with the control variables are regressed on the dependent variable. In the third step, the moderator variable is introduced. Finally, all of them (i.e. the control variables, independent variables, moderator and the interaction between the independent variables and the moderator) are regressed on the dependent variables. The structural equations of the three models are as follows:

Model 1 - Audit report lag as the dependent variable:

$$ARL=\beta 0+\beta 1BINDit+\beta 2BSIZit+\beta 3CEOit+\beta 4BDILIGit+\beta 5BFEXit+\beta 6ACMit+\beta 7AOPit+\beta 8ACHit+\beta 9ABNit+\beta 10AINDit+\beta 11FOWit+\beta 12IOWit+\beta 13PROFITit+\beta 14LEVRit+\beta 15LOGSIZit+\beta 16AGEit+\beta 17SECTRit+\beta 19OCNit*BINDit+\beta 20OCNit*BSIZit+\beta 21OCNit*CEOit+\beta 22OCNit*BDILIGit+\beta 23OCNit*BFEXit+\beta 24OCNit*ACMit+\varepsilon it$$

Model 2 – Management report lag as the dependent variable:

$$MRL=\beta 0+\beta 1BINDit+\beta 2BSIZit+\beta 3CEOit+\beta 4BDILIGit+\beta 5BFEXit+\beta 6ACMit+\beta 7AOPit+\beta 8ACHit+\beta 9ABNit+\beta 10AINDit+\beta 11FOWit+\beta 12IOWit+\beta 13PROFITit+\beta 14LEVRit+\beta 15LOGSIZit+\beta 16AGEit+\beta 17SECTRit+\beta 19OCNit*BINDit+\beta 20OCNit*BSIZit+\beta 21OCNit*CEOit+\beta 22OCNit*BDILIGit+\beta 23OCNit*BFEXit+\beta 24OCNit*ACMit+\varepsilon it$$

Model 3 – Total report lag as the dependent variable:

$$TRL=\beta 0+\beta 1BINDit+\beta 2BSIZit+\beta 3CEOit+\beta 4BDILIGit+\beta 5BFEXit+\beta 6ACMit+\beta 7AOPit+\beta 8ACHit+\beta 9ABNit+\beta 10AINDit+\beta 11FOWit+\beta 12IOWit+\beta 13PROFITit+\beta 14LEVRit+\beta 15LOGSIZit+\beta 16AGEit+\beta 17SECTRit+\beta 19OCNit*BINDit+\beta 20OCNit*BSIZit+\beta 21OCNit*CEOit+\beta 22OCNit*BDILIGit+\beta 23OCNit*BFEXit+\beta 24OCNit*ACMit+\varepsilon it$$

The descriptions of the variables are as explained earlier.

3.6 Statistical Analyses

This study used various statistical tests, namely regression, correlation analysis and descriptive statistics to test the association between internal and external corporate governance mechanisms and timeliness of financial reports. In addition, correlation analysis is used to check which variables have strong and weak correlation with the dependent variable and to check the multicolinearity among independent variables. This study employs hierarchical regression analysis to test the moderating effect, which is the impact of ownership concentration as a moderating variable on the association between internal corporate governance and the timeliness of financial reports.

3.7 Chapter Summary

This chapter discusses the framework of study, hypotheses development and measurement of variables. In order to achieve the objectives of this study, this chapter describes the data collection sources from secondary data and statistical methods that are used to analyze the data.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.0 Introduction

The main objective of this chapter is to provide the results of the data analysis related to the models of this study- audit report lag (ARL), management report lag (MRL) and total report lag (TRL) models. It also reports the moderating effect of the timeliness of financial reports of Jordanian companies. This chapter is divided into eight sections, organized as follows: Section 4.1 shows the sample and data collection of the study. Section 4.2 shows the distribution of the financial reports lag. The descriptive analysis of the data is presented in Section 4.3, followed by Section 4.4 on the findings of the regression assumptions. Section 4.5 reviews and discusses the multiple regression analysis. Section 4.6 presents the results of the hypotheses testing and Section 4.7 reviews the summary of regression analysis. The results of the moderating effect of ownership concentration are presented in Section 4.8, and finally, a summary of the chapter is offered in Section 4.9.

4.1 Sample and Data Collection

Companies listed on the Amman Stock Exchange are the subjects of this study. This is because the companies are governed by the regulations and rules of the Jordanian Listing Requirements and Jordanian Code of Corporate Governance. Companies listed on the Amman Stock Exchange are divided into three sectors: services, industrial and financial sectors. This study covers the industrial and services firms listed on the

Exchange from year 2009 to 2012. These years are selected because the corporate governance code in Jordan was already implemented during these years (i.e., 2009 - 2012). The process of data collection involved obtaining the annual financial reports of industrial and services firms directly from the firms, their websites or the website of the Amman Stock Exchange.

As at the end of 2012, there were 256 listed firms; 63 services sector firms (25%), 76 industrial sector firms (30%) and 117 financial sector firms (45%). As mentioned above, this study covers two sectors, namely, the industrial and services sectors. The financial sector is excluded because it has different regulations related to financial reports, issued by the Insurance Commission and the Jordan Central Bank. From the sample of this study, 12 firms were excluded due to unclear or incomplete data, while 15 firms did not have annual financial reports for the years ended 2009 to 2012. The final sample represents 112 firms or 448 observations (from 2009 to 2012). The details of the sample of the study can be seen in Table 4.1:

Table 4.1
Descriptive of Sample

Sectors	**Number of firms**
Industry sector	76
Service sector	63
Total	139
Unavailable	(27)
Sample	112
Final sample (112*4)	448

4.2 Distribution of the Financial Reports Lag

The distribution of the audit report lag, management report lag and total report lag of firms are shown in Table 4.2, Table 4.3 and Table 4.4.

Table 4.2
Audit Reports Lag of Jordanian Firms

Interval period	Frequency	Percentage
Less than 31 days	59	13.1
31 to 60 days	174	39
61 to 90 days	154	34.3
90 days and more	61	13.6
Total	448	100

Average of Audit Report Lag = 64.15days

Minimum = 11 days

Maximum = 273 days

Std. deviation = 32.85

The findings in Table 4.2 show that the mean of ARL is 64.15 days with a maximum period of 273 days and a minimum period of 11 days. The mean value of the ARL in this study is similar to Abu-Hija and Al-Hayek (2012) who found that the mean number of days to complete an audit work in Jordanian listed companies in 2010 was 60 days. The current findings are different from those of Nour and Al-Fadel (2006) who showed a mean audit lag of 84 days in 2002; hence, this study shows that there is an improvement in the ARL. These results provide evidence that the ARL in Jordanian companies is

longer compared to many of the developing countries. For example, Khasharmeh and Aljifri (2010) reveal that on average, UAE listed firms took about 43.5 days to complete the audit works after the financial year ended 2007. Lee *et al*. (2009) assert that on average, the Canadian firms took almost 54 days to complete the financial reports.

As evidenced from Table 4.2, 59 (13.1%) of the firm-years completed their audit work within 1 to 30 days of the end of the fiscal year, and another 174 (39%) had a financial reports lag between 31 to 60 days. The results also show that the majority of the Jordanian listed firms completed their audit work between 31 and 90 days after financial year end. However, 13.6 % of the firms did not observe the disclosure requirements; they took 90 days and more after the end of the financial year to complete their audit work. This implies that these companies would certainly exceed the deadline for submission of the financial reporting to the Amman Stock Exchange. Hence, these firms did not comply with the Amman Stock Exchange Listing Requirements and the Companies Law No 23, 1997, which state that firms should submit their audited financial reports to the public within 90 days after the end of the fiscal year.

Management report lag is the number of days between the audit report date and the date the company releases its financial report to the public. The details of the distribution of management reports lag of Jordanian firms can be seen in Table 4.3:

Table 4.3
Management Reports Lag of Jordanian Firms

Interval Period	Frequency	Percentage
Less than 21 days	132	29.4
21 to 40 days	164	36.7
41 to 60 days	87	19.4
61 days and more	65	14.5
Total	448	100

Average of Management Report Lag = 32.8 days
Minimum = 3 days
Maximum = 124 days
Std. deviation = 22. 03

The management report lag of Jordanian companies on average is 32.8 days with a minimum of three days and a maximum of 124 days. This finding is inconsistent with prior Jordanian studies by Nor and Al Fadel (2006) who reveal that the average management report lag was 58 days in 2002 and 69 days in 2001. The difference in findings is probably due to the different period and samples used in the studies. However, this study provides evidence that the mean value of reporting lags are longer than MRL found by Zaitul (2010) for Indonesian firms.

Some Jordanian companies (i.e., 132 companies or 29%) have a management report lag between 1 to 20 days. This indicates that the management of companies submitted the financial reports within a short time after the external auditor had signed the audited financial reports. The results also indicate that 87 companies (19.4%) have a management report lag of about 41 to 60 days to submit their annual reports to the

Amman Stock Exchange. The results also show that 65 firms (14.5%) complete and submit their financial reports within 61 days and more after the reports are signed by the external auditors. Thus, some of management of Jordanian firms did not comply with the regulations of Jordan Securities Commission, which state that companies should issue their annual financial reporting to the public within three months after the end of the fiscal year.

The gap in the number of days between the release of financial reports to the public and the date of auditor's signature further indicates that some managers have a tendency to delay submitting the financial reports. The study findings are in line with the contention that management may use their discretion to delay releasing the firm's financial reports according to their perception of whether it will negatively or positively impact equity pricing (Ahmad & Kamarudin, 2003; Ashton *et al.*, 1987; Zaitul, 2010).

The average of total financial reports lags of Jordanian companies in this study is 97.35 days with a maximum of 295 days and a minimum of 28 days. As evidenced from Table 4.4, 4.5% (20) of Jordanian listed companies in the sample of this study published their financial reports within two months of the end of the financial year. In addition, the majority of the Jordanian listed companies of observations (62%) in the sample of this study submitted their financial reporting within 90 days of the end of the financial year. The results also indicate that 171 firm-years (38%) have a total report lag of more than 90 days. In other words, they certainly exceeded the deadline for submission of financial reporting to the Amman Stock Exchange, thus, not complying with the regulations of the Jordan Securities Commission and the Companies law No 23, 1997, which state that

companies should issue their annual financial reporting to the public within three months after the end of the fiscal year. The details of the distribution of total reports lag of Jordanian firms can be seen in Table 4.4:

Table 4.4
Total Reports lag of Jordanian Firms

TRL	Total of frequency	Percentage
1-60 days	20	4.5
61-90 days	257	57.5
> 90 days	171	38
Total	448	100
Average of Total Report Lag	97.35	
Minimum	28	
Maximum	295	
Std. deviation	31.81	

4.3 Descriptive Statistics

Table 4.5 presents the descriptive statistics (i.e., maximum, minimum, mean and standard deviation.) of the independent and dependent variables, using data from 448 firm-years of industrial and services sector companies of the Amman Stock Exchange for the period of 2009 to 2012. For the dependent variable, this study used audit report lag (ARL) model, management report lag (MRL) model and total report lag (TRL) model to measure the timeliness of financial reports.

Table 4.5
Descriptive Statistics of the Independent Variables.

	N	Minimum	Maximum	Mean	Std. Deviation
BIND	448	0.00	1.00	0.614	.211
BSIZ	448	3.00	14.0	8.908	2.389
CEO	448	0.00	1.00	0.614	0.487
BDILIG	448	3.00	13.00	7.632	1.917
BFEX	448	0.00	0.47	0.237	0.146
ACM	448	0.00	1.00	0.546	0.498
AOP	448	0.00	1.00	0.859	0.348
ACH	448	0.00	1.00	0.400	0.490
ABN	448	0.00	1.00	0.636	0.481
AIND	448	0.00	1.00	0.402	0.490
FOW	448	0.00	1.00	0.162	0.291
IOW	448	0.00	0.97	0.356	0.313
PROFIT	448	0.00	1.00	0.652	0.476
LEVR	448	0.03	0.94	0.343	0.239
LOGSIZ	448	11.00	21.15	16.836	1.415
AGE	448	5.00	76.00	24.161	15.859
SECTR	448	0.00	1.00	0.464	0.499

BIND= Board independence, BSIZ= Total number of board size, CEO= Dummy variable, 1 if CEO-Chairman roles combined; 0 if separate. BDILIG= Number of board meetings held during the financial year, BFEX= Board financial expertise, ACM= Presence of the audit committee, AOP= Auditor's opinion, ACH= Auditor change, ABN= Auditor brand name, AIND= Auditor independence, measured by dummy variable, 1 if the auditor provides NAS, 0 otherwise, FOW= Percentage of shares owned by foreigners, IOW= proportion of shares owned by institutions, PROFIT= Change in profit from the previous year, LEVR= leverage, ratio of total debts to total assets, LOGSIZ= Natural logarithm of company size, AGE= Company age, SECTR= Type of sector, classified into industrial or services sector.

The results in Table 4.5 show that board independence (BIND), on average, is 61.41%, with a maximum value of 100% and a minimum value of 0%. Some of the boards are not at all independent, and some are completely independent. These findings imply that Jordanian companies generally follow the Jordanian corporate governance codes (2009), which recommend that a majority of board members should be independent from management. The results support the previous studies in Jordan (Abu Haija, 2012 and

Al-Sraheen, 2014). The mean value of board size (BSIZ) is 8.908 members with a maximum and a minimum of 14 and 3, respectively. These results are consistent with a previous study that was conducted in Jordan by Al-Saeed (2012), who found that the average board size of Jordanian firms is 8.58 members.

For CEO duality (CEO), the descriptive statistics also show that on average, 61.4 % of Jordanian listed companies have duality of leadership structure, which infers that almost two-thirds of the firms (i.e., 275) in this study have dual roles of CEO and chairman. This means that some of Jordanian firms do not comply with the corporate governance instructions which states that CEO and chairman roles should be separate. The result of the board diligence (BDILLG) in Table 4.5 indicates that the mean number of board meetings, which was held during the year is 7.632 with a minimum of three and a maximum of 13. Generally, the Jordanian companies follow the requirements of the Jordanian Corporate Governance Code (i.e., at least four meetings per year). However, some of firms (1.2%) in Jordan did not follow this requirement in that they had less than four meetings a year.

For the board expertise and knowledge (BFEX), the results show that on average, board expertise and knowledge in Jordanian firms is 23.73% with a minimum of 0 % and a maximum of 47%. The minimum value of 0 indicates that there are board directors who do not have financial expertise and knowledge. An analysis of the sample companies reports that there are 56 firm observations (12.5%) which did not have financial expertise on their boards. This infers that the majority of Jordanian firms complied with the expertise requirements set by the Code of Corporate Governance.

The mean value of the presence of an audit committee (ACM) in this study is 54.6% ranging between 0 to 1.00%. These results indicate that the majority of Jordanian firms (i.e. 245 firms) are in line with the Jordanian Code of Corporate Governance which recommends the Jordanian firms to establish an audit committee to ensure the effective performance of the boards of directors. This result is supported by Abu Haija (2012) using data of Jordanian listed firms. They found that 55% of the firms comply with the rules of corporate governance that require the board of directors to establish an audit committee.

In terms of auditor quality, about 385 (85.9%) of Jordanian firms had an unqualified audit opinion, whereas 63 (14.1%) firms had a qualified audit opinion. The result also shows that 179 (40%) firms changed its external auditors, whereas 269 (60%) firms did not change their external auditor. A total of 163 (36.4%) company-years were audited by Big 4 affiliated audit firms and the remaining 285 (63.6%) were audited by non-Big 4 affiliated audit firms. This supports by the results of the study by Bagulaidah (2012) using data of Jordanian listed firms. They found that 66 % of their sample companies were audited by a Big 4 auditor. Furthermore, the mean value of auditor's independence stated in this study is 40.2%, which implies that more than one-third of external auditors in Jordanian listed firms (i.e., 180) provide non-audit services (NAS), while 285 (59.8%) of the external auditors in firms do not provide any type of NAS.

With regards to ownership structure, on average, 36% of shares are held by institutional owners, representing a moderate proportion of shares in Jordanian listed firms. Such percentage constitutes approximately one-third and more of the total shares, and as such,

it provides the institutional investors with power to control the companies (Zureigat, 2011). Furthermore, the average number of shares held by foreign investors in the country is 16% indicating a low percentage of shares. This is consistent with the findings reported by Alkhawaldeh (2012) and Zureigat (2011) which report that the average institutional ownership in Jordanian firms is 38%, while the average foreign ownership is also 10%.

In terms of the company attributes, the average company size, as measured by total assets of a company is 16.83%. This ratio is similar to Al-Najjar and Taylort (2008) who reported that the average of Jordanian firms was 16.15%. Company profitability, measured by the change in profit from the previous year, it is measured by a dummy variable, 1 if the change is positive (good news) and 0 if the change is negative (bad news). In this study, the mean value of company profitability in Jordanian firms is .652%, which means that 293 (62.5%) firms had reported good news at year end and the other 155 firms (37.5%) had reported bad news at year end. Furthermore, it appears that the average leverage is 34.37%, with a minimum and a maximum of 0.03 and .94, respectively. The average leverage is better compared to the ratio found by Jaafar and El-Shawa (2009), who reported that the mean of leverage in Jordanian listed companies is 37%. The reason for this difference is due to the difference in the study period, where their study was between of 2002 to 2005. Finally, Jordanian firms are also found to have an average firm age of 24 years in business operations, which mean that most of the Jordanian listed firms are young firms.

4.4 Regression Assumptions

This study uses multiple regression analysis to examine the association between the independent variables and the timeliness of financial reports. There are some assumptions that have to be satisfied before the data is analyzed: outliers, normality, linearity, multicollenarity, autocorrelation and heteroskedasticity. To test the effect of independent variables - board characteristics, audit committee, ownership structure, auditor quality, company attributes - this study adopted ARL, MRL and TRL as proxies of timeliness of financial reports by Jordanian listed companies.

4.4.1 Outliers

Outliers are observations which have unique characteristics that make them different from other observations (Hair *et al*., 2010). There are several methods to check for outliers. In this study, the case of outliers was detected using the mahalanobis distance test, a widely used method to detect for any outliers. There is a problem of outliers if the Mahalanobis distance values exceed a critical value obtained from statistical tables (Chi-square) (Tabachnick & Fide, 2007). This study find that the critical chi-square value, using the number of independent variables as the degrees of freedom, is 40.790 at alpha level of .001; the maximum and minimum value of Mahalanobis of all the observations ranged between 8.598 and 54.794, for the ARL, which indicates the existence of outlier observations for ARL model; and 8.584 to 35.543 for the MRL model, which does not exceed the critical value. For TRL model, the maximum and minimum value of Mahalanobis ranged between 8.579 and 58.331. The result is shown in Table 4.6.

Table 4.6
Test of Mahalanobis Distance and Cook's Distance Value

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	105.73	250.98	182.21	52.477	448
Std. Predicted Value	-1.458	1.310	.000	1.000	448
Standard Error of Predicted Value	2.158	5.204	3.002	.440	448
Adjusted Predicted Value	105.39	250.66	182.19	52.479	448
Residual	-37.937	34.527	.000	14.431	448
Std. Residual	-2.575	2.344	.000	.980	448
Stud. Residual	-2.639	2.386	.001	1.000	448
Deleted Residual	-39.831	35.784	.020	15.041	448
Stud. Deleted Residual	-2.657	2.399	.001	1.002	448
Mahal. Distance (ARL)	**8.598**	**54.794**	**17.960**	**5.861**	**448**
Cook's Distance (ARL)	**.000**	**.018**	**.002**	**.003**	**448**
Mahal. Distance (MRL)	**8.584**	**35.543**	**17.960**	**5.258**	**448**
Cook's Distance (MRL)	**.000**	**.019**	**.002**	**.003**	**448**
Mahal. Distance (TRL)	**8.579**	**58.331**	**17.960**	**6.141**	**448**
Cook's Distance (TRL)	**.000**	**.019**	**.002**	**.003**	**448**
Centered Leverage Value	.019	.123	.040	.013	448

The identification of outlier observations requires an in-depth examination of the SPSS package results saved in the data by comparing the value of Mahalanobis distance to the value of 40.790. This comparison shows that only two observations for ARL model with Mahalanobis distance values ranging between 49.6469 and 54.7937 and four observations for TRL model ranging between 42.3458 and 58.3308 were deemed as outliers among 448 observations - these two represent a negligible ratio. According to Coakes and Steed’s (2003) suggestion, the outlier observation should be dropped from the data if it is significant in number as this may affect the results’ reliability. This study

opted to retain the detected outliers for further analysis due to their minimal number. The following sub-section examines the multicollinearity among the study variables.

4.4.1.1 Multicollinearity

The aim of this analysis is to investigate any multicollinearity problems between the dependent and independent variables and the association among dependent variables (Shukeri & Nelson, 2010). According to Hair *et al*. (2010) and Tabachnick and Fidell (2007), a multicollinearity problem occurs if the correlation among independent variables is above 0.90. Two methods are used to discover multicollinearity problems in the models of this study: Pearson Correlation (correlation matrix) and Variance Inflation Factor (VIF).

Table 4.7 shows the Pearson Correlation coefficients among the variables. In the present study, all the correlation coefficients among the independent variables in the correlation matrix are less than 0.90. This implies that multicollinearity is not a problem in the regression model. The findings of the Pearson Correlation matrix in this study suggest that the highest correlation (0.225) is between board size (BSZ) and leverage.

In addition, the present study employs tolerance and variance inflation factor (VIF) to examine the assumption of multicollinearity. According to Hair *et al*. (2010), collinearity values lower than 10 from VIF or tolerance values higher than 0.1 are acceptable. In this study, both values of VIF and tolerance values are presented in Table 4.8. It is evident from the table that the VIF values of all the variables are lower than 10, while their tolerance values are higher than 0.1, thus confirming Hair *et al*.'s (2010)

suggestion. To conclude, the study results reveal no issue of multicollinearity in regression. It can therefore be confirmed that this study has no serious outlier observations and no issues of multicollinearity.

Table 4.7

Pearson Correlation Coefficients

Correlations

	ARL	MRL	TRL	BIND	BSIZ	CEO	BDILIG	BFEX	ACM	AOP	ACH	ABN	AIND	FOW	IOW	PROFIT	LEV	LOGSIZE	AGE	SECTR
ARL	1																			
MRL	-.345**	1																		
TRL	.743**	.338**	1																	
BIND	-.082	.002	-.084	1																
BSIZ	.076	.197**	.211**	.079	1															
CEO	.059	-.111*	-.033	.029	-.061	1														
BDILIG	-.097*	.111*	-.040	-.193**	-.011	-.023	1													
BFEX	-.083	.046	-.038	.008	.085	-.033	-.099*	1												
ACM	-.114*	-.094*	-.190**	.048	.001	-.013	.026	-.119*	1											
AOP	-.153**	-.301**	-.347**	-.020	-.050	.088	-.051	-.041	.032	1										
ACH	.041	-.018	.016	-.048	.026	-.027	.081	-.061	-.008	-.063	1									
ABN	.083	-.058	.029	-.050	-.048	-.038	.063	-.020	.122**	-.039	.049	1								
AIND	.057	-.133**	-.028	.103*	-.030	.108*	-.073	-.095*	.051	.030	-.018	-.033	1							
FOW	-.145**	.012	-.131**	.133**	.150**	-.016	.116*	.158**	.111*	.039	.089	.094*	.046	1						
IOW	-.155**	.083	-.083	.025	-.047	-.007	-.033	.210**	.026	-.048	.038	-.067	.003	.084	1					
PROFIT	-.126**	-.206**	-.262**	.027	-.063	-.060	-.006	-.067	.003	-.080	-.026	-.095*	.006	.018	-.060	1				
LEVR	.415**	-.045	.360**	-.025	.104*	-.002	.117*	-.077	.012	-.072	.015	.074	.032	-.130**	-.063	-.088	1			
LOGSIZE	.129**	-.040	.075	-.050	.128**	-.100*	.096*	-.069	.114*	-.017	.085	.155**	-.075	.112*	-.016	-.040	.229**	1		
AGE	.114*	-.058	.054	.133**	.077	.064	-.002	.045	-.100*	-.091	.025	.024	-.030	-.156**	.127**	.038	.149**	.178**	1	
SECTR	-.025	.163**	.076	-.030	.225**	-.080	.111*	-.106*	.101*	.003	.200**	-.003	-.151**	.086	-.001	-.174**	.131**	.234**	-.176**	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.8
Testing for Multicollinearity for ARL, MRL and TRL Models

Variables	Collinearity Statistics	
	Tolerance	VIF
BIND	.886	1.129
BSIZ	.874	1.144
CEO	.954	1.048
BDILIG	.894	1.118
BFEX	.856	1.168
ACM	.927	1.078
AOP	.957	1.045
ACH	.932	1.073
ABN	.921	1.086
AIND	.924	1.082
FOW	.800	1.251
IOW	.903	1.107
PROFIT	.924	1.082
LEVR	.868	1.152
LOGSIZ	.804	1.243
AGE	.791	1.264
SECTR	.752	1.329

4.4.2 Normality

This study uses the kurtosis and skewness values to check the normality of all the variables. Skewness and kurtosis are among the most common methods in describing the shapes or distribution of a data set. This study transformed total assets (as a measure of company size) by using the natural log to ensure that the variables are normally distributed. According to Kline (1998), normality means that the distribution of the error (or residual) is normally distributed. To test the normality of all variables in the two models, the skewness and kurtosis values are used. The data are considered reasonably normal if the skewness values are lower than three and kurtosis values are lower than 10. As evidenced in Table 4.9, all kurtosis values of all the variables are lower than 10; and skewness values of all the variables are lower than three. Therefore, the data has no serious violation of the normality assumption. Only one variable (i.e., TRL in technique, the kurtosis values are still not satisfactory) have a skewness value a little more than 10. In fact, modest violations of univariate normality are not a problem if the violations are due to skewness and not outliers (Hair *et al.,* 2010). Moreover, this study covers the whole population and involves a large amount of data (448 observations), and the normality assumption is probably not seriously affected.

Additionally, the normality assumption is also confirmed by using graphs, such as the histogram and normality plot. The normal probability plot, a graphical technique for normality testing, is used to assess the data set's approximate normal distribution. For this, data was plotted against a theoretical normal distribution in a manner that the points form an almost straight line. Deviations from this straight line show deviations from

normality. The normality of all variables of this study can be seen from the graphs as shown in Figure 4.1, Figure 4.2 and Figure 4.3.

Table 4.9
Normality Test for ARL, MRL and TRL Models

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
BIND	448	-.829	.115	.527	.230
BSIZ	448	.042	.115	-.564	.230
CEO	448	-.469	.115	-1.788	.230
BDILIG	448	.279	.115	.729	.230
BFEX	448	-.012	.115	-1.138	.230
ACM	448	-.189	.115	-1.973	.230
AOP	448	-2.074	.115	2.314	.230
ACH	448	.412	.115	-1.839	.230
ABN	448	-.568	.115	-1.685	.230
AIND	448	.402	.115	-1.847	.230
FOW	448	1.562	.115	.879	.230
IOW	448	.411	.115	-1.189	.230
PROFIT	448	-.639	.115	-1.598	.230
LEVR	448	.762	.115	-.318	.230
LOGSIZ	448	.072	.115	1.107	.230
AGE	448	1.038	.115	.422	.230
SECTR	448	.144	.115	-1.988	.230
ARL	448	1.814	.115	6.709	.230
MRL	448	.821	.115	.337	.230
TRL	448	2.784	.115	11.374	.230

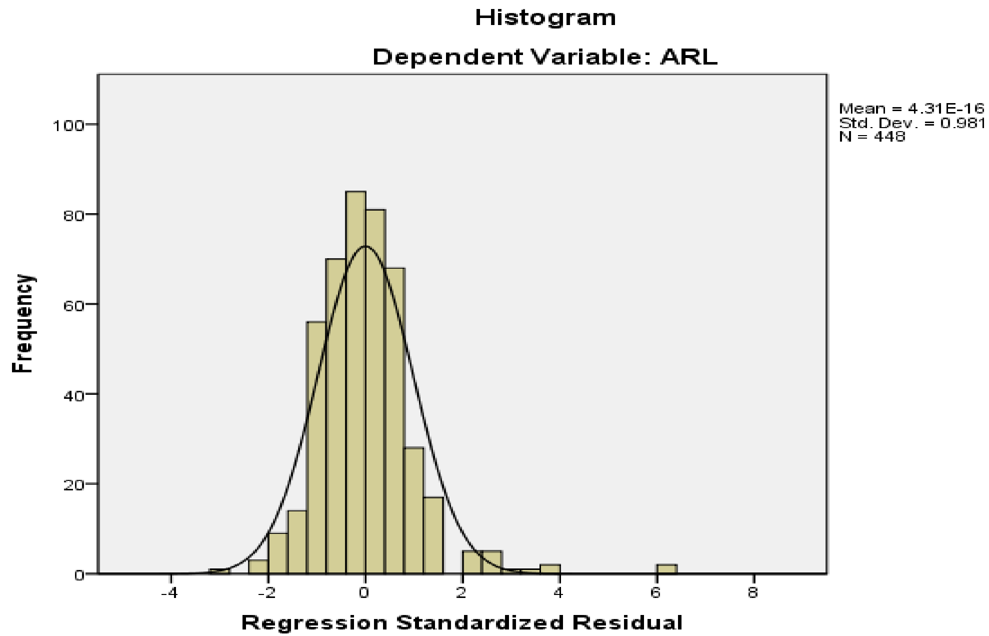

Figure 4.1
Histogram (DV: ARL)

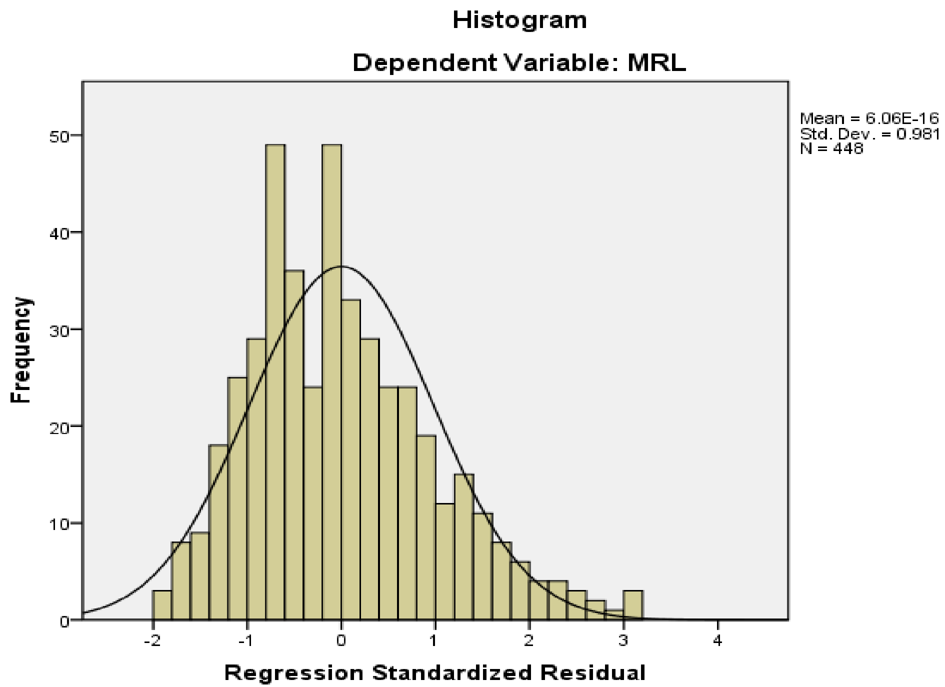

Figure 4.2
Histogram (DV: MRL)

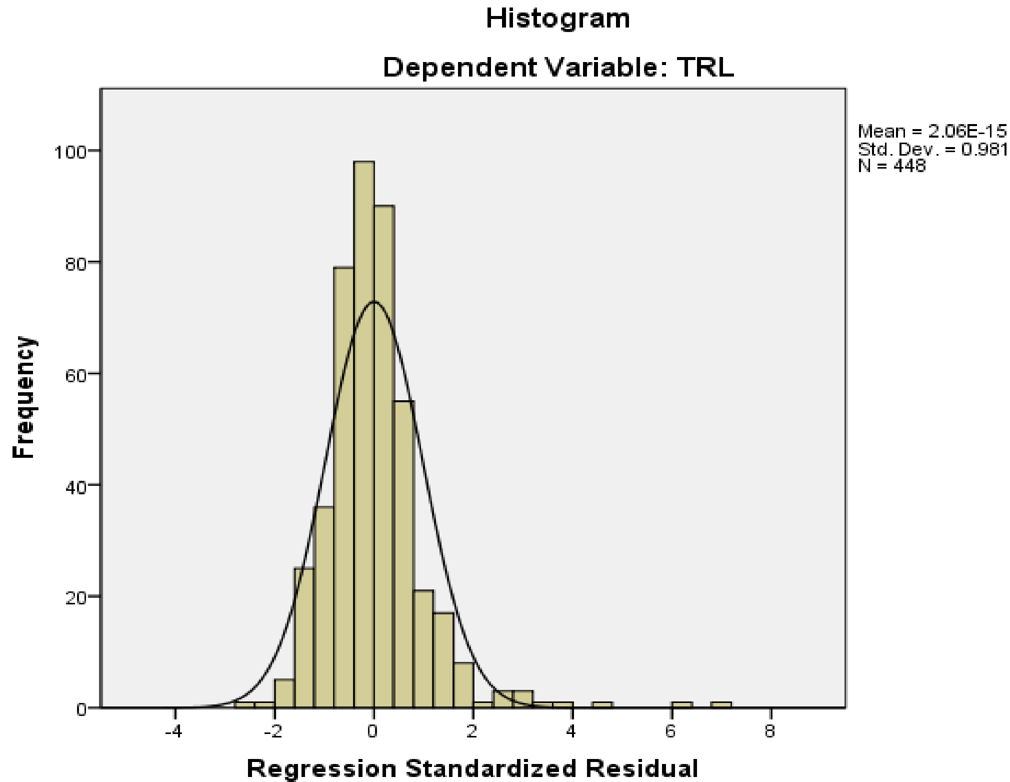

Figure 4.3
Histogram (DV: TRL)

4.4.3 Linearity

In common usage, the linearity assumption indicates a relationship between all variables which can be graphically described by a straight-line passing through the data cloud (Tabachnick & Fidell, 2001). However, correlation represents only the linear association between variables; thus, the non- linear effect will not be presented in the correlation value. The strength of the relationship will be underestimated under the presence of nonlinearity (Hair *et al*., 2010). In this study, the assumption of linearity was checked by the scatterplot of the residuals as presented in Figure 4.4 for ARL model, Figure 4.5 for MRL model and Figure 4.6 for TRL. The scatterplots show that the relationship between residuals and predicted values is not clear, which means no problems of linearity assumption.

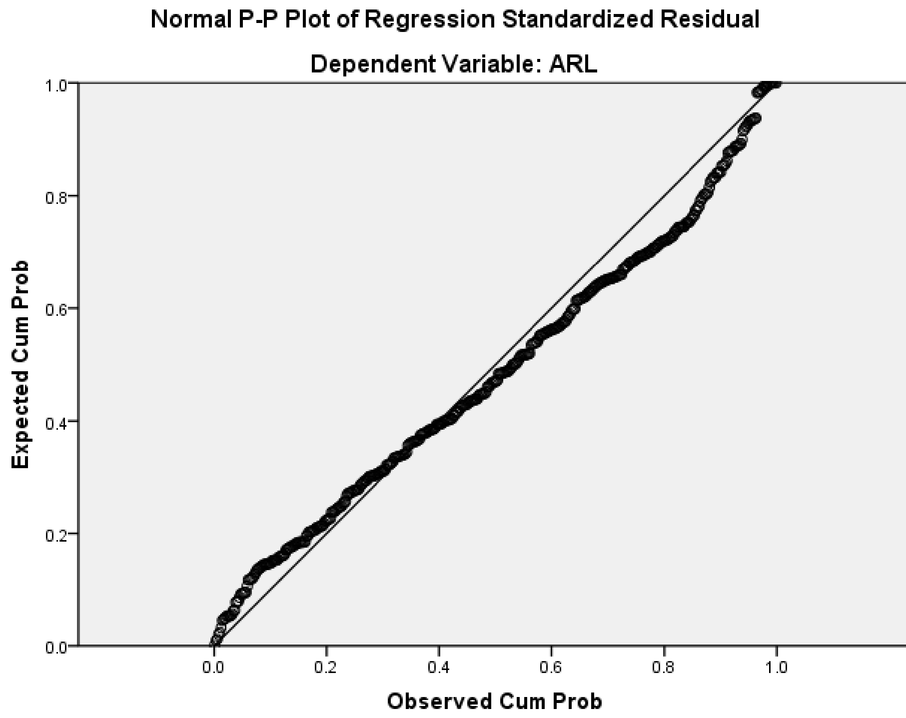

Figure 4.4
Histogram of the Regression Residuals (DV: ARL)

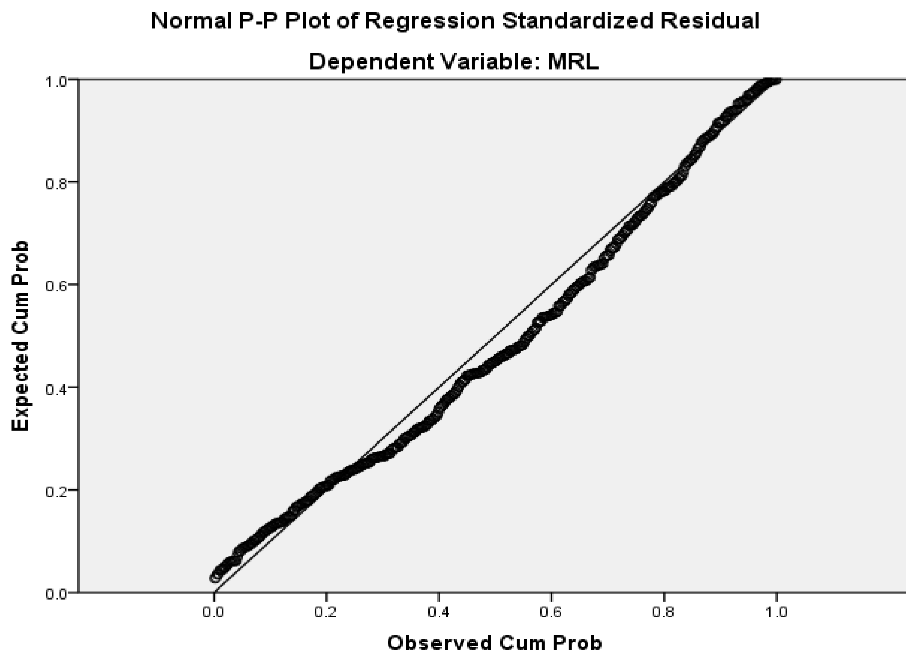

Figure 4.5
Histogram of the Regression Residuals (DV: MRL)

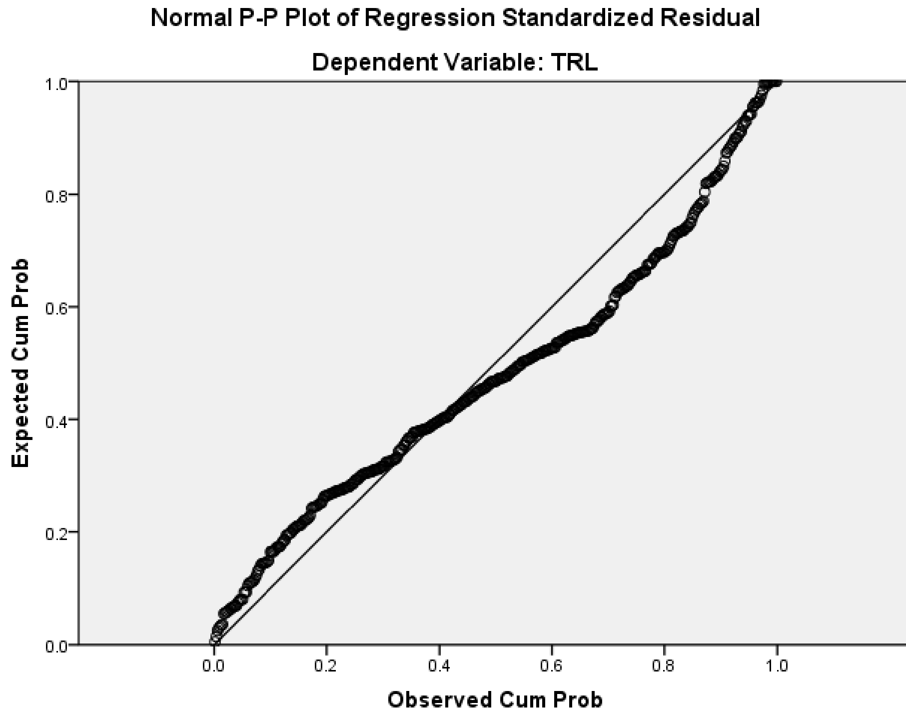

Figure 4.6
Histogram of the Regression Residuals (DV: TRL)

4.4.4 Autocoleration

The presence of autocorrelation is checked using Durbin-Watson statistics, a test to detect the existence of autocorrelation in the residuals from a regression analysis. Acoording to Kazmier (1996), an acceptable value for Durbin-Watson statistics ranges from 0 to 4 - a value below 1.4 indicates the presence of a strong positive series problem of correlation among sample data, and a value greater than 2.6 indicates the presence of a strong negative series problem of autocorrelation. As presented in Table 4.10, the value of Durbin-Watson of the ARL Model is 1.422 and 1.836 for the MRL model and for TRL is 1.502. Thus, there is no problem of autocorrelation among sampled data.

Table 4.10
Autocorrelation Test for Models ARL, MRL and TRL.

Models	R	R Square	Adjusted R Square	Std. Error of the Estimate	R^2 Change	F Change	Sig F Change	Durbin-Watson
ARL	.538	.289	.261	28.2300	.289	10.302	0.00	**1.422**
MRL	.498[a]	.248	.219	19.4778	.248	8.375	0.00	**1.836**
TRL	.623a	.388	.364	25.3684	.388	16.067	.000	**1.502**

4.4.5 Heteroscadasticity

As for test for homoscedasticity, it assumes that the dependent variable shows an equal degree of variance throughout the predictor variables' range. This is a desirable result as the dependent variable variance should not be concentrated on a limited range of the independent variables. In this context, violation of homoscedasticity refers to heteroscedasticity. The latter condition has a tendency to make the coefficient estimate to be underestimated, and in some cases, it makes insignificant variables seem significant (Hair *et al.*, 2010). In this study, homoscedasticity and the independence of error terms were examined with the help of a scatter plot of the two dependent variables' residuals. The scatter plot in figures (Figures 4.7, 4.8 and 4.9) do not reveal a clear relationship between the residual and the predicted value. According to Hair *et al.* (2010), as the scatter plot fails to show a clear relationship, it confirms that there are no issues of homoscedasticity or independence of residuals.

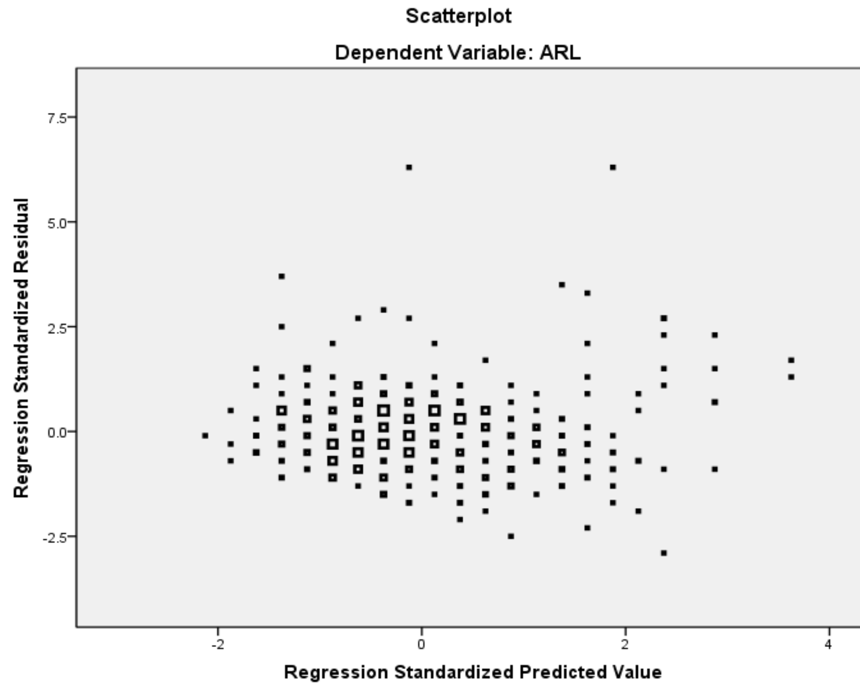

Figure 4.7
Scatter Plot of the Residuals (DV:ARL)

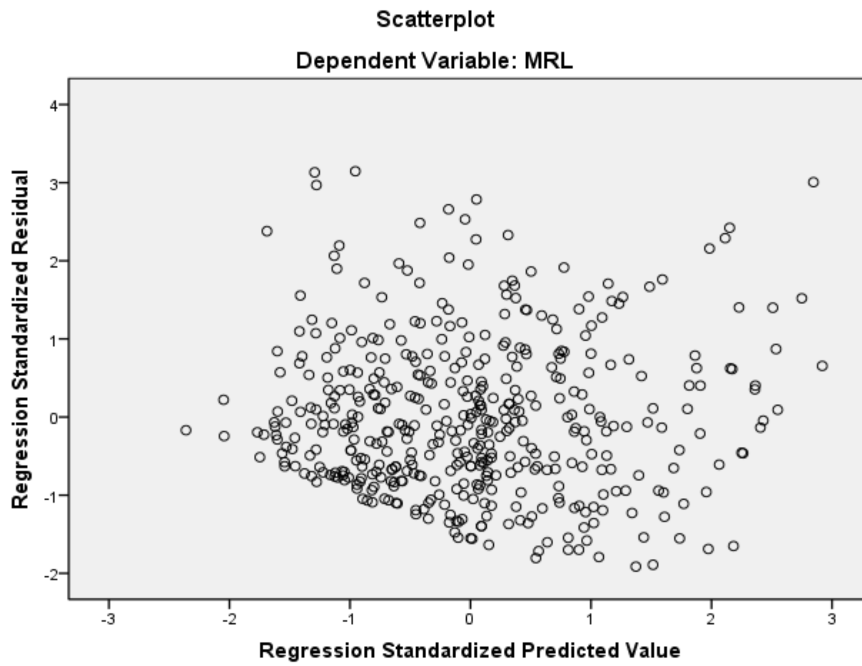

Figure 4.8
Scatter Plot of the Residuals (DV: MRL)

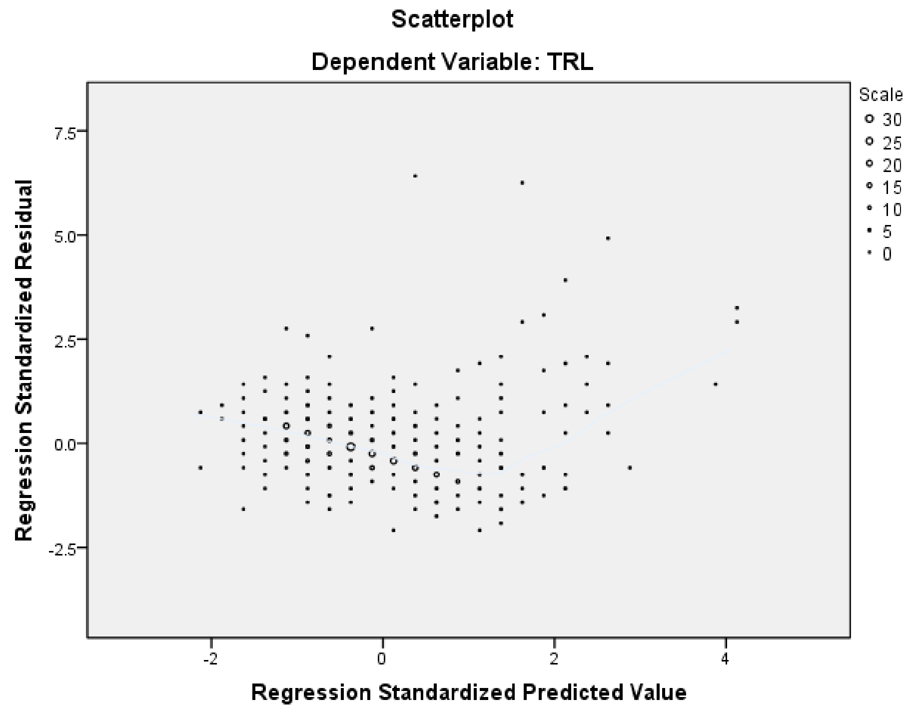

Figure 4.9
Scatter Plot of the Residuals (DV: TRL)

4.5 Regression Analysis

To test the hypotheses, the multiple regression analysis is used to examine the association between corporate governance and company attributes and the timeliness of financial reports. In this study, the timeliness of financial reports are measured using three measurements, namely, ARL, MRL and TRL. The relationship between the independent variables and the dependent variables are analyzed by using the following three models.

Model 1- Audit Report Lag (ARL)

$$ARL = \beta0 + \beta1BIND\ it + \beta2BSIZ\ it + \beta3CEO\ it + \beta4BDILIG\ it + \beta5BFEX\ it + \beta6ACM\ it + \beta7AOP\ it + \beta8ACH\ it + \beta9ABN\ it + \beta10AIND\ it + \beta11FOW\ it + \beta12IOW\ it + \beta13PROFIT\ it + \beta14LEVR\ it + \beta15LOGSIZit + \beta16AGE\ it + \beta17SECTR\ it + \varepsilon\ it.$$

Model 2- Management Report Lag (MRL)

$$MRL = \beta0 + \beta1BIND\ it + \beta2BSIZ\ it + \beta3CEO\ it + \beta4BDILIG\ it + \beta5BFEX\ it + \beta6ACM\ it + \beta7AOP\ it + \beta8ACH\ it + \beta9ABN\ it + \beta10AIND\ it + \beta11FOW\ it + \beta12IOW\ it + \beta13PROFIT\ it + \beta14LEVR\ it + \beta15LOGSIZit + \beta16AGE\ it + \beta17SECTR\ it + \varepsilon\ it.$$

Model 3- Total Report Lag (TRL)

$$TRL = \beta0 + \beta1BIND\ it + \beta2BSIZ\ it + \beta3CEO\ it + \beta4BDILIG\ it + \beta5BFEX\ it + \beta6ACM\ it + \beta7AOP\ it + \beta8ACH\ it + \beta9ABN\ it + \beta10AIND\ it + \beta11FOW\ it + \beta12IOW\ it + \beta13PROFIT\ it + \beta14LEVR\ it + \beta15LOGSIZit + \beta16AGE\ it + \beta17SECTR\ it + \varepsilon\ it.$$

The variables are defined in Table 4.11. They are classified into independent variables and dependent variables. The table also shows the hypotheses related to the variables as well as the expected direction of the hypotheses.

Table 4.11
Variable Description and Expected Direction for ARL, MRL and TRL Models

Variables	Definition of Variables	Expected Direction	Relevant Hypotheses
Dependent Variables			
ARL=	Audit report lag, measured by the number of days from financial year end to the date of signing the audit report. The longer the ARL, the less timely the report will be.		
MRL=	Management report lag, measured by the difference between the date the auditor sign the report and the date the company releases its financial report to the public. The longer the MRL, the less timely the report will be.		
TRL =	Total report lag, measured by the number of days between the financial year end and the date firms release their financial reports to the public. The longer the MRL, the less timely the report will be.		
Independent Variables	**Definition of Variables**	**Expected Direction**	**Relevant Hypotheses**
Board characteristics			
BIND =	Board Independence, measured by ratio of non-executive directors to total number of directors on the board.	+	H_1
BSIZ =	Board Size, measured by total number of board directors.	-	H_2
CEO =	CEO Duality, 1 if CEO-Chairman roles are combined; 0 if separated.	-	H_3
BDILIG =	Board Diligence, measured by the number of board meetings held during the financial year.	+	H_4
BFEX=	Board Expertise, measured by proportion of board members with financial expertise to total board members.	+	H_5
ACM =	Presence of the audit committee, 1 if exist, 0 otherwise;	+	H_6
Auditor Quality			
AOP =	Auditor Opinion, measured by dummy variable, 1 if unqualified audit opinion, 0 otherwise.	+	H_7
ACH =	Auditor Change, measured by dummy variable, 1 if there is audit firm change, 0 otherwise.	-	H_8

Table 4.10 (Continued)

Independent Variables	Definition of Variables	Expected Direction	Relevant Hypotheses
ABN =	Auditor Brand Name, measured by dummy variable, 1 if audited by big 4 audit firm, 0 otherwise.	+	H_9
AIND =	Auditor Independence, measured by dummy variable, 1 if the auditor provides NAS to the company, 0 otherwise	+	H_{10}
Ownership Structure			
FOW =	Foreign Ownership measured by percentage of shares owned by foreigners to total number of shares issued.	+	H_{11}
IOW =	Institutional Ownership, measured by percentage of shares owned by institutions to total number of shares issued.	+	H_{12}
Company Attributes			
PROFIT =	Company profitability, measured by the change in profit from the previous year. Subsequently, it is measured by a dummy variable, 1 if the change is positive (good news) and 0 if the change is negative (bad news).	+	H_{13}
LEVR =	Company Leverage, measured by the ratio of total debts to total assets.	+	H_{14}
LOGSIZE =	Company Size, measured by natural log of total assets.	+	C.V
AGE =	Company Age, measured by the age of a company.	+	C.V
SCTR =	Type of Sector, measured by dummy variable, 1 if a company belongs to an industrial sector, 0 otherwise	+	C.V

4.6 Hypothesis Testing

This section discusses the results of the regression analysis between the independent variables and timeliness of financial reports of the three models (ARL, MRL and TRL). Five groups of hypotheses are involved: (i) H1-H5 - board characteristics (i.e., board independence, board size, CEO duality, board diligence, board expertise & knowledge); (ii) H6 - presence of the audit committee; (iii) H7-H8 - ownership structure (i.e., foreign ownership and institutional ownership); (iv) H9-H12 - auditor quality (i.e., opinion, change, brand name and independence); (v) H13-H14 company's attributes (i.e., profitability and leverage); and (vi) three control variables (i.e., size, age and type of sector). The results of regression analysis for ARL, MRL and TRL models are shown in Table 4.12.

Table 4.12

OLS Regression Results: ARL, MRL and TRL Model

Models of the study									
	ARL (Model 1)			MRL (Model 2)			TRL (Model 3)		
Variables	Beta	t	Sig.	Beta	t	Sig.	Beta	t	Sig
(Constant)		3.571	0.000***		4.298	0.000***		7.725	0.000***
BIND	-.101	-2.343	0.020**	.027	.616	0.538	-0.090	-2.237	0.026**
BSIZ	.048	1.102	0.271	.168	3.765	0.000***	0.169	4.198	0.000***
CEO	.058	1.400	0.162	-.075	-1.763	0.079	-0.012	-0.306	0.760
BDILIG	-.171	-3.973	0.000***	.113	2.557	0.011**	-0.109	-2.725	0.007***
BFEX	-.066	-1.496	0.135	-.024	-.524	0.601	-0.078	-1.906	0.057**
ACM	-.106	-2.508	0.013**	-.089	-2.055	0.041**	-0.177	-4.525	0.000***
AOP	-.145	-3.485	0.001***	-.309	-7.228	0.000***	-0.346	-8.968	0.000***
ACH	.046	1.092	0.276	-.070	-1.610	0.108	-0.011	-0.280	0.780
ABN	.043	1.021	0.308	-.055	-1.272	0.204	-0.002	-0.063	0.950
AIND	.039	.917	0.359	-.094	-2.152	0.032**	-0.020	-0.504	0.614
FOW	-.033	-.719	0.472	-.016	-.338	0.735	-0.062	-1.551	0.122
IOW	-.128	-3.004	0.003***	.074	1.692	0.091*	-0.038	-0.902	0.368
PROFIT	-.116	-2.751	0.006***	-.219	-5.042	0.000***	-0.264	-6.719	0.000***
LEVR	.378	8.675	0.000***	-.095	-2.125	0.034**	0.301	7.442	0.000***
LOGSIZE	.064	1.413	0.158	-.062	-1.321	0.187	0.004	0.097	0.923
AGE	.030	.649	0.516	-.068	-1.440	0.151	-0.032	-0.760	0.448
SECTR	-.092	-1.955	0.051*	.093	1.929	0.054*	-0.032	-0.741	0.459

Summary of the Regression Model			
Dependent Variable:	**ARL**	**MRL**	**TRL**
N	448	448	448
Adjusted R Square	.261	.219	.364
R Square	.289	.248	.388
F	10.302	8.357	16.067
Significant	0.000	0.000	0.000

*Significant at the 0.1 level ** Significant at the 0.05 level *** Significant at the 0.01 level.

As evidenced in Table 4.12, the regression analysis shows that the R^2 and the adjusted R^2 for the ARL model are 28.9% and 26.1%, respectively. This shows that the variables explain 28.9 % of the variance of ARL. Moreover, the ARL model is significant (F-statistic = 10.302, $p < 0.000$), indicating that the model significantly explains the difference in ARL among Jordanian listed firms. For the MRL model, Table 4.12 also shows the R^2 for the MRL model is 0.248, which indicates that the model is able to interpret 24.8% of the variability of the management lag. The adjusted R^2 indicates that 21.9% of the variation in the dependent variable in the model is explained by variations in the independent variables. The model is highly significant (F-statistic = 8.357, $p < 0.00$), suggesting that the MRL model significantly describes the variations in the reporting lag in Jordanian firms.

Total reporting lag (TRL) is the number of days from financial year end date to the date a company released its financial report to the public. As reported in Table 4.12, the TRL model is significant (F = 16.067, Sig. = 0.000) and the adjusted R^2 is relatively high (36.4%) compared to the adjusted R^2 of the ARL (26.1%) and the MRL (21.9%). This means that TRL model explains 36.4% of the total variations in the timeliness of financial reports, which is higher than the models (ARL and MRL). The results in Table 4.12 support the opinion that the firms' governance mechanisms used in this study are effective in reducing both audit report lag and management report lag, hence improving the timeliness of financial reports. The following section shows the results of the hypothesis testing and the relationship among the variables for all models (ARL, MRL and TRL).

4.6.1 Board Characteristics and Timeliness of Financial Reports (H1- H5)

Five hypotheses were developed regarding the relationship between board of directors, (i.e., independence, size, CEO duality, diligence and expertise and knowledge) and the timeliness of financial reports. The following is the discussion of the results between each variable of board characteristics and the timeliness of financial reports.

Hypothesis 1 - Board Independence

This study expects a positive association between board independence (BIND) and timeliness of financial reports. The result of regression analysis shows that the independence of the board is significantly and negatively related to ARL (t =-2.343, P=0.020), as evidenced in Table 4.12. This result is as predicted and implies that the monitoring role of the more independent board could have a significant influence on the timeliness of financial reports, through more effective and efficient audit, thus reducing the audit report lag (Afify, 2009). This result is consistent with Abd- Elsalam and El-Masry (2008), and Afify (2009) who indicate that the board members who are independent from management have a positive effect on the timeliness of financial reports. Nevertheless, as reported in Table 4.12, the regression findings of this study using the MRL model show that there is no significant association between board independence and the management report lag (t = 0.616, P= 0.538). This finding suggests that board independence does not influence the timeliness of financial reports in Jordanian firms using the MRL model.

However, under the TRL model, board independence is found to be negatively related to total report lag (t= -2.237, p= 0.026). This implies that the firms which have higher number of board members who are independent from management release their financial reporting earlier than firms that have smaller number of independent director. Thus, H1 is partially supported by the ARL and TRL models.

Hypothesis 2 - Board Size

Hypothesis 2 predicts that board size (BSIZ) is negatively related with the timeliness of financial reports. The results of the regression analysis between board size (BSIZ) and audit report lag (ARL) model which are reported in Table 4.12 show that board size is not significantly related to audit report lag (i.e., t = 1.102, p=0.271). This finding shows that the level of timeliness of financial reports in Jordanian companies is not significantly associated to the number of board members. In other words, the number of board members does not warrant that the audit report lag will be shorter. However, the management report lag (MRL) model shows a positive and significant association between the board size and management report lag (t= 3.765, p=0.000). The results indicate that the large board size increases management report lag of Jordanian firms. This means that companies that have more board of directors tend to have longer management report lag. The positive and significant result between board size and management report lag supports the argument that smaller boards offer better financial reporting oversight and are superior in terms of efficiency and effectiveness in observing and monitoring management (Xie *et al*., 2003). These findings support the argument presented by Bradbury, Mak, and Tan (2006) that smaller boards are better in

monitoring management actions compared to larger boards. Furthermore, the findings in Table 4.12 show that board size is significantly and positively related to total report lag (t= 4.198, P= 0.000). Hence, this result confirms the idea that the firms with a smaller board report faster than those with a larger board. In conclusion, H2 is supported by MRL and TRL models.

Hypothesis 3 - CEO Duality

This hypothesis suggests that there is a negative association between CEO duality and timeliness of financial reports. Contradictory to expectations, this study found no significant association between CEO duality and timeliness of financial reports for two models (i.e., ARL and TRL) at 5% level. The results indicate that the separation of CEO and chairman does not improve the quality of timeliness of financial reports. However, in the case of MRL model, this study found a negative relationship between CEO duality and management report lag (MRL) model but slightly significant at 10% (t=-1.763, p= .079). The findings are consistent with prior studies (Appah & Emeh, 2013) that state that a CEO who also acts as a board chairman is not related with the timeliness of financial reports. The results of this study reveal that there is no significant variance in the level of timeliness of financial reports between the firms that separate the role of the CEO and chairman and the firms that combine both roles. This result do not supports the previous results of Abdullah (2006) and Afify (2009). They found that the separation of the roles of CEO and board chairman contributes to improving timeliness of financial reports. Hence, H3 is not supported.

Hypothesis 4 - Board Diligence

This study assumes a positive association between board diligence (BDILIG) and timeliness of financial reports. As shown in Table 4.12, the ARL model shows a significant negative association between board diligence and audit report lag (t= -3.973, p= 0.00). This means that firms which hold meetings more frequently tend to release their financial reports earlier, an evidence of effective corporate governance structure. In other words, the higher number of board meetings will make the audit report lag shorter in the case of Jordanian firms. These results support the arguments of the previous empirical studies and agency theory which suggest that the number of board meetings leads to increasing board of directors' effectiveness in the financial reporting process (Ntim & Osei, 2011; Carcello *et al*., 2002; Vafeas, 1999). In addition, the findings are consistent with the studies that demonstrate more frequent board meetings would enable the auditors to rely more on the strong internal control of the firms and reduce their workload (Hashim & Rahman, 2010). However, the findings in Table 4.12 show that the association between the number of board meetings and management report lag (MRL) model is positively significant at the 0.05 level of significance (t= 2.557, p= 0.011). In other words, the greater the number of the board meetings would mean that the management of firms took more time to release the financial report to the public. Table 4.12 shows that board diligence is also significant in the TRL model (t= -2.725, p= 0.007). This result supports the argument that the higher number of board of directors meetings would reduce the audit report lag and thus improving the timeliness of financial reports. Hence, this result supports the results for ARL model that diligence of

the board in Jordanian listed companies would reduce the total report lag through shorter audit report lags. Therefore, H4 is supported by the ARL and TRL models.

Hypothesis 5 - Board Expertise and Knowledge

This study predicts a positive association between board expertise and knowledge (BFEX) and the timeliness of financial reports. As shown in Table 4.12, there is no relationship between board expertise and knowledge and the ARL ($t = -1.496$, $p= 0.135$). This finding suggests that the level of timeliness of financial reports is not significantly related to board expertise and knowledge. Furthermore, the results of MRL model also show that no significant relationship exists between board expertise and knowledge and the MRL ($t=-.524$, $p=.601$). This means that the expertise and knowledge of the board of directors to supervise the financial reporting process are not strong enough to reduce the financial reporting lag. This study's finding contradicts the study by Abdelsalam and Street (2007) who reveal that the presence of independent directors with financial expertise is valuable in providing oversight of a company‘s financial reporting practices and ensuring timely financial statements. A possible explanation for the insignificant relationship between financial expertise on the board and the timeliness of financial reports is the significant dominance of directors on the board who do not have financial expertise. The descriptive analysis shows that an average of only 44% of the board of directors have financial expertise. However, the regression result of the TRL model shows that there is a negative relationship between board financial expertise and total report lag but slightly significant at 10% level ($t = -1.906$, $p = .057$). Thus, this means that the board members with

financial expertise would reduce the total report lag even though the relationship is not seen in the individual ARL and MRL models.

4.6.2 Audit Committee and Timeliness of Financial Reports (H6)

Hypothesis 6 - Audit Committee

Based on agency theory, Hypothesis 6 predicts that the existence of an audit committee (ACM) in a firm is positively associated with the timeliness of financial reports. The result of the regression analysis between the presence of the audit committee and ARL model is shown in Table 4.12. It reveals that the association between the presence of audit committee and audit report lag is negative and significant at 5% level ($t = -2.508$, $p = 0.013$). Similarly, using the MRL model, Table 4.12 shows a significant and negative relationship between the presence of the audit committee and management report lag ($t = -2.055$, $p = 0.041$). This implies that the existence of the audit committee in Jordanian firms is likely to reduce the financial reporting lag, hence improving the timeliness of financial reports. In addition, the results of this study provide evidence that the presence of the audit committee which could resolve any differences between management and external auditors, helps to ensure quality audits and contributes to reduce reporting lag by external auditors and the firm's management. This finding supports the agency theory which indicates that the existence of an audit committee enhances the quality of financial reporting. The findings of the present study are similar to previous studies (e.g., Abu-Hija & Al-Hayek, 2012; Afify, 2009; Ika & Ghazali, 2012) that found a significant relationship between audit committee and the timeliness of financial reports. The TRL model also shows a significant negative association between the presence of an audit

committee and total report lag (t= -4.525, p= 0.000). Therefore, these findings support the argument that existence of an audit committee could resolve the information asymmetry between management and external auditors that, in turn, would lead to reduced audit report lag, management report lag and total report lag. Therefore, H6 is supported by all models (ARL, MRL and TRL).

4.6.3 Auditor Quality and Timeliness of Financial Reports (H7-H10)

Four hypotheses are formulated relating to the relationship between auditor quality and timeliness of financial reports. Table 4.12 presents the results of regression analysis between auditor quality and timeliness of financial reports using ARL, MRL and TRL models as measurements of the timeliness of financial reports.

Hypothesis 7 - Auditor's Opinion

In relation to the effect of auditor's opinion (AOP) on the timeliness of financial reports, the results show a significant negative relationship between the qualified audit opinion and audit report lag in Jordanian companies (t = -3.485, P = 0.001). The results support H7 (auditor's opinion) and suggest that audit opinion has a pronounced effect on the audit report lag. In a similar vein, for the second model (MRL), as evidenced from Table 4.12, the direction of the relationship between auditor's opinion and management report lag model is also negative and significant (t = -7.228, p= 0.000). This result is in line with the notion that the firms with unqualified report reduce the time spent by the auditors to perform their audit work, hence leading to the issuance of timely financial reports (Ahmad *et al.*, 2005; Shukeri & Nelson, 2011). Furthermore, consistent with

Soltani (2002) and Türel (2010), the results reveal that the firms that had qualified audit reports tend to delay releasing their financial reports as compared to companies that had not. Therefore, these results confirm the hypothesis that the Jordanian firms with unqualified audit reports would be more timely in issuing their financial reports compared to those with qualified audit opinion. Furthermore, consistent with the expectation, this study found a significant negative relationship between audit opinion and TRL model at the 1 % level (t= -8.968, P=0.000). The results show that firms with an unqualified audit opinion release their financial reports earlier than those that do not receive a clean opinion. Hence, H7 is supported.

Hypothesis 8 - Auditor Change

Contrary to the study's expectation, the result of the regression analysis between auditor change (ACH) and timeliness of financial reports shows that the relationship is not significant in all models (ARL, MRL and TRL). This indicates that the timeliness of financial reports is not different between firms that changed the external auditors compared to firms that did not change auditors. In other words, firms with longer auditor tenure do not contribute to the reduction of financial report lag. This finding does not support the argument that companies with longer audit tenure significantly reduce audit report lag, which in turn leads to improved timeliness of financial reports. This result may be due to the small number of firms that have changed external auditor or the brand name of the external auditor. Thus, H8- is not supported.

Hypothesis 9 - Auditor Brand Name

The auditor brand name (ABN) is expected to be positively associated with the timeliness of financial reports. The result of the regression analysis between auditor brand name and timeliness of financial reports shows that there is no significant relationship in all the three models (i.e., ARL, MRL and TRL). This result is contradictory to expectations and indicates that the variable of audit brand name does not help to enhance the timeliness of financial reports quality. In other words, the results of this study show that there is no difference in the level of the timeliness of the financial reports between firms that are audited by big audit firms (Big-4 audit firms) and the firms that are audited by non- Big 4 audit firms. This finding is consistent with Ismail *et al*., (2012) and Al-Ajmi (2008), who found that audit brand name is not significantly related to the timeliness of financial reports. Thus, H9 is not supported.

Hypothesis 10 - Auditor Independence

Inconsistent with this study's expectation, the coefficients of auditor independence (AIND) are not significant in the timeliness of financial reports under the ARL model. Table 4.12 shows non–audit services provided by the external auditors do not affect the audit report lag (t=.917, p=0.359). This means that the provision of non-audit services by the external auditor to the companies has no effect in improving the timeliness of financial reports. This result does not support the idea that the provision of NAS allows the auditor to gain extra knowledge that helps to provide a more efficient audit. However, the MRL model shows that there is a significant negative association between independence of external auditor and the management report lag (t= -2.152, p= 0.032).

This suggests that the provision of non-audit services by the external auditor is related to lower reports lag by the management to the Securities Commission and public. The result is in line with the suggestion by Knechel and Sharma (2008) who claim that the provision of audit and NAS is consistent with the qualitative characteristics of timeliness of financial reports and efficient auditing. They further indicate that the level of NAS provided by the auditor will help a firm to become more efficient. For the TRL model, the result is not significantly influenced by provision of NAS by external auditor. This suggests that the provision of NAS by external auditors plays an important role in improving the timeliness of financial reporting only by MRL model. This means that the provision of NAS by external auditor, shorten the time taken by the management to submit the financial reports to the public. Therefore, H10 is partially supported by the MRL model.

4.6.4 Ownership Structure and Timeliness of Financial Reports (H11-H12)

The following hypotheses are developed related to the relationship between ownership structure (i.e., institutional ownership and foreign ownership) and timeliness of financial reports. The following is a discussion of the results of regression analysis of ownership structure as reported in Table 4.12.

Hypothesis 11 - Foreign Ownership

The current hypothesis suggests that there is a positive association between foreign ownership (FOW) and the timeliness of financial reports. The regression result between foreign ownership (FOW) and timeliness of financial reports is shown in Table 4.12 for models (ARL, MRL and TRL). The results are contradictory to expectations and

indicate that the foreign ownership variable is not significant to measures of timeliness of financial reports (ARL, MRL and TRL). The findings do not support the hypothesis that states that companies with a higher percentage of foreign ownership are positively related with the timeliness of financial reports. One of the possible explanations for the insignificant outcome could be that the proportion of foreign investment in Jordanian listed companies is not large compared to other countries according to the findings of descriptive analysis given above. This finding is consistent with Ishak *et al*. (2010), that foreign ownership is not statistically significant to the timeliness of financial reports. Thus, H11 is not supported.

Hypothesis 12 - Institutional Ownership

This study assumes a positive association between institutional ownership (IOW) and the timeliness of financial reports. The ARL model shows a significant negative association between institutional ownership and audit report lag (t = -3.004, p= 0.003). This means that a larger percentage of institutional ownership would result in a shorter audit report lag. This finding indicates that Jordanian listed companies with a higher percentage of institutional ownership tend to improve the quality of financial reports in terms of timeliness. In conclusion, the results of this study support the agency theory, which states that for firms with a higher proportion of institutional investors, there is a greater monitoring role of these investors, therefore improving their chance for better financial performance (Alkhawaldeh, 2012).

Furthermore, the results of the current study reveal that the institutional ownership is one of the important factors that determine the level of the timeliness of financial reports. The findings show that Jordanian firms tend to publish financial reports in a timely manner when they have a high percentage of institutional ownership. Interestingly, the relationship between institutional ownership and the MRL model as shown in Table 4.12 is significant and positive at the 10% level (t=1.692, p=0.091). This indicates that firms with high institutional ownership are associated with longer management reports lag. However, the result of TRL model contradicts to the expectations, indicating that institutional ownership is not significant to the timeliness of financial reports. Because of the positive relationship between MRL and institutional ownership, in contrast to the negative relationship between ARL and institutional ownership, the effect of institutional ownership on the total report lag is not observed. Therefore, H12 is only supported by the ARL model.

4.6.5 Company Attributes and Timeliness of Financial Reports (H13-H14).

Hypothesis 13 - Company Profitability

Hypothesis 13 proposes a significant positive relationship between company profitability (PROFIT) and the timeliness of financial reports. The results in Table 4.12 show a significant negative association between company profitability (good or bad news) and the audit report lag (ARL) (t = -2.751, p= 0.006). Similarly, the MRL model reveals a significant negative association between company profitability and management report lag (MRL) (-5.042, p= 0.000). The above results support the hypothesis that companies with bad news tend to delay the issuance of financial reports and companies with good

news take a shorter time to publish their financial reports. This finding implies that firms with more profits take less time to publish financial reports than those that are less profitable. As suggested by Ku Ismail and Chandler (2004) and Afify (2009), firms may have a tendency to delay their financial reports to steer clear of the embarrassment of relaying their bad news. Additionally, firms having less income than expected may also spend time confirming income/outcome. The result of TRL also indicates that profitability is negatively related to total report lag. This result supports the argument that firms with improved performance (good news) are faster in publishing their financial reports than firms with declining performance (bad news). Therefore, H13 is supported. This means that companies with good news submit their financial reports earlier to the public. Therefore, the hypothesis is supported by the ARL, MRL and TRL models.

Hypothesis 14 - Company Leverage

Hypothesis 14 predicts a significant negative relationship between company leverage (LEVR) and timeliness of financial reports. The findings in Table 4.12 ($t = 8.675$, $p=0.000$) show that the company leverage measured by the ratio of total debts to total assets, is significantly and positively related to ARL. This finding is inconsistent with the study's expectation that firms that have higher leverage take a shorter time to issue their annual financial reports. The result shows that companies with high leverage are related with a higher audit report lag. This result is not in line with the view of Ibadin *et al*. (2012) who claim that highly leveraged companies have an incentive to complete the audit work in order to have the auditor's report to facilitate the monitoring of the firm's

operations and financial position by the creditors. However, as shown in Table 4.12, the association between company leverage and the timeliness of financial reports using the MRL model is significant and negative (t = -2.125, p =0.034). This implies that companies with low ratio of total debt to total assets have a greater probability to delay publishing financial reporting. This result is consistent with Abdulla (1996) who asserts that firms having more debt in their financial structure are likely to start and complete the audit faster than other companies with less debt in their financial structure. The results support the hypotheses that the management report lag is inversely related to the lower leverage. Furthermore, the regression results for TRL model showed a significant and positive relationship at the 1% level (t = 7.442, p = 0.000). The results shows that firms which have a high leverage tend to release their financial reports more slowly than the relatively low leveraged firms. Therefore, based on the above, this study supports H14.

Control Variables

There are three variables that serve as control variables in this study. These variables are: company size, company age and type of sector. The results of these variables are discussed as follows.

Company Size

Table 4.12 reveals the result of the regression analysis between company size (LOGSIZ) and the timeliness of financial reports. The effect of company size on the timeliness of financial reports is not significant for three models- ARL, MRL and TRL. This finding suggests that company size does not influence the timeliness of financial reports in Jordanian firms. The result of this study supports the result of Owusu-Ansah and Leventis (2006)

and Zaitul (2010), documenting that there is no significant association between size of the company and the timeliness of financial reports.

Company Age

Inconsistent with this study's expectation, the coefficients of company age (AGE) are insignificant for both models. The result shows that timeliness of financial reports for both models (ARL, MRL and TRL) is not significantly related to the age of the company. This finding implies that the age of the company does not have any effect on the differences in the timeliness of financial reports in Jordanian companies. The results of this study show that there is no significant variance in the level of timeliness of financial reporting among old and young firms. This evidence may support the argument that older companies do not significantly improve the publication of financial reports. This result is in line with the findings of Mahajan and Chander (2008) that found no significant association between age of the company and the timeliness of financial reports.

Type of Sector

As evidenced in Table 4.12, there is a significant negative association between type of sector (SCTR) and ARL ($t= -1.955$, $p= 0.051$), suggesting that companies in the service sector takes less time to publish their financial reports than those in the industrial sector. However, the MRL model shows that there is a significant positive association between type of sector and management report lag ($t = 1.929$, $p= 0.054$). This means that there is a substantial variance in the timeliness of annual financial reports between sectors in

Jordan. This result is supported by Owusu-Ansah and Leventis (2006) who found that service firms tend to spend a shorter time to release their financial reporting than others. Furthermore, Iyoha (2012) shows that the industry sector takes a long time to publish their financial reports. However, the TRL model shows that no significant relationship between type of sector and total lag ($t = 0.383$, $p = 0.702$).

4.7 Summary of Regression Analysis

The following tables summarize the results of the regression analysis for all models (ARL, MRL and TRL).

Table 4.13

Summary of Regression Analysis of the ARL Model

Board Characteristics	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Independence	-	-	-0.101	6.707	-2.343	0.020	**
Size	-	+	0.048	0.598	1.102	0.271	
CEO Duality	-	+	0.058	2.805	1.400	0.162	
Diligence	-	-	-0.171	0.736	-3.973	0.000	***
Expertise	-	-	-0.066	9.882	-1.496	0.135	
Audit Committee	-	-	-0.106	2.782	2.508	0.013	**

Auditor Quality	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Opinion	-	-	-0.145	3.923	-3.485	0.001	***
Change	-	+	0.046	2.821	1.092	0.276	
Brand Name	-	+	0.043	2.889	1.021	0.308	
Independence	-	+	0.039	2.830	0.917	0.359	
Ownership structure	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Foreign	-	-	-0.033	5.116	-0.719	0.472	
Institutional	-	-	-0.128	4.476	3.004	0.003	***
Company Attributes	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Profitability	-	-	-0.116	2.912	2.751	0.006	***
Leverage	-	+	0.378	5.987	8.675	0.000	***
Company Size	-	+	0.064	1.052	1.413	0.158	
Company Age	-	+	0.030	.095	0.649	0.516	
Type Of Sector	-	-	-0.092	3.083	1.955	0.051	*

R^2 =0.289 Adjusted R^2 =0.261 F Ratio = 10.302 Sig F =0.000 N= 448

*Significant at the 0.1 level ** Significant at the 0.05 level *** Significant at the 0.01 level.

Table 4.14

Summary of Regression Analysis of the MRL Model

Board Characteristics	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Independence	-	+	0.027	4.628	0.616	0.538	
Size	-	+	0.168	0.412	3.765	0.000	***
CEO Duality	-	-	-0.075	1.935	-1.763	0.079	
Diligence	-	+	0.113	0.508	2.557	0.011	**
Expertise	-	-	0-.024	6.818	-0.524	0.601	
Audit Committee	-	-	-0.089	1.920	2.055	0.041.	**
Auditor Quality	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Opinion	-	-	-0.309	2.706	-7.228	0.000	***
Change	-	-	-0.070	1.946	1.610	0.108	
Brand Name	-	-	-0.055	1.993	1.272	0.204	
Independence	-	-	-0.094	1.953	2.152	0.032	**
Ownership structure	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Foreign	-	-	-0.016	3.530	-0.338	0.735	
Institutional	-	+	0.074	3.088	1.692	0.091	*
Company Attributes	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Profitability	-	-	-0.219	2.009	5.042	0.000	***
Leverage	-	-	-0.095	4.131	2.125	0.034	**
Company Size	-	-	-0.062	0.726	1,321	0.187	
Company Age	-	-	-0.068	0.065	1.440	0.151	
Type Of Sector	-	+	0.093	2.127	1.929	0.054	*

R^2 =0.248 Adjusted R^2 =0.219 F Ratio = 8.357 Sig F =0.000 N=448

*Significant at the 0.1 level ** Significant at the 0.05 level *** Significant at the 0.01 level.

Table 4.15

Summary of Regression Analysis of the TRL Model

Board Characteristics	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Independence	-	+	-0.090	6.027	-2.237	0.026	**
Size	-	+	0.169	.537	4.198	0.000	***
CEO Duality	-	-	-0.012	2.520	-0.306	0.760	
Diligence	-	+	-0.109	.662	-2.725	0.007	**
Expertise	-	-	-0.078	8.880	-1.906	0.057	*
Audit Committee	-	-	-0.177	2.500	-4.525	0.000	**
Auditor Quality	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Opinion	-	-	-0.346	3.525	-8.968	0.000	***
Change	-	-	-0.011	2.535	-0.280	0.780	
Brand Name	-	-	-0.002	2.596	-0.063	0.950	
Independence	-	-	-0.020	2.543	-0.504	0.614	
Ownership structure	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Foreign	-	+	-0.062	4.022	-1.551	0.122	
Institutional	-	-	-0.038	4.598	-0.902	0.368	
Company Attributes	*Predicted Sign*	*Actual Sign*	*Coefficient*	*Standard Error*	*T value*	*Significant*	
Profitability	-	-	-0.264	2.617	-6.719	0.000	***
Leverage	-	-	0.301	5.380	7.442	0.000	**
Company Size	-	-	0.004	.945	0.097	0.923	
Company Age	-	-	-0.032	.085	-0.760	0.448	
Type Of Sector	-	+	-0.032	2.771	-0.741	0.459	

R^2 =0.388 Adjusted R^2 =0.364 F = 16.067357 Sig F =0.000 N=448

Table 4.16
Summary of the Hypotheses Testing Results

Hypothesis	Hypothesis statement	Models of Study			Findings
		ARL	MRL	TRL	
H1	Board independence has a positive relationship with timeliness of financial reports	Accept	Reject	Accept	Partially Supported
H2	Board Size has a negative relationship with timeliness of financial reports	Reject	Accept	Accept	Partially Supported
H3	CEO Duality has a negative relationship with timeliness of financial reports	Reject	Reject	Reject	Not Supported
H4	Board Diligence has a positive relationship with timeliness of financial reports	Accept	Accept	Accept	Supported
H5	Board Expertise & Knowledge has a positive relationship with timeliness of financial reports	Reject	Reject	Accept	Partially Supported
H6	Audit Committee has a positive relationship with timeliness of financial reports	Accept	Accept	Accept	Supported
H7	There is a positive relationship between the auditor's opinion and the timeliness of financial reports.	Accept	Accept	Accept	Supported
H8	There is a positive relationship between auditor change and the timeliness of financial reports	Reject	Reject	Reject	Not Supported
H9	There is a positive relationship between audit brand name and the timeliness of financial reports.	Reject	Reject	Reject	Not Supported
H10	There is a negative relationship between auditor independence and the timeliness of financial reports.	Reject	Accept	Reject	Partially Supported

Table 4.16 (Continued)

Hypothesis	Hypothesis statement	Models of Study			Findings
		ARL	MRL	TR	
H11	There is a positive relationship between foreign ownership and the timeliness of financial reports	**Reject**	**Reject**	**Reject**	**Not Supported**
H12	There is a positive relationship between institutional ownership and the timeliness of financial reports	**Accept**	**Accept**	**Reject**	**Partially Supported**
H13	There is a positive relationship between company profitability and timeliness of financial reports	**Accept**	**Accept**	**Accept**	**Supported**
H14	There is a negative relationship between leverage of a company and the timeliness of financial reports.	**Accept**	**Accept**	**Accept**	**Supported**

4.8 The Moderating Effect of Ownership Concentration

This study used hierarchical regression analysis to test the moderating effect of ownership concentration on the association between the internal corporate governance and timeliness of financial reports. The results obtained from the hierarchical regression answers the sixth research question which is, “Does ownership concentration moderate the relationship between corporate governance and the financial reports timeliness?” The percentage of shares (5% or more of the total shares) owned by investors served as a proxy for ownership concentration as Zureigat recommended (2011). Ownership concentration bars the effective implementation of corporate governance mechanisms and prevents the corporate decision makers’ roles and responsibilities. The following models were used to examine the moderating effect of ownership concentration (OCN) on the relationship between internal corporate governance (i.e., board independence,

board size, CEO duality, board diligence, board financial expertise and presence of audit committee) and timeliness of financial reports for both models (ARL and MRL).

Model: Audit Report Lag (ARL)

$$ARL=\beta_0+\beta_1 BIND_{it}+\beta_2 BSIZ_{it}+\beta_3 CEO_{it}+\beta_4 BDILIG_{it}+\beta_5 BFEX_{it}+\beta_6 ACM_{it}+\beta_7 AOP_{it}+\beta_8 ACH_{it}+\beta_9 ABN_{it}+\beta_{10} AIND_{it}+\beta_{11} FOW_{it}+\beta_{12} IOW_{it}+\beta_{13} PROFIT_{it}+\beta_{14} LEVR_{it}+\beta_{15} LOGSIZ_{it}+\beta_{16} AGE_{it}+\beta_{17} SECTR_{it}+\beta_{19} OCN_{it}*BIND_{it}+\beta_{20} OCN_{it}*BSIZ_{it}+\beta_{21} OCN_{it}*CEO_{it}+\beta_{22} OCN_{it}*BDILIG_{it}+\beta_{23} OCN_{it}*BFEX_{it}+\beta_{24} OCN_{it}*ACM_{it}+\varepsilon_{it}.$$

Model: Management Report Lag (MRL)

$$MRL=\beta_0+\beta_1 BIND_{it}+\beta_2 BSIZ_{it}+\beta_3 CEO_{it}+\beta_4 BDILIG_{it}+\beta_5 BFEX_{it}+\beta_6 ACM_{it}+\beta_7 AOP_{it}+\beta_8 ACH_{it}+\beta_9 ABN_{it}+\beta_{10} AIND_{it}+\beta_{11} FOW_{it}+\beta_{12} IOW_{it}+\beta_{13} PROFIT_{it}+\beta_{14} LEVR_{it}+\beta_{15} LOGSIZ_{it}+\beta_{16} AGE_{it}+\beta_{17} SECTR_{it}+\beta_{19} OCN_{it}*BIND_{it}+\beta_{20} OCN_{it}*BSIZ_{it}+\beta_{21} OCN_{it}*CEO_{it}+\beta_{22} OCN_{it}*BDILIG_{it}+\beta_{23} OCN_{it}*BFEX_{it}+\beta_{24} OCN_{it}*ACM_{it}+\varepsilon_{it}.$$

Hierarchical regression analysis, also referred to as moderated regression analysis, was carried out to examine the moderating impact of ownership concentration on the association between internal corporate governance (i.e., board independence, board size, CEO duality, board financial expertise, board diligence, and audit committee) and timeliness of financial reports. This analysis is an extensively utilized method to determine the moderating effects of variables (Kim, Al-Shammari, Kim & Lee, 2008;

Auh & Menguc, 2005). Moreover, hierarchical regression is suggested by Baron and Kenny (1986) as an appropriate technique used to identify the moderating effect of a quantitative variable on the association between other quantitative variables. It is described as a simple and straightforward procedure that tests the hypothesized moderating effects, and is the most popular procedure used for such a test (Aguinis & Gottfredson, 2010).

The moderating effects are detected through the calculation of interaction terms (Aiken & West, 1991). Interaction terms result from the independent and moderator variables. They are generally significantly related to component terms and accordingly, caution should be taken to avoid multicollinearity. As such, the predictor and moderator variables are often standardized (Aguinis & Gottfredson, 2010; Frazier *et al*., 2004). This process of standardization (z-scoring) makes it convenient to meaningfully interpret the predictor and moderator effects (Aguinis & Gottfredson, 2010; Frazier *et al*., 2004). Following the creation of interaction terms through the multiplication of z-score of the predictor and moderator variables, everything should be in position to carry out a hierarchical multiple regression equation via SPSS to examine moderator effects. For this, variables are integrated into the regression equation via distinct steps. Such steps are used according to the recommendation of Baron and Kenny (1986) and Frazier *et al*. (2004). First, the control variable is entered and then the unmoderated equation is evaluated after which the moderated relationship is entered.

The results of the hierarchical regression analysis for the ARL model of this study are shown in Table 4.17. Step 1 show the results on the effect of the control variables on ARL model and Step 2 shows the results on the main effect of independent variables, while Step 3 shows the findings on the moderating relationship. The final Step (4) shows the results of the interaction between internal corporate governance and ownership concentration.

As shown in Step 1 of Table 4.17, when the company size, company age and type of sector are entered as control variables into the regression model in the first step, the adjusted R^2 is found to be 0.020, indicating that two percent of the level of timeliness of financial reports can be explained by company size, age and type of sector. Results in Step 2 show that without the effect of ownership concentration, corporate governance mechanisms lead to lower audit report lag. The adjusted R^2 has increased to 0.261. This R^2 change (0.263) is significant because F change is significant (0.000). In Step 3, by adding the ownership concentration as a moderator variable, there is no significant F change. This implies that there is no major influence from moderator variable (i.e., ownership concentration) on the dependent variable. Results in Step 4 show that when the interaction is entered in the final step, R^2 has increased from 0.29 to 0.307. The R^2 change (0.017) is significant. This indicates that the ownership concentration moderates the relationship between the internal mechanisms of corporate governance and the timeliness of financial reports. In other words, when internal firms' governance is interacted with OCN, the audit report lag became higher, as shown by the negative coefficient on OCN*BSIZ and positive coefficient OCN*BFEX. The finding suggests

that the concentrated owners influenced the firms' governance to have a longer audit report lag.

In the context of Asian firms, it is argued that corporate governance is ineffective in their functioning primarily because of the presence of a weak legal system or high concentrated ownership and family-controlled firms (Globerman *et al*., 2011; Yunos *et al*., 2011). Prior studies claim that the controlling shareholders may change the behavior of boards of directors and audit committees. Similarly, Singam (2003) contends that high concentrated ownership poses a challenge in achieving effective corporate governance. On the other hand, Zureigat (2011) stresses the significance of concentrated ownership in Jordanian listed firms. He reveals that the average ownership concentration is 55% and this significant percentage indicates the significant power of big investors in managing the firms.

This domination (i.e., ownership concentration) is a significant barrier to an effective implementation of corporate governance measures and constrains the roles and responsibilities of those in charge of making corporate decisions. Sharar (2004) argues that managers of companies whose ownership structure is highly concentrated do not have the objectivity and flexibility to monitor firm activity well so as to achieve company objectives. Furthermore, Abdullatif and Al-Khadash (2010) assert that the structures of corporate governance in Jordanian companies are not working effectively due to the high ownership concentration. The results of the moderating regression indicate that the relationships between internal mechanisms of corporate governance and timeliness of financial reports using ARL model are affected by the ownership concentration.

Table 4.17 shows the results of the moderating effect of ownership concentration for the ARL model. The interaction influence between ownership concentration (OCN) and each of the board characteristics and audit committee (i.e., OCN*BIND, OCN*BSIZ, OCN*CEO, OCN*BDILG, OCN*BFEX, OCN*ACM) indicate the effect of the ownership concentration on the association between the board attributes and the timeliness of financial reports. The result implies that companies with a high level of ownership concentration and the internal firms' governance delay the publication of their financial reports. These results support the argument that higher level of the ownership concentration may affect timeliness of financial reports by reducing the effectiveness of corporate governance. The above result is consistent with studies of Dimitrov *et al*. (2009) who contend that firm value is higher when the board of the firm is independent of controlling shareholders. On the whole, this result is also aligned with the contention that in Asian countries, corporate governance is ineffective owing to high concentrated ownership (e.g., Allen, 2000; Globerman *et al*., 2011; Yunos, 2011) and that mimicking developed countries best practices is ineffective in countries with high ownership concentration (Chen *et al*., 2011).

The moderating effect of ownership concentration (OCN) in Table 4.17 suggests that they positively moderate the association between the financial expertise of directors board (BFEX) with audit report lag (ARL) at the 0.05 level of significance (t=2.370, p=0.018). This finding implies that for firms with high level of ownership concentration, the board financial expertise leads to higher audit report lag. The results indicate that when the level of the financial expertise of the board is low, the audit report lag is higher

in firms with high ownership concentration than firms with low ownership concentration.

As reported in Table 4.17, the findings of the moderating effect of ownership concentration on the relationship between board size and the timeliness of financial reports shows that the interaction between ownership concentration and board size of directors is negative and significant at 0.10 (t= -1.833, p=0.068). The negative coefficients of OCN*BSIZ indicate that the ownership concentration negatively moderates the association between board size and timeliness of financial reports (ARL). When the number of board of directors is small, the level of audit report lag is higher in firms with high score of ownership concentration than firms with low score of ownership concentration. However, when the number of board of directors is big, the audit report lag is lower in companies with high score of ownership concentration than companies with low level of ownership concentration. In short, higher number of board of directors leads to higher audit report lag in firms with higher score of ownership concentration than their lower counterparts.

The high ownership concentration influences small board size directors to delay the publishing of financial reporting. This means that as the percentage of concentrated owners increases in the firms, the small size board of directors leads to increased delay in publishing of financial reporting.

Table 4.17

Hierarchical Moderated Regression Analysis Results. DV: Audit Report Lag (ARL)

	Step 1		Step 2		Step 3		Step 4	
Variables	(C. V)		(I. V)		(Moderat)		(OCN*I.V)	
	(t-value)	Significant	(t-value)	Significant	(t-value)	Significant	(t-value)	Significant
Control variables								
LOGSIZ	2.489	.013**	1.413	.158	1.419	.157	1.141	.255
AGE	1.742	.082*	.649	.516	.667	.505	.097	.922
SECTR	-.795	.427	-1.955	.051*	-1.976	.049**	-1.964	.050**
Main effect								
BIND			-2.343	.020**	-2.316	.021**	-1.615	.107
BSIZ			1.102	.271	1.125	.261	2.074	.039**
CEO			1.400	.162	1.398	.163	.086	.931
BDILIG			-3.973	.000***	-3.923	.000***	-.732	.465
BFEX			-1.496	.135	-1.516	.130	-2.629	.009***
ACM			-2.508	.013**	-2.508	.013**	-.456	.648
AOP			-3.485	.001***	-3.486	.001***	-3.397	.001***
ACH			1.092	.276	1.108	.269	.932	.352
ABN			1.021	.308	1.019	.309	1.283	.200
AIND			.917	.359	.911	.363	.999	.318
FOW			-.719	.472	-.754	.451	-1.076	.283
IOW			-3.004	.003***	-3.009	.003***	-3.049	.002***
PROFIT			-2.751	.006***	-2.763	.006***	-2.805	.005***
LEVR			8.675	.000***	8.666	.000***	8.768	.000***
Moderating effect								
OCN					.307	.759	.447	.655
Interaction effect								
OCN*BIND							1.093	.275
OCN*BSIZ							-1.833	.068*
OCN*CEO							.371	.711
OCN*BDILIG							-.479	.632
OCN*BFEX							2.370	.018**
OCN*ACM							-.497	.619
Summary of the Hierarchical Regression Model								
R^2	.027		.289		.290		.307	
Adjusted R^2	.020		.261		.260		.267	
R^2 Change	.027		.263		.000		.017	
Significant F change	.007**		.000***		.759		.109*	
DurbionWatson	1.460							

*Significant at 0.1. ** Significant at 0.05. *** Significant at 0.01.

The results of hierarchical regression analysis with respect to MRL are shown in Table 4.18, when the ownership concentration is entered as a moderating variable in Step 3. The R^2 change is significant (0.003) and the adjusted R^2 has increased to 0.220. In the final step, when the interaction between the ownership concentration and internal corporate governance is entered, R^2 change is still significant at the 0.05 level (.020) and the adjusted R^2 has increased to 23%. This indicates that the ownership concentration moderates the relationship between internal corporate governance and the timeliness of financial reports using the MRL.

The regression analysis for examining the moderating effects of ownership concentration shows that ownership concentration moderates the association between corporate governance mechanisms and timeliness of financial reports in the MRL model. It was found that the interaction of the audit committee and concentrated owners, OCN*ACM, is positively associated with management report lag. The positive coefficient of OCN*ACM indicates that ownership concentration influences the audit committee to delay publishing financial reporting. The findings show that corporate governance structure with the influence of the ownership concentration, leads to higher management report lag. This means that as the percentage of ownership concentration increases in the firms, the audit committee leads to increased management report lag.

As reported in Table 4.18, the beta coefficient for the interaction between ownership concentration and audit committee (OCN*ACM) is positive and significant at the 0.05 level (t= 2.536, p=0.012). This suggests that ownership concentration positively moderates the relationship between the audit committee and the MRL. The results show that the audit committee is effective when there is no interference from the concentrated

owners. However, as evident from Table 4.18 (OCN*ACM), the presence of audit committee leads to delay in publishing of financial reporting when it interacts with the concentrated owners. This means that a high ownership concentration which represents principal conflicts among firm’s managers hinder the firm's decisions to release its financial reports in a timely manner.

Table 4.18

Hierarchical Moderated Regression Analysis Results. D.V: Management Report Lag (MRL)

Variables	Step1 (C. V) (t-value)	Significant	Step 2 (I. V) (t-value)	Significant	Step 3 (Moderat) (t-value)	Significant	Step 4 (OCN*I.V) (t-value)	Significant
Control variables								
LOGSIZ	-1.620	.106	-1.321	.187	-1.357	.176	-1.785	.075*
AGE	-.256	.798	-1.440	.151	-1.526	.128	-1.269	.205
SECTR	3.649	.000**	1.929	.054**	2.087	.037**	2.100	.036**
Main effect								
BIND			.616	.538	.529	.597	1.388	.166
BSIZ			3.765	.000***	3.624	.000***	2.369	.018**
CEO			-1.763	.079*	-1.761	.079*	-1.538	.125
BDILIG			2.557	.011**	2.423	.016**	.961	.337
BFEX			-.524	.601	-.400	.689	-.446	.656
ACM			-2.055	.041**	-2.045	.041**	-3.036	.003**
AOP			-7.228	.000***	-7.210	.000***	-6.944	.000***
ACH			-1.610	.108	-1.693	.091*	-1.670	.096*
ABN			-1.272	.204	-1.268	.206	-1.142	.254
AIND			-2.152	.032**	-2.128	.034**	-1.915	.056*
FOW			-.338	.735	-.149	.882	.213	.832
IOW			1.692	.091*	1.896	.059*	1.924	.055*
PROFIT			-5.042	.000***	-4.929	.000***	-4.560	.000***
LEVR			-2.125	.034***	-2.219	.027**	-2.390	.017**
Moderating effect								
OCN					-1.349	.178	.481	.631
Interaction effect								
OCN*BIND							-1.459	.145
OCN*BSIZ							-1.256	.210
OCN*CEO							.919	.359
OCN*BDILIG							-.119	.905
OCN*BFEX							.252	.801
OCN*ACM							2.536	.012**
Summary of the Hierarchical Regression Model								
R^2	.033		.248		.252		.271	
Adjusted R^2	.027		.219		.220		.230	
R^2 Change	.033		.215		.003		.020	
Significant	.002***		.000***		.178		.081*	
DurbionWatson	1.869							

*Significant at 0.1. ** Significant at 0.05. *** Significant at 0.01.

4.8.1 The Moderating Effect of Ownership Concentration on the Relationship between Internal Firms' Governance Mechanisms and Timeliness Using TRL Model.

In order to support the initial moderating results of the ARL and MRL models, this study also conducted hierarchical regression analysis to investigate the relationship of ownership concentration as a moderating variable between internal corporate governance mechanisms and timeliness of financial reports using total reporting lag (TRL). The moderating regression of the TRL Model is as follows:

TRL=β0+β1BINDit+β2BSIZit+β3CEOit+β4BDILIGit+β5BFEXit+β6ACMit+β7AOPit +β8ACHit+β9ABNit+β10AINDit+β11FOWit+β12IOWit+β13PROFITit+β14LEVRit+β15SIZit+β16AGEit+β17SECTRit+β19OCNit*BINDit+β20OCNit*BSIZit+ β21OCNit*CEOit+β22OCNit*BDILIGit+β23OCNit*BFEXit+β24OCNit*ACMit +εit

As evident from Table 4.19, the TRL model has high significant relationship at the level of 0.001% with the R^2 change in Step 3 being 0.001 and in Step 4 being 0.027. In addition, the adjusted R^2 is considerably high at 38.4% in comparison to the adjusted R^2 of the ARL model, which is at 26.1% and the MRL model, which is at 23.1%. This indicates that the adjusted R^2 of the TRL model is equal to 0.384; in other words, the TRL model explains 38.4% of the dependent variables' variations, which is more robust compared to the other two models (ARL and MRL).

The findings of the TRL model in Table 4.19 show the moderating influence of ownership concentration on the relationship between internal corporate governance and the timeliness of financial reports using TRL. The findings show that three interactions out of the six interactions produced significant relationships. These variables are board size (OCN*BSIZ) (t= -3.388, p= 0.001) and board financial expertise (OCN*BFEX) (t=2.690, p=0.007) and the presence of audit committee (OCN*ACM) (t=1.702, p=0.089). Consequently, the findings of this measurement (TRL) support the previous findings under the ARL and MRL models. In other words, the finding suggests that concentrated owners influenced the firms' governance to have a longer total report lag.

The results of the hierarchical regression analysis indicate that the interaction between internal firms' governance and timeliness of financial reports using TRL model are affected by OCN as follows:

In terms of board size, the results in Table 4.19 for TRL model indicate that the findings of board size are not significantly different from the main findings in the previous model (ARL). Table 4.19 shows that the interaction between ownership concentration and board size (OCN*BSIZ) is negatively related to total reporting lag (TRL) model (t=3.388, p=0.001). These findings are consistent with the initial findings in Table 4.17 that show that the interaction of OCN*BSIZ is negatively related to audit report lag (ARL) model of timeliness of financial reports. In other words, higher ownership concentration with small board size is associated with higher total reporting lag.

In terms of board financial expertise, the findings of the TRL model report that the interaction of financial expertise of directors and ownership concentration (OCN*BFEX) is positively and significantly related to the timeliness of financial reports. These results are consistent with the moderating results for ARL model which show that the interaction of OCN*BFEX is positive and significant to audit report lag. The positive coefficients of OCN*BFEX indicate that high ownership concentration influences financial expertise on the board of directors to delay the publishing of financial reports.

Regarding the interaction between ownership concentration and presence of audit committee, Table 4.19 shows that the results of TRL model for the interaction between ownership concentration and the audit committee (OCN*ACM) is negative and significant at 10% level (t=1.702, p=0.089). These findings are consistent with the moderating findings under the MRL model which shows that the interaction between ownership concentration and audit committee (OCN*ACM) is positively related to management report lag (MRL). This finding is consistent with the argument that higher level of ownership concentration may impact the timeliness of financial reports by confining the audit committees' functions, and this in turn, leads to the delay in financial reports. This study‘s results is aligned with those of Yunos' (2011) which shows that a good internal governance structure is ineffective in controlling shareholders as the shareholders are the ones who drive the governance mechanisms performance of the firm.

In conclusion, these results indicate that companies with effective corporate governance mechanisms are less likely to delay the publication of financial reports, hence, supporting the hypothesis that corporate governance has a positive relationship with the timeliness of financial reports. Consequently, the results support the hypothesis that ownership concentration moderates the relationship of internal firms' governance mechanisms and the timeliness of financial reports for both models (ARL and MRL). In addition, the findings of this measurement (TRL) support and confirm the previous findings presented in Table 4.17 for ARL and Table 4.18 for MRL, and hence, hypotheses 15 and 16 are supported.

Table 4.19

Hierarchical Moderated Regression Analysis Results. D.V: Total Report Lag (TRL)

	Step 1		Step 2		Step 3		Step 4	
Variables	(C.V)		(I.V)		(Moderat)		(OCN*I.V)	
	(t-value)	Sig…	(t-value)	Sig…	(t-value)	Sig…	(t-value)	Sig…
Control variables								
LOG SIZ	.943	.346	.097	.923	.072	.943	-.654	.514
AGE	1.189	.235	-.760	.448	-.822	.412	-1.245	.214
SECTR	1.518	.130	-.741	.459	-.610	.542	-.619	.536
Main effect								
BIND			-2.237	.026**	-2.295	.022**	-.843	.400
BSIZ			4.198	.000***	4.087	.000***	4.514	.000***
CEO			-.306	.760	-.303	.762	-1.241	.215
BDILIG			-2.725	.007***	-2.804	.005***	-.286	.775
BFEX			-1.906	.057*	-1.810	.071*	-3.058	.002***
ACM			-4.525	.000***	-4.517	.000***	-3.188	.002***
AOP			-8.968	.000***	-8.949	.000***	-8.691	.000***
ACH			-.280	.780	-.341	.733	-.519	.604
ABN			-.063	.950	-.059	.953	.330	.741
AIND			-.504	.614	-.486	.627	-.189	.851
FOW			-1.551	.122	-1.364	.173	-1.410	.159
IOW			-.902	.368	-.757	.449	-.764	.446
PROFIT			-6.719	.000***	-6.625	.000***	-6.394	.000***
LEVR			7.442	.000***	7.351	.000***	7.430	.000***
Moderating effect								
OCN					-.979	.328	.924	.356
Interaction effect								
OCN*BIND							.131	.896
OCN*BSIZ							-3.388	.001***
OCN*CEO							1.084	.279
OCN*BDILIG							-.503	.615
OCN*BFEX							2.690	.007***
OCN*ACM							1.702	.089*
Summary of the Hierarchical Regression Model								
R^2	.012		.388		.390		.417	
Adjusted R^2	.006		.364		.364		.384	
R^2 Change	.012		.367		.001		.027	
Significant	.135		.000***		.328		.003***	
DurbionWatson	1.562							

*Significant at 0.1. ** Significant at 0.05. *** Significant at 0.01.

4.9 Chapter Summary

This chapter discusses the regression assumptions of the data, namely, outliers, normality, multicollinearity and heteroskedasticity. It also discusses the descriptive analysis for the variables of the study. The descriptive analysis reveals that a majority of Jordanian listed firms do not comply with the requirements of corporate governance recommended in the Jordanian Corporate Governance Code. This chapter presents the findings of the regression analysis on the relationship between five essential sets of variables, namely, board of directors, audit committee, auditor quality, ownership structures and company attributes, and the extent of timeliness of financial reports in the Jordanian companies over the period from 2009 to 2012. This chapter also discusses whether ownership concentration moderates the relationship between internal mechanisms of corporate governance and timeliness of financial reports.

The results indicate that mechanisms of corporate governance influence the timeliness of financial reports depending on whether timeliness is measured using ARL or MRL. The findings of the ARL model show that nine independent variables are significantly related to ARL. Furthermore, the findings of the second model (MRL) show that eight variables are significantly associated with MRL. Further analysis was conducted to examine independent variables with timeliness of financial reports using TRL to confirm the initial findings. This chapter also provides empirical evidence regarding the moderating effects of concentrated owners on the internal mechanisms of corporate governance and timeliness of financial reports.

CHAPTER FIVE

DISCUSSION AND CONCLUSIONS

5.0 Introduction

This chapter summarizes and discusses the main results and conclusions of the study. This chapter offers a comprehensive debate on the main results and gives additional insights into the effect of corporate governance mechanisms and company attributes on the timeliness of financial reports in Jordanian firms. The chapter is organized as follows. Section 5.1 presents an overview of this study. Section 5.2 discusses briefly the main results of the study. In Section 5.3, the main results of the moderating effect of ownership concentration are concisely discussed. Section 5.4 offers the implication of the study and section 5.5 discusses the main limitations of this study. Section 5.6 presents suggestion for future research. Finally, a conclusion of the study is offered in the last section, 5.7.

5.1 Overview of the Study

Timeliness of financial reports is a pivotal issue owing to the impact of the lag on several relevant parties. The present study is therefore justified owing to the present disagreement concerning the timeliness of financial reports and its relationship with audit report lag and management report lag, and the relevant stakeholders impacted by the delay in financial reports. It is evident that studies dedicated to the financial reports lag in Jordan are few and far between and this motivated the researcher to examine such

a topic and to contribute to literature. Hence, the need to examine the relationship between internal and external mechanisms of corporate governance and timeliness of financial reports is motivated by the current status of timeliness of financial reports in Jordanian firms that are still at an undeveloped level with delays in the issuance of financial reports.

The main objective of the current study is to investigate the influence of firms' governance mechanisms and company's attributes on the timeliness of financial reports in Jordan. This study addresses the problems that arise from delays in publishing financial reports, which may affect the quality of financial reporting in Jordanian firms. Specifically, this study aims to identify the level of timeliness of financial reports of Jordanian companies and to determine the possible factors that can contribute to limiting financial reports lag.

The effect of the board of directors, audit committee, auditor quality, ownership structure and company attributes on the timeliness of financial reports of Jordanian firms has been investigated in the present study. Furthermore, this study explores the impact of ownership concentration in moderating the relationship between internal corporate governance (namely, board independence, board size, CEO duality, board diligence, board financial expertise and presence of an audit committee) and the timeliness of financial reports. Moreover, the need to examine the relationship between corporate governance and the timeliness of financial reports is motivated by the current status of timeliness of financial reports in Jordanian firms that are still at an undeveloped level with delays in the issuance of financial reports.

The timeliness of financial reports is measured by audit report lag, management report lag and total report lag. In order to examine the effect of independent variables on the timeliness of financial reports, a multiple regression analysis using SPSS software version 18 was adopted to test the study's hypotheses. To test the effect of the moderator variable (i.e., ownership concentration) on the association between internal firms' governance (i.e., board of directors and audit committee) and timeliness of financial reports, a multiple hierarchical regression analysis was conducted. The study covered 112 companies listed on the Amman Stock Exchange over the period of 2009- 2012.

Furthermore, although ownership concentration is a distinct factor in Asian developing nations like Jordan, studies dedicated to the examination of the timeliness of financial reports have failed to include this topic in their studies. As such, the present study examines whether or not the controlling shareholders hinder the firm's internal governance mechanisms and their effectiveness in using timely financial reporting in light of the moderating impact of concentrated ownership on the association between firm's governance and timeliness of financial reports. This moderating relationship has been largely ignored in the context of Jordanian firms. Moreover, to the best of the researcher's knowledge, this is the pioneering study to examine the moderating effects of ownership concentration on the relationship between internal corporate governance and the timeliness of financial reports.

5.2 Discussion of Hypotheses

Board Independence

Supporting the agency theory, the result of the association between the independence of board of directors and ARL is significant in a negative direction. This indicates that the higher percentage of independent directors on boards plays a vital role in reducing ARL and TRL behavior. The result indicates that the board of directors that include independent members are likely to discourage management from manipulating the publishing of financial reporting. This result is consistent with Afify (2009) and Abd-Elsalam and El-Masry's (2008) evidence on Egyptian and Irish companies, respectively. Afify (2009) found that there is a significant association between independence of board and ARL. In addition, Abd- Elsalam and El-Masry (2008) concluded that independence of board of directors is an important element in determining the level of the timeliness of corporate internet reports in Irish companies. Moreover, this finding supports the agency theory, which suggests that composition of board can resolve the agency conflicts. Contradictory to expectations, the result of this study reveals that independence of board of directors does not determine the level of timeliness of financial reports in Jordanian firms under MRL model.

Board Size

Agency theory predicts that small boards are more effective in monitoring management behavior. The hypothesis of board size and timeliness of financial reports is partially supported**.** The result of the ARL model shows the direction of the association between board size and timeliness is not significant. This finding is not consistent with Zaitul (2010) who found a significant association between board size and ARL. He concluded that more members on a board would make the ARL longer. However, this study found that board size is significantly and positively related with MRL and TRL models. The positive relationship suggests that the small boards of directors are more effective in the process of monitoring of the preparation of financial reports than larger board size, which leads to reduced financial reporting lag. Therefore, this finding supports the agency theory that suggests that a small number of board members is effective enough to monitor management (Jensen, 1993; Lipton & Lorsch, 1992; Zaitul, 2010).

CEO Duality

In contrast to the perspective of the agency theory, the effect of CEO duality on the timeliness of financial reports is insignificant under the ARL, MRL and TRL models at the 5% level. This means that the delay of financial reports is not significantly associated with CEO duality. Hence, the results of this study do not support the agency theory, which indicates that the separation of functions may lead to efficient monitoring over the board‘s processes (Meca & Ballesta, 2009; Yunos, 2011). This finding is supported by

previous studies that found that CEO duality does not have a significant relationship with timeliness of financial reports (Appah & Emeh, 2013).

Board Diligence

The Jordanian Corporate Governance Code recommends that the board should meet sufficiently regularly to perform its roles and responsibilities, to discuss a range of important issues related to the organization, including the performance of management and the organization. The results of the current study show a significant negative association between board diligence and ARL, MRL and TRL models. The negative relationship indicates that firms with more meetings held during the year tend to have a shorter ARL. This finding is in line with Hashim and Rahman (2010), who support the agency theory, which states that the boards that meet more frequently are more to effectively advice, discipline and monitor management, thus reduce the audit report lag of the companies. However, contrary to the expectation, under the MRL model, the relationship is positive, implying that boards of directors with more meetings tend to have a longer MRL. In other words, a board of directors in a firm that has more meetings would allow the members of board to more discuss identified matters, and this would lead the management report lag longer.

Board Expertise and Knowledge

Contrary to Hypothesis 5, the regression result shows that board financial expertise and knowledge does not determine the timeliness of financial reports in Jordanian companies. This study found that the relationship between board financial expertise and timeliness of financial reports is not significant for both models (ARL and MRL). The present study's results do not support the opinion that members with experience in the field of accounting or finance are more prone to discover problems in financial reports (Agrawal & Chadha, 2005). Therefore, this unexpected result is against the agency theory, which posits that the board of directors, with expertise and knowledge (i.e., accounting, finance, information technology and others) would reduce the agency costs as well as agency problems (Fama & Jensen, 1983). However, the TRL model shows that there is a negative association between board board financial expertise and total report lag. This means that board of director with financial expertise tends to have longer financial report lags. This result is consistent with Abdelsalam and Street (2007) who found a significant positive association between board experience and the level of timeliness of internet financial reports.

Audit Committee

Agency theory shows that the role of an audit committee in internal corporate governance is to reduce the information asymmetry which would lead to a decrease in the agency problems (Yunos, 2011). Supporting the agency theory notion, the results of this study show a negative association between the existence of an audit committee and the timeliness of financial reports for models (ARL, MRL and TRL). The negative

relationship between audit committee and timeliness of financial reports supports the argument that the existence of an audit committee would reduce financial reporting lag, thus can improving the timeliness of financial reports. This result is in line with some previous studies, such as Bagulaidah (2012) and Afify (2009). For example, Bagulaidah (2012) found a negative relationship between an effective audit committee and audit report lag in Jordanian firms. Afify (2009) also reported that the existence of audit committee is associated negatively to audit report lag. In addition, the results of the current study support the perspective of agency theory which supposes that the existence of audit committee can improve the financial reports quality.

Auditor's Opinion

Internal reporting theory posits that managers tend to delay the publishing of financial reporting in the case of bad news until the news is verified (Dogan *et al*., 2007; Kross, 1981, 1982). However, good news needs relatively less audit procedures and tends to be published earlier than bad news. In line with this study's expectation, the results reveal a significant negative association between auditor's opinion and timeliness of financial reports for all models (ARL, MRL and TRL). The results show that firms with an unqualified audit opinion release their financial reports earlier than those that do not receive a clean opinion. This result supports internal reporting theory that indicates that firms with income that is less than expected may spend further time verifying income or results. This implies that firms with more profit take less time to publish financial reporting than others. This results is in line with the results of prior studies (i.e., Ashton *et al*., 1987; 2011; Soltani, 2002; Turel, 2010; Shukeri & Nelson, 2011), which found a negative significant impact of audit opinion on the timeliness of financial reports.

Auditor Change

The current study found no significant relationship between auditor change and the timeliness of financial reports for all measures (ARL, MRL and TRL). The insignificant relationship implies that there is no significant difference in the timeliness of financial reports by companies that changed external auditors and the firms that did not change the external auditor during the year. The insignificant relationship is in line with the opinion of Lee *et al*. (2009), that changing of auditors imposes additional costs on customers and increases inefficiency, resulting in delayed financial information. In contrast, this result is inconsistent with the result of Schwartz and Soo (1996), who found that firms which change their external auditor early in the fiscal year are associated with shorter reporting lags.

Auditor Brand Name

Contrary to expectations, the hypothesis regarding the auditor brand name and timeliness of financial reports is not supported. The regression result of this study shows that the relationship between the auditor brand name and timeliness of financial reports using ARL, MRL and TRL models is not significant. This result is contrary to expectations and is against the agency theory which supposes that big audit firms perform better than small firms in issuing the highest quality of financial reports (Abu Haija, 2012). Further, the insignificant association between auditor brand name and timeliness of financial reports is consistent with Al-Ajmi (2008), who reported that there is no significant difference in audit delay between companies that are audited by big and

non-big audit firms. On the other hand, Abdullah (2006) found a significant relationship between auditor type and the timeliness of financial reports.

Auditor Independence

The results of auditor independence are contrary to expectations and indicate that the relationship between the independence of the external auditor and timeliness of financial reports using ARL and TRL models is not significant. However, in line with the expectation that the provision of NAS allows the external auditor to gain extra experience and knowledge that assists to provide a more efficient audit, the relationship between auditor independence and MRL is found to be significant and in a negative direction. These results support the argument that the provision of audit and NAS, are consistent with the qualitative characteristics of timeliness of financial reports and efficient auditing. Furthermore, the level of NAS provided by the auditor will help a firm to become more efficient (Knechel & Sharma, 2008).

Foreign Ownership

The result of the current study shows that the relationship between foreign ownership and the timeliness of financial reports using ARL, MRL and TRL models is not significant. The adverse effect of foreign ownership on the timeliness of financial reports indicates that foreign investors do not play an active role in improving the level of timeliness of financial reports. The insignificant relationship between foreign ownership and the timeliness of financial reports supports the findings of Ishak *et al*. (2010), who revealed that foreign ownership has some impact on audit delay. They found some

evidence of significantly higher audit delays for firms with moderate levels of foreign ownership.

Institutional Ownership

As predicted, the results of this study show that a high level of institutional ownership may restrain financial reporting lag. The relationship between institutional ownership and ARL is significant in a negative direction. This result supports the findings of Lim (2012) and Wu *et al*. (2008). Lim (2012) concludes that firms with institutional ownership are more efficient in their price release and timely financial reporting. Wu *et al*. (2008) claim that companies with higher institutional ownership are related with shorter ARL. The results in this study strongly support Ishak *et al*.'s (2010) suggestion that the participation of institutional ownership in the marketplace, especially in an emerging economy, has corporate governance side-effects that provide incentives for the firms and their auditors to improve the timeliness of financial reports. However, the MRL model shows a positive association between institutional ownership and MRL at a significant level of 10%. The positive association between institutional ownership and MRL indicates that a higher proportion of institutional ownership would make the MRL longer. In other words, a large percentage of institutional ownership does not guarantee that the MRL will be shorter. This finding is in line with, Al-Fayoumia and Abuzayed (2009) who reported that most of institutional ownership consists of financial institutions and Social Security Corporation (SSC). There is no investment companies or developed mutual funds. As a result, institutional ownership in Jordan do not have ability to exert influence power or control over management actions. Furthermore, the TRL model

indicates that the relationship between institutional ownership and total report lag is not significant. This means that the level of institutional ownership would not make the total report lag shorter.

Company Profitability

The profitability of a firm is one of the main elements responsible for determining the level of timeliness of financial reports. In other words, firms with improved performance (good news) are faster in publishing their financial reports than firms with declining performance (bad news) (Afify, 2009; Dogan *et al*., 2007; Owusu-Ansah, 2000). Supporting the study's expectations, the current study found a negative and significant association between company profitability and the timeliness of financial reports using the ARL, MRL and the TRL. The significant association between company profitability and timeliness of financial reports is consistent with Owusu-Ansah (2000), Dogan *et al*. (2007) and Afify (2009). They concluded that company profitability significantly affects the timeliness of financial reports. They also indicated that companies that are more profitable take a shorter time to publish their financial reports.

Leverage

In contrast to the notion that companies with high leverage take a longer time to release their financial reports compared to firms with a lower leverage, the results of this study show that companies with high leverage are significantly and positively related to the ARL and TRL models. This result is in line with the view of Ku Ismail and Chandler (2004), which showed that one of the competing views about the association between

leverage and timeliness of financial reports is that highly leveraged companies report faster than the lowly leveraged companies. A possible explanation for a positive impact on ARL model could be that highly leveraged firms have an incentive to complete audit work in order to have the auditor's report to facilitate the monitoring of the firm's operations and financial position by the creditors (Ibadin *et al*., 2012). However, the results of the MRL model show is a significant negative relationship between companies leverage type and MRL. The negative association means that a firm that has less leverage tends to have a shorter MRL.

Control Variables

This study used three control variables, namely company size, age and type of sector. These variables have been used widely by many previous studies as control variables. The findings are as follows:

Company Size

Company size is measured by the natural log of total assets. The regression result of the ARL, MRL and TRL models shows insignificant association between company size and the timeliness of financial reports. This result is consistent with previous researchers who found an insignificant relationship between company size and timeliness of financial reports (Leventis & Weetman, 2004; Owusu-Ansah & Leventis, 2006).

Company Age

In contrast to the notion that the older firms are better than younger firms in publishing financial reports, the results show that company age is insignificantly related to the timeliness of financial reports. This finding is in line with Mahajan and Chander (2008) who reported that age of a company does not have a significant effect on the level of timeliness of financial reports in Indian firms.

Type of Sector

The relationship between type of sector and timeliness of financial reports is significant for both models (ARL and MRL). However, the relationship between type of sector and ARL is negative, and type of sector and MRL is positive. This results support the argument which states that there is a substantial variance in the timeliness of financial reports between sectors. The negative relationship implies that services companies tend to have a shorter ARL, while, industrial firms tend to have a longer ARL. Furthermore, the positive relationship between type of sector and MRL implies that services companies tend to have a longer MRL. This finding is consistent with some previous studies, such as Owusu-Ansah and Leventis (2006), Almosa and Alabbas (2007), Iyoha (2012) and Aktas and Kargın (2011). They found that there is a significant association between type of sector and timeliness of financial reports. However, the result of the TRL model shows that there is no significant relationship between type of sector and total report lag.

5.3 Moderating Effect of Ownership Concentration on the Relationship between Firms' Governance and Timeliness

The results of examining the moderating effects of ownership concentration show that ownership concentration moderates the relationship between corporate governance and the timeliness of financial reports for all models (ARL, MRL and TRL). The findings show that the interaction of board size and concentrated owners is positively associated with the ARL. The results also indicate that the interaction of board financial expertise and ownership concentration is negatively related with the ARL. Furthermore, the results of MRL model indicate that the interaction of audit committee and ownership concentration is negatively related with MRL. These results support the argument that the higher level of ownership concentration affects the internal mechanisms of corporate governance in that it to reduces the timeliness of financial reports. Furthermore, the result of TRL model support the results of ARL and MRL models which state that the moderating variable (ownership concentration) used in this study reduces the effective of internal corporate governance, hence delays the publication of financial reports.

In general, despite the fact that not all corporate governance variables support the developed hypotheses of the present study, the study has succeeded in achieving its objectives by determining the answers to the research questions. Specifically, the present study highlights that agency theory provides a generally good explanation of the association between mechanisms of corporate governance and company attributes with timeliness of financial reports.

5.4 Implications of the study

This study provides several important implications for the theory, regulatory authorities and policy makers, users of the financial statements and academia and researchers.

5.4.1 Implications to Theory

Studies about corporate governance generally stem from the agency perspective, where companies utilize mechanisms of corporate governance to control agency conflict among companies. These mechanisms include board of directors, ownership structure, auditors and the audit committee, that are created to minimize the conflict between management and shareholders within companies. This study's results reinforce the agency theory's strength in explaining the corporate governance practices and timeliness of financial reports in the context of Jordan. While prior studies merely concentrated on the evaluation of corporate governance system effectiveness in minimizing agency conflict by studying earnings management, firm performance as well as disclosure, the present study aims to support the agency theory's postulation that timeliness of financial reports is deemed to be an invaluable instrument to minimize agency conflict. The results are beneficial to researchers as they facilitate empirical evidence concerning agency conflicts in a developing country such as Jordan.

This study is consistent with the agency theory which posits that the existence of corporate governance structure leads to the enhancement of management monitoring and reduction of the occurrence of mismanagement and financial reporting delays, hence improving the timeliness of financial reports (Afify, 2009). The results show a

significant association between the mechanisms of corporate governance (i.e., board characteristics, audit committee, auditor quality and ownership structure) and the timeliness of financial reports. The findings of the present study are consistent with the agency theory that corporate governance mechanisms are effective in reducing agency conflict as well as in reducing delays of financial reports, thus improving timeliness of financial reports. In addition, the findings of this study further indicate that the high percentage of ownership concentration in Jordanian companies impedes the effectiveness of internal corporate governance mechanisms which lead to the delay of financial reports. In addition, the results of this study support the resource dependence theory which assumes that the existence of effective structures of corporate governance within companies that lead to the generation more of resources.

5.4.2 Implications to the Regulatory Authorities and Policy Makers

The Code of Corporate Governance in Jordan stresses on effective governance principles for the development and accountability of capital markets. In this regard, the Jordan Securities Commission established a corporate governance code for listed firms in the Amman Stock Exchange in 2009. The primary objective behind such code is to support the roles and responsibilities and roles of the board of directors and audit committees in such firms. Although the Jordanian government has made attempts to promote the best governance practices in the country's firms, several researchers and regulators are pessimistic of whether or not the same standard of developed countries' governance can effectively function in a nation characterized by a different legal system, business culture and corporate structure.

This study indicates that 54% of the listed companies in Jordan actually take not more than two months to publish their financial reports; the 90-day requirement may be too generous. Also, the 90-day requirement may unnecessarily reduce the timeliness of the release of accounting information in Jordan. For example, companies may strategically delay the release of bad news for as long as possible. Therefore, regulatory authorities may consider shortening the 90-day requirement to be more compatible with international practice and to ensure that the published financial statements are timely and useful for investors. Regulatory authorities should be more careful in examining the causes of prolonged audit delay in an attempt to reduce or avoid adverse consequences. In addition, this study suggests assessing the adequacy of the timeliness of financial reports of Jordanian firms by the Jordanian regulatory bodies. These bodies can monitor the quality of private audit firms by regulating ARL requirements.

Results offered in this study are consistent to expectations and indicates that there is a relationship between mechanisms of corporate governance which are board characteristics, audit committee, auditor quality and ownership structure as well as company attributes and timeliness of financial reports. The findings of this study may help the regulators in ASE to address the factors affecting ARL and MRL of firms in order to take actions towards enhancing the publication of financial reports by reducing delay. The regulatory authorities and policy makers, especially in the Jordan, can use the results of this study as empirical support for developing their regulations and making further recommendations on corporate governance. Stock market authorities can also employ this study's results to evaluate the current requirements of corporate governance practices and the role of corporate governance structures in improving the quality of

timeliness of financial reporting. New corporate governance regulations and revisions of the existing corporate governance codes should be based on evidence from empirical studies such as evidence offered by this research.

This study provides a clear view to understand the influence of ownership concentration on the quality of financial reports in Jordanian companies. This will help the regulatory bodies in Jordan, such as the Jordan Securities Commission to assess the current listing requirements and evaluate the existing ownership structure in Jordanian companies. Furthermore, this study provides an awareness and understanding to the bodies and related parties of whether the current practices of corporate governance in Jordanian firms produce the expected outcome. Furthermore, this study serves as an approach to policy makers and regulators in formulating policies and strategies with respect to the timeliness of financial reports.

5.4.3 Implications to Financial Statements Users

The main objective behind financial reporting is to assess the financial position of the firm for the purpose of forecasting its future trends and schemes. Financial report users include financial analysts, management, investors, creditors and executives who utilize the analysis results to make relevant decisions. Hence, shedding insights into the factors impacting the financial statements will assist in confirming the validity of financial reports figures and developing confidence in decision making. This study’s results could be beneficial to firms' management who are concerned with improving the timeliness of financial reports and practices of corporate governance in their companies.

Financial analysts primarily assist in making investment decisions and in analyzing the financial reports to follow up with the company's representatives for the purpose of obtaining a deeper understanding of the prospect and managerial effectiveness of the firm. Hence, this study's results have considerable significance to the financial analysts as the results shed light on the factors contributing to the financial reporting practices' timeliness and help them in their effective assessment of the financial report.

Another party that benefits from the results of this study is the creditor as the results bring forward a basis for the assessment of the client. Prior studies reported that creditors demand higher timeliness of financial reports and in some instances, creditors are more wary of companies that are characterized as manipulators of financial reporting, a practice that has a tendency to delay the publication of financial information. Furthermore, auditors may also benefit from the results of this study as they are concerned with planning the audit task and with maintaining the quality of audit by completing audit functions in a timely manner.

5.4.4 Implications to the Researchers

Several prior studies looked into the association between firms' governance mechanisms and the quality of financial reports on a short-term basis. This study offers the benefit of stimulating researchers' examination of a period that is more extensive in order to generalize the results and offer invaluable interpretations. In addition to this, even though ownership concentration is a distinct factor in Asian developing nations like Jordan, studies dedicated to examining timeliness among Jordanian firms have failed to

include ownership concentration in their discussions. The present study's results may shed light on the impact of concentrated owners on the quality of financial reports and the firms' governance mechanisms in the Jordanian firms. They will help researchers in that it provides empirical evidence that is linked to agency conflict in a developing nation, i.e., Jordan. Jordan's distinct setting offers additional information of the impact of concentrated ownership on the financial reporting timeliness. Specifically, the present study contributes to corporate governance literature and motivates future studies to further examine the timeliness of corporate governance practices in other developing nations.

5.5 Limitations of this Study

This study provides a clear vision of how the corporate governance structure in developing countries influences the timeliness of financial reports. This study has some limitations that should be highlighted in order to warrant a fair interpretation of the results.

1. Due to the lack of disclosure of Jordanian companies, this study was not able to include all characteristics of the audit committee (e.g., size, meetings, independence and financial experience). This is difficult because this data is not publicly available. Hence, this study is limited only to examining the presence of audit committees on Jordanian listed firms.

2. This study explores the timeliness of financial reports among Jordanian listed firms, particularly for industrial and services companies over year of 2009 to 2012. In this study, the financial sector is excluded because it has special regulations issued by the regulated Central Bank of Jordan and the Insurance Commission. Future studies may investigate the same period, but particularly for the financial sector, to identify the trend of timeliness of financial reports in the financial sector.

3. Due to limitations of availability of data, this study did not examine other variables that may affect timeliness of financial reports. For example, age of directors' members and length of service of board of directors appointed to the board.

5.6 Suggestions for Future Research

Extension of this study is possible in the following fields:

1. Further research is needed to provide further insight into the role of firms' governance mechanisms and the timeliness of financial reports in the Jordanian firms. It would also be very interesting to extend the current study to other countries in the Middle East or other emerging countries to focus on the role of corporate governance on the timeliness of financial reports and determine whether the mechanisms of corporate governance enhance the level of timeliness of financial reports in these markets.

2. This study is limited in a sense that it only considers specific determinants of timeliness of financial reports. It would be worthwhile to incorporate other variables of ownership structure (i.e., family ownership, managerial ownership) or other measures of disclosure quality and other variables of the board of directors (such as the board gender). In addition, future research may consider other characteristics of audit committee, such as audit committee size, independence, meeting and financial expertise.

3. This study is based on ownership concentration to evaluate the effectiveness of corporate governance structure in Jordanian firms. Therefore, future research should focus on other variables as moderators to provide a deeper understanding of the effectiveness of corporate governance and their relationship with the quality of financial reporting in terms of timeliness.

4. Further studies could be conducted to discover the effect of other variables apart from the corporate governance on the timeliness of financial reports, such as other management characteristics

5. The current study seeks to explore the underlying factors for the delay in publishing financial reports by employing mechanisms of corporate governance. Future studies are necessary to seek other factors that have a significant influence on the level of timeliness of financial reports, such as earnings management, firms' performance and disclosure quality.

6. Further studies can also be undertaken on the non-listed companies in Jordan with comparison of the findings with the results of the current study in order to highlight the differences between the two groups.

5.7 Conclusion of the Study

This study examines the effect of internal and external corporate governance mechanisms (board characteristics, audit committee, auditor quality and ownership structure) as well as company attributes on three measures of timeliness of financial reports, namely ARL, MRL and TRL. This study also examines whether the concentrated owners impede the effectiveness of the firms' governance mechanisms in employing more timeliness of financial reports. In other words, the presence of the board of directors with more meetings helps external auditor to avoid some of the problems that can delay the publication of financial reports. This is done by examining the moderating effect of ownership concentration on the relationship between firms' governance and timeliness of financial reports. The study contributes to the existing literature by providing a comprehensive understanding on the roles of corporate governance and ownership concentration as a moderating variable on the quality of financial reports in terms of timeliness. To the best knowledge of the researcher, this study is the first that investigates the effects of ownership concentration as a moderating variable on the association between internal governance mechanisms and the timeliness of financial reports.

The study is motivated by the gap in the current status of timeliness of financial reports of Jordanian firms, which indicate that the timeliness of financial reports in Jordanian firms is still at a relatively underdeveloped stage. According to Errunza and Losq (1985), firms in emerging capital markets tend to be slower in reporting than firms in developed markets. The current study provides strong evidence that the role of corporate governance structures enhances the level of timeliness of financial reports by limiting the ARL, MRL and TRL.

Companies listed under the Amman Stock Exchange are the subjects of this study. This study shows that the companies, on average, take more than three months to publish annual financial reports. The minimum is 28 days, while the maximum is 276 days. The results of regression analysis of ARL model show that a number of independent variables negatively affect ARL. Those variables are board independence, board diligence, existence of audit committee, audit opinion, institutional ownership, profitability and type of sector. Furthermore, board size, board diligence and institutional ownership have positive influence on ARL. However, the results of this study show that there are nine variables that are not significantly related to ARL. Those variables are board size, CEO duality, board financial expertise, auditor tenure, auditor brand name, auditor independence, foreign ownership, company size and company age.

The results of the second model (MRL) indicate that MRL is negatively related to CEO duality, existence of audit committee, auditor opinion, auditor independence, profitability and leverage. The results also indicate that MRL is positively and significantly associated to board size, board diligence, institutional ownership and type of sector. However, the results of the MRL model show that seven variables are not

significantly related to MRL. Those variables are board independence, board financial expertise, auditor tenure, auditor brand name, foreign ownership, company size and company age.

The overall results of this study indicate that corporate governance mechanisms and company attributes constrain the likelihood of delay of financial reports in the Jordanian firms. In general, these results suggest that companies with effective internal mechanisms of corporate governance, firms with improved performance and firms with an unqualified audit opinion have more timely financial reports. These results support the argument that board independence, board size, board diligence, audit committee, audit opinion, institutional ownership, profitability and leverage are important determinants of the timeliness of financial reports.

Obviously, studies concerning the Jordanian firms' timeliness of financial reports are lacking and this is one of the motivations for the current study. Specifically, the current provides an overview of the existing literature concerning the timeliness of financial reports in Jordan and insights into the applications of instructions, standards and regulations of corporate governance and ownership concentration in the country. It also highlights the dire need for amendments of regulations governing corporate governance and financial reporting timeliness.

On the whole, the present study has contributed to the field of financial reporting lag related studies, specifically with regards to determinants of the timeliness of financial reports in the context of Jordan. The researcher fervently hopes that it has opened up opportunities for future studies to examine such timeliness in other countries where this topic of research is lacking. Moreover, this study provides opportunities for future extensive studies concerning the topic. The present study's results are invaluable to investors, legislators and decision-makers and it attempts to minimize the gap between the Companies Controlling Department's (CCD) requirements and the requirements laid down by the Jordanian Securities Commission (JSC) on one hand, and firms that have the tendency to delay the submission of their financial reports on the other hand. To the best of the researcher's knowledge, studies concerning the relationship between mechanisms of corporate governance and timeliness of financial reports in the context of Jordan are few and far between (Abu Nasser & Lotfe, 1998; Al-Khouri & Balqasem, 2006; Nour & Al-Fadel, 2006).

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