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Board characteristics, ownership structure and audit report lag in the Middle East

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Abstract: Timeliness of corporate annual financial reports has a significant importance for users of financial statements. Timeliness of financial reporting of companies is considered to be a critical factor that affects the usefulness of information that helps the external users. This paper goes beyond the standard audit report lag studies by incorporating board characteristics and ownership structure variables into the determinants of financial reporting timeliness. The sample of this study comprises of 201 companies for the period from 2009 to 2013 that cover 11 countries of S&P Pan Arab index. Ordinary Least Square (OLS) and Ridge regression analysis are performed to test the audit report timeliness determinants. This study examines the effect of board characteristics, ownership structure, audit type, firm size, firm age, leverage and firm profitability on audit report timeliness. The results reveal that the higher percentage of companies releasing their audit report in less than 60 days and are audited by big four firms shows that big four firms are characterized by a higher audit quality. A regression analysis indicates that CEO duality, board size, board independence, ownership concentration, institutional ownership, foreign ownership, auditor type, return on assets, and firm age significantly affect audit report lag.

Keywords: Arab countries; audit report lag; board characteristics; Middle East; ownership structure; timeliness.

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1 Introduction

This paper examines the effect of corporate governance on the timeliness of financial reporting in 11 Middle Eastern countries. More particularly, this paper attempts to assess the effects of board characteristics and ownership structure on the timeliness of financial reporting of firms listed in the stock exchanges of Saudi Arabia (KSA), Kuwait, United Arab Emirates (UAE), Egypt, Qatar, Oman, Tunisia, Jordon, Morocco, Bahrain and Lebanon. These countries have witnessed a period of economic growth in the past two decades. New investment opportunities have created the prosperity from the exploitation of natural resources that resulted in increased savings. The huge flow of funds into the financial system and corporations has led to increased demands from lenders and investors to raise standards of corporate governance (Hussain and Mallin, 2002; Joshi and Wakil, 2004). Meanwhile, to fund growth and to benefit from the globalisation of business there has been a need for access to international capital. Effective corporate governance is fundamental to establishing sound financial systems (Mohamed, Oyelere and Al Jifri, 2009; Saidi, 2011). These countries have taken significant actions to monitor and regulate their capital markets activities in an attempt to improve their stock exchanges in terms of corporate governance. These actions require disclosure and include regulations that enhance shareholder protection and reduce corporate management malpractice (Hawser, 2005; Mohamed, Oyelere and Al Jifri, 2009; Saidi, 2011; Baydoun et al., 2013).

The timely disclosure of information is an important pillar of a strong and transparent financial system. Financial markets are based on information and any barriers to the flow of relevant information render the markets weak and inefficient. Timely financial reporting disclosure reduces information asymmetry and enhances equality among investors to access accounting information without the need to search for other sources. Hence, it is associated with less insider trading and lowers uncertainty in investment decisions (Ashton, Graul and Newton, 1989; Bamber, Bamber and Schoderbek, 1993; McLelland and Giroux, 2000; Owusu-Ansah, 2000). The importance of timely financial reporting in emerging countries is more prevalent than in other countries because financial reports are the only reliable source of information available to investors (Alattar and Al-Khater, 2008; Mohamed, Oyelere and Al Jifri, 2009; Khasharmeh and Aljifri, 2010; Mohamed and Basuony, 2014). Few studies examined factors affecting the timeliness of financial reporting in the Middle East. Not too much is known about financial reporting timeliness in these countries. Therefore, this paper provides valuable contribution to the literature by examining the timeliness of financial reporting in the Middle East. The paper goes beyond the traditional focus on company- and audit-specific factors that influence the timely disclosure of financial statements by examining the effect of the internal corporate governance mechanisms on the timeliness of financial reporting among companies in selected Middle Eastern countries.

The rest of the paper is organised as follows: the following section provides a literature review and hypotheses development. The research methodology is provided in Section 3, followed by the findings and analysis in Section 4; and finally summary and conclusion are provided in Section 5.

2 Literature review and hypotheses development

2.1 Background

Organisational and financial control appears to be a major problem for a number of corporate organisations, and concerns are being expressed about the standards of accountability and financial reporting of public companies. Corporate governance can play a vital role in ensuring the quality and timeliness of the financial reporting process. Previous studies reveal a relationship between poor governance and poor financial reporting quality (Cohen, Krishanamoorthy and Wright, 2004; Mohamed, Basuony and Badawi, 2013). There are several corporate mechanisms, and there is a consensus on the categorisation of theses mechanisms into internal and external. Nonetheless, there is disagreement on the contents and effectiveness of each category (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Jensen, 1993; Turnbull, 1997). Moreover, the topic of corporate governance mechanisms is too vast and rich research area to the extent that no single paper can survey all the corporate governance mechanisms developed in the literature and instead the papers try to focus on some particular governance mechanisms. Therefore, the focus of this paper is on board characteristics and ownership structure.

In common law countries due to the existence of dispersed control and ownership structures, the main conflict is between owners and managers. In contrast, in civil law countries the control and ownership structures are concentrated; thus, the main governance problem arises between minority and controlling shareholders. Therefore, ownership structure has greater importance in civil law countries where protection of shareholders right is weak (La Porta et al., 1998; Beck, Demirgüç-Kunt and Levine, 2003; Gisbert and Navallas, 2013). The situation is more prevalent in Arab countries where ownership is more concentrated in the hands of few large shareholders or founding families, while there is weak legal protection for external investors. As ownership of companies in Arab countries is highly concentrated, the agency conflict that is more prevalent is the one between the controlling and minority shareholders (type II) rather than between the shareholders and managers (type I) (Haddad et al., 2015).

In Arab countries, particularly the Arabian Gulf countries, most ownership and control in substantial family corporate holdings and boards of directors are largely dominated by controlling shareholders and their friends and relatives. There are only a few independent directors on boards and shareholders who dominate the decision-making process, as there is rarely any separation between ownership and management. It is argued that these personal ties between major shareholders and directors affects the directors' independence and, hence, their ability to improve disclosure (Cheng and Jaggi, 2000; Basuony et al., 2014a). Therefore, ownership structure has a greater effect on corporate disclosure where highly concentrated family-controlled firms do not have the incentive to voluntarily disclose information since the major shareholders can easily obtain the information from the company (Haddad et al., 2015). Nonetheless, it could also be argued that highly concentrated firms, whether family-controlled or not, have the incentive to appoint independent directors to improve transparency in order to reduce the costs of the agency conflict that exists between majority and minority shareholders (Shleifer and Vishny, 1997).

A good measure of corporate financial reporting transparency and quality is timeliness. If a corporation issues perfectly accurate but late information, it becomes stale. The more stale information is, the less relevant it is to users (McGee, 2007). Audit report lag (ARL), lapse of time between fiscal year end and the date of the audit report, is one of the most common measures of timelines (Davies and Whittred, 1980; Ashton, Graul and Newton, 1989; Bamber, Bamber and Schoderbek, 1993; Leventis, Weetman and Caramanis, 2005). Several studies have examined the determinants of ARL in both developed and developing countries (Dyer and McHugh, 1975; Davies and Whittred, 1980; Ashton, Graul and Newton, 1989; Bamber, Bamber and Schoderbek, 1993; Owusu-Ansah, 2000; Leventis, Weetman and Caramanis, 2005; Che-Ahmad and Abidin, 2008). Most of these studies focused on firm- and audit-specific factors; however, few studies have examined the effect of corporate governance on the timeliness of financial reporting (El-Bannany, 2008; Afify, 2009; Yaacob and Che-Ahmad, 2012).

2.2 Institutional framework[1]

The ministry of Commerce and Industry, Central Bank of Kuwait and Kuwait Stock Exchange are the regulatory authorities in Kuwait. Listed companies in Kuwait stock market should submit audited annual reports including the firm's year-end financial statements to government authorities within a maximum of 90 days. The submission of these audited annual reports can be provided as hard copies or electronically. To provide information to investors efficiently, the government of Kuwait obliged all companies in Kuwait stock market to disclose quarterly reviewed financial statements to stakeholders.

The Ministry of Economy and Commerce is the regulatory authority in Qatar. All public listed companies in Qatar must comply with IFRS and International Accounting Standards (IAS) in preparing their financial reports. The Ministry of Economy and Commerce requires all companies to file the financial statements with the auditor's reports within 1 month of preparing the report. The audit professionals are controlled and regulated by the Qatar law and International Standards of Auditing. The periodic disclosure should be made as follows: quarterly reports within 30 days of the end of relevant period, 45 days for semi-annual reviewed reports and 90 days for audited annual reports.

In Bahrain, many laws have been issued to organise the accounting profession such as Bahrain Stock Exchange Law No. 4, 1987; Commerce Law No. 7, 1987; Commercial Agency Law No. 10, 1992, amended by Decree No. 8, 1994; the Auditors Law No. 26, 1996; and the Commercial Companies Law No. 21, 2001. The commercial laws require that all listed companies must prepare income statements, statements of changes in equity, balance sheets, statements of cash flow and notes to accounts. Starting from December 2003, the Central Bank of Bahrain, the market regulator, issues requirements of disclosure for all listed companies in Bahrain stock market. All listed companies are required to disclose quarterly and annual reports including financial statements within 3 months from the firm's financial year-end.

In Saudi Arabia (KSA), all listed companies submit their quarterly and annual accounts to the Saudi Stock Exchange (Tadawul), the Capital Market Authority (CMA) and the MCI. According to the CMA's rules, the companies must submit their financial announcements and PDFs no later than 15 business days after the quarter ends for quarterly results and 40 business days after the financial year ends for annual results. All listed companies in Tadawul should apply IFRS endorsed by the Saudi Organization for Certified Public Accountants starting from January 2017.

In Lebanon, many laws, decrees and ministerial orders have been instituted to control the private sector accounting and auditing. For example, Ministerial Decree No. 8089 (1996) requires all annual financial statements to be prepared and presented according to IFRS. Furthermore, all listed companies in the Beirut stock market are required to disclose their annual reports including financial statements within 8 months from the firm's financial year-end. Penalties are levied upon companies that do not submit their financial reports within the filing due date.

In Tunisia, Law No. 96-112 governs and organises the accounting system. The accounting standards applied in Tunisia is in compliance with IAS. All listed companies are required to submit annual reports for approval of shareholders' meeting that must be held within 6 months of the financial year-end.

In Jordan, the cooperation between the Central Bank of Jordan and the International Finance Corporation led to the establishment of the Amman Stock Exchange (ASE) in 1976. The ASE is the only entity in Jordan authorised to trade securities. Jordan spent many years to improve the corporate governance and transparency through many laws that start with the Temporary Securities Law No. 23 of 1997. The companies' law 1964, 1989, 1997 and amended by Law No. 35 of 2002 require all listed companies in ASE to publish their financial statements to the investors. The Jordanian Association of Certified Public Accountants (JACPA) was established to enhance the accounting and auditing profession in Jordan. The JACPA failed to force companies to adhere to the IAS because there is no professional or legal implementation of the standards until 1997. The Securities Law of 2002 provides the power to the JACPA to enhance the disclosure and reporting of financial statements. In 2003, the Auditing Profession Practice Law 1985 was amended by Law No. 73 of 2003, to improve the audit profession and ensure that IAS and IFRS are adopted and applied.

Egyptian Accounting Standards (EAS) were issued by Minister of Investment, and these standards were effective from January 2007. These EAS were prepared in accordance with the IAS. Furthermore, the CMA is responsible for enhancing and improving the compliance with the accounting standards. Moreover, the Minister of Investment has issued the Egyptian Auditing Standards by the Ministerial Decree No. 166 of 2008. These new audit standards are consistent with the International Audit Standards. Also, the Egyptian Institute of Directors launched the Egyptian Code of Corporate Governance, which was effective from October 2005, to enhance the Egyptian business environment. All listed companies in the Egyptian stock market are required to disclose their annual reports including financial statements within 3 months from the firm's year-end and within 45 days at the end of each quarter.

In the UAE the Ministry of Economy and Planning, the Central Bank and the Emirates Securities and Commodities Authority are the main regulatory authorities. These regulatory authorities obliged all listed companies in stock market to disclose their financial statements to the public. Companies in the UAE follow IFRS to prepare financial statements and reports. Companies registered in UAE are required to prepare annual financial statements and file these with Ministry of Economy and Commerce, UAE and the Concerned Authority. Companies are required to prepare their financial statements and get them audited within 3 months from the end of the financial year. They are also required to file the financial statements within 10 days of the approval to the above-mentioned authorities.

2.3 Hypotheses development

2.3.1 Board characteristics

2.3.1.1 Board size

It is argued that board size has a significant impact on directors' capacity to control and supervise managers (Yap, Saleh and Abessi, 2011). Large boards are more likely to involve a diverse range of expertise as well as more independent directors with valuable experience (Ezat and El-Masry, 2008; Appah and Emeh, 2013). However, some argue that large board size may lead to less organised board meetings, thus reducing the chance of effective participation and communication and this in effect decreases the possibility of reaching an agreement and delay in taking important decisions (Ibadin, Izedonmi and Ibadin, 2012). Previous studies find positive association between earnings management and the size of the board of directors, supporting the notion that larger boards are ineffective in performing their oversight duties compared to smaller boards (Rahman and Ali, 2006). Yap, Saleh and Abessi (2011) find board size is positively significantly related to financial reporting timeliness. However, Ibadin, Izedonmi and Ibadin (2012) report no significant relationship between board size and the timeliness of financial statements. Hence, the first research hypothesis is

H1: There is a significant negative relationship between board size and ARL.

2.3.1.2 Board independence

It is expected that the monitoring ability of the board of directors is improved when the number of the independent directors is increased (Afify, 2009). Independent directors who have the appropriate skills and have no conflict of interest are considered to monitor management better than inside directors (Ibadin, Izedonmi and Ibadin, 2012). This can be justified by the agency theory, which suggests that board composition in terms of the number of outside directors vs. inside directors' results in better monitoring (Fama, 1980; Demsetz and Lehn, 1985). In addition, strong monitoring may affect the assessed level of inherent and control risks leading to a reduction in the extent of tests carried out to verify details, which in turn affects the timing and extent of audit work (Shukeri and Islam, 2012). Thus, the second research hypothesis is

H2: There is a significant negative relationship between board independence and ARL.

2.3.1.3 CEO duality

It is argued that duality may create conflicts of interests, concentrate decision-making power, hinder board independence and reduce the board's oversight responsibility

(Appah and Emeh, 2013). The separation of the CEO role from that of the chair of the board of directors is recommended by the agency theory and the various corporate governance codes put in place to guarantee appropriate checks and balances on the board (Haniffa and Cooke, 2002; Mohamad-Nor, Shafie and Wan-Hussin, 2010). When CEO duality exists, auditors' assessments of both control and audit risks is more likely to be affected. The rationale behind this argument is that in the case of duality there is more room for fraud and earnings management. In that case, the auditor may need additional time to perform more testing to avoid the risk of audit failure (Peel and Clatworthy, 2001). Previous studies provide evidence of the significant association between CEO duality and financial reporting timeliness (Abdelsalam and Street, 2007; Afify, 2009). The third research hypothesis is

H3: There is a significant positive relationship between CEO duality and ARL.

2.3.2 Ownership structure

2.3.2.1 Director ownership

In firms with larger director ownership, directors may already have access to the financial information; thus, less pressure is imposed by the directors on external auditors. Increasing the level of director ownership can reduce agency costs and hence permit a better alignment of interests between directors and shareholders. In the extreme cases where director ownership is 100%, equity agency costs are reduced to zero (Jensen and Meckling, 1976). As director ownership increases, directors bear a large fraction of the costs of shirking, perquisite consumption and other value-destroying actions. It is argued that companies with a higher level of director ownership tend to have longer ARL (Apadore and Noor, 2013). The fourth hypothesis is

H4: There is a significant positive relationship between directorship concentration and ARL.

2.3.2.2 Ownership concentration

It is argued that firms with diffused ownership are more likely to disclose more information to keep their shareholders well informed (Pirchegger and Wagenhofer, 1999; Kelton and Yang, 2008; Mohamed and Basuony, 2015). This can be justified by the agency theory, where corporate disclosure is considered as a means to controlling the agency costs arising from conflicts of interests between insiders and outside shareholders (Jensen and Meckling, 1976). The agency theory suggests that the information asymmetry between managers and dispersed equity shareholders leads to a conflict between stockholders and managers (Al-Ajmi, 2008). Auditing serves to reduce the asymmetric information risk by attesting the reliability of published financial information for existing and prospective investors. Abdelsalam and Street (2007) argue that firms with higher ownership dispersion are expected to supply more timely information. In concentrated ownership, major shareholders are more able to obtain private information due to the relatively weak demand for public disclosure in comparison to companies with widely dispersed ownership (Boubaker, Lakhal and Nekhili, 2011). This may be more prevalent in civil law countries that are characterised by low legal protection environment for external investors (La Porta et al., 1998). Firms with higher ownership dispersion experience more pressure to disclose their financial information earlier. Thus, the dispersion of ownership is expected to encourage firms to disclose their financial information more quickly and to urge their auditors to issue audit report earlier (Mouna and Anis, 2013). Therefore, the fifth research hypothesis is

H5: There is a significant positive relationship between ownership concentration and ARL.

2.3.2.3 Institutional ownership

The characteristics of institutional investors such as large size, greater resources and financial expertise give the institutional owner advantages in monitoring firm's activities (Hand, 1990; Shleifer and Vishny, 1994; Jennings, 2005). Institutional investors may be viewed as potential controllers of equity agency problems as their increased shareholdings may lead them to having stronger incentive to monitor managerial behaviour and firm performance (Demsetz and Lehn 1985; Shleifer and Vishny, 1997; La Porta, Lopez-de-Silanes and Shleifer, 1999; Claessens, Djankov and Lang, 2000; Denis and McConnell, 2003). Institutional investors can enforce the management to work for the benefit of the shareholders through using their voting power (Wu, 2004; Guercio, Seery and Woidtke, 2008). Lim, How and Verhoeven (2014) argue that large institutional ownership can reduce information asymmetry as the institutional owner can pressurise the management to disclose financial information in an appropriate time. The sixth hypothesis is

H6: There is a significant negative relationship between directorship concentration and ARL.

2.3.2.4 Foreign ownership

It is argued that firms that have a significant portion of their ownership held by foreign investors may have incentives to provide more timely information to those investors (Tazik and Mohamed, 2014). This can be explained by the fact that investors are more likely to invest in firms that provide timely information to overcome the problem of information asymmetry between foreign and local investors and managers (Ahearne, Griever and Warnock, 2004; Portes and Rey 2005). Asymmetric dissemination of financial information and uncertainty associated with investment decisions can be mitigated by timely provision of information (Ashton et al., 1987; Jaggi and Tsui, 1999). Timely disclosure of financial information is considered as an important means to attract the attention of the investors (Bamber, Bamber and Schoderbek, 1993; Ettredge, Li and Sun 2006). Timely financial statements assist foreign ownership to preserve their investment by monitoring the management's performance and making efficient decisions as soon as possible. Ishak, Muhamad Sidek and Rashid (2010) find a significant association between foreign ownership and financial reporting timeliness. Hence, the seventh hypothesis is

H7: There is a significant negative relationship between directorship concentration and ARL.

2.3.3 Control variables

2.3.3.1 Profitability

It is suggested that firm profitability can be regarded as an indicator of good management; hence, management of profitable firms may persuade the auditors to issue their report in a shorter period in order to communicate to their shareholders the good news on profits made (Shukeri and Islam, 2012; Basuony et al., 2014a). This can be explained by the agency theory where managers of profitable companies are more eager to disclose more and timely information to realise personal benefits such as promotions (Haniffa and Cooke, 2002). On the other hand, firms experiencing losses (bad news) usually avoid disclosing the bad news because doing so may adversely affect the firm's reputation. Thus, firms experiencing losses tend to delay their financial statement. Moreover, due to the audit business risk associated with losing firms, auditor may need more time to issue the audit opinion (Afify, 2009). Pourali et al. (2013) find a significant negative association between audit delay and firm profitability. However, Ibadin, Izedonmi and Ibadin (2012) find no significant association between profitability and the timeliness of financial statements.

2.3.3.2 Auditor type

According to the signalling theory, managers hire big four auditing firms to convey to the market that they are keen to provide quality disclosures (Basuony et al., 2014b). It is argued that big four audit firms are more motivated to maintain their reputation and name and, hence, try to submit their report in a timely manner. It is believed that the big four apply well-programmed audit procedures and that they have better access to more advanced resources, technologies and well-trained and competent staff (Afify, 2009; Dibia and Onwuchekwa, 2013; Shukeri and Islam, 2012). Thus, it can be expected that big four audit firms provide a higher-quality audit, including timely audit reporting, to retain their reputation (Al-Ajmi, 2008). Previous studies find a significant relationship between audit type and financial reporting timeliness (Ibadin, Izedonmi and Ibadin, 2012; Shukeri and Islam, 2012; Türel, 2010). However, others report no significant relationship between audit type and reporting timeliness (Afify, 2009; Al-Ghanem and Hegazy, 2011; Dibia and Onwuchekwa, 2013; Ika and Ghazali, 2012).

2.3.3.3 Leverage

It is argued that when the amount of the debt increases, the firm becomes more exposed to its creditors. In that case, creditors, especially institutional creditors, need to get the audited financial statements to monitor the company's use of debt (Ibadin, Izedonmi and Ibadin, 2012). Thus, companies with high leverage ratio try to fulfil the creditors' need by disclosing reliable and timely information to retain creditors' confidence about their ability to pay debts (Ezat and El-Masry, 2008). Some of the previous studies provide mixed results; they reveal no significant relationship between reporting timeliness and leverage (Banimahd, Moradzadehfard and Zeynali, 2012; Ibadin, Izedonmi and Ibadin, 2012; Fagbemi and Uadiale, 2011; Pourali et al., 2013; Mouna and Anis, 2013). Other studies find that leverage is negatively correlated with audit delay (Al-Ghanem and Hegazy, 2011).

2.3.3.4 Firm size

It is argued that large companies tend to disclose more information as a reaction to stock market pressure. Large companies depend on the stock market to raise funds (Basuony et al., 2014b). Larger companies tend to have more effective internal controls making external auditing much easier. Managements of larger companies may have incentives to report the financial information in a timely manner as they are closely monitored by the investors and regulating agencies (Pourali et al., 2013). Also, larger companies usually have enough resources to pay higher audit fees, encouraging the external auditors to issue their report soon after the companies' financial year-end (Shukeri and Islam, 2012). Pourali et al. (2013) find a strong positive relationship between audit delay and company size. Fagbemi and Uadiale (2011) find a significant negative relationship association between timeliness of financial reports and company size in Nigeria. Mouna and Anis (2013) find that the coefficient of the firm's size was insignificant, providing evidence against the effect of firm size on the timeliness of the annual reports. Nonetheless, Ibadin, Izedonmi and Ibadin (2012) find no association between company size and the timeliness of financial statements.

2.3.3.5 Firm age

Prior literature suggests that there is an association between the age of a company and the timeliness of its financial reporting (Iyoha, 2012). It is argued that older firms are usually associated with strong internal control system, fewer control weaknesses and higher potential of reduced financial reporting lag (Dibia and Onwuchekwa, 2013). Iyoha (2012) finds that the age of company is a major attribute that influences the timeliness of financial reporting. Similarly, Dibia and Onwuchekwa (2013) find that the age of the company has a significant association with ARL.

3 Methodology

The aim of this study is to examine the effect of internal corporate governance mechanisms on audit report timeliness in non-financial companies that constitute the S&P Pan Arab Index. The research methodology used to accomplish this aim is presented in this section. The population of the study consists of firms that constitute the S&P Pan Arab Index. Data were collected for the years 2009–2013 as they comprise the most recent period for which company annual reports were available for the sample at the time of undertaking this research. Table 1 shows the sample distribution by country that constitutes 11 countries.

Table 1 Sample distribution by country

	Sample	
Country	*Number of firms*	*%*
Bahrain	3	1.5
Egypt	14	7
Jordan	7	3.5
Kuwait	18	9
Lebanon	1	0.5
Morocco	6	3
Oman	12	6
Qatar	14	7
KSA	99	49
Tunisia	11	5.5
UAE	16	8
Total	201	100

The sample of this study can be classified according to the industry type. Manufacturing companies represent 59% of the total sample and service companies 41%. Table 2 also shows the sample classified using the Global Industry Classification Standard (GICS), which is industry taxonomy developed by MSCI and S&P for use by the global financial community. GICS is used as a basis for S&P and MSCI financial market indexes in which each company is assigned to a sub-industry, and to a corresponding industry, industry group and sector, according to the definition of its principal business activity. Table 2 below shows the sample distribution by sectors after excluding the financial service sector.

Table 2 Sample distribution by sector

Sector	*Number of firms*	*%*
Energy	14	7
Materials	65	32
Industrials	45	22.5
Consumer discretionary	28	14
Consumer staples	25	12.5
Information technology	1	0.5
Telecommunication services	18	9
Utilities	5	2.5
Total	201	100

Data for this study are collected from DataStream, the firms' annual reports, company websites and website of the relevant stock exchanges. This study examines the effect of board characteristics, ownership structure and control variables on ARL. Seven corporate governance variables and six control variables are used. Table 3 shows the definition and measurement of these variables. The dependent variable is ARL while the independent variables are divided into two groups representing the two main corporate governance variables (board composition and ownership structure) and some control variables. SPSS statistical package (version 22) and STATA (version 13) are used to analyse the data.

Table 3 Definition and measurement of variables

Variable symbol	*Definition*	*Measurement*
Dependent variables		
ARL	Audit report lag	The number of days between the company's financial year-end and the date of the audit report
Independent variables (board composition)		
Brdsize	Board size	Total number of board members
BrdIndp	Board independence	The number of outside non-executive directors divided by the total number of board of directors
Duality	CEO duality	Duality: if the CEO and Chairman are the same person, zero, otherwise, 1
Independent variables (ownership structure)		
DirOwn	Director ownership	Percentage of shares held by board of directors
OwnCon	Ownership concentration	Adding up all share ratios of shareholders of the bank who have 5% or more shares (excluding others)
InstOwn	Institutional ownership	Percentage of shares held by institutional investors
FrgnOwn	Foreign ownership	Percentage of shares held by foreign investors
Control variables		
ROA	The amount of return on total assets	Net income divided by average total assets
AudTyp	Auditor type	Big four = 1; non-big four = 0
Lvg	Leverage	Total liabilities divided by total assets
FrmSize	Firm size	Natural log of total assets
FrmAge	Firm age	Natural log of the number of years
IndTyp	Industry type	Manufacturing = 1; services = 2
Sector	Sectors	Dummy variable from 1 to 8

4 Findings and analysis

4.1 Descriptive analysis

Table 4 illustrates the minimum, maximum, mean and standard deviation values for ARL as a dependent variable (Panel A) and board structure and ownership structure as independent variables (Panel B and C) and control variables (Panel D), respectively. The overall results of the descriptive analysis indicate that the timeline between the date of the financial statements and the date of audit end meeting is an average of 56.51 days with a standard deviation of 35.74 days. The ARL for the whole sample ranges from a minimum of 3 days to a maximum of 404 days. The descriptive analysis of this wide variation in the ARL is displayed in Table 5 for each country of the 11 countries in this study.

Table 4 Descriptive statistics

	Min.	*Max.*	*Mean*	*Standard deviation*
Panel (A): dependent variables				
ARL	3	404	56.51	35.74
Panel (B): independent variables (BS)				
BrdSiz	4	17	8.5	2.39
BrdIndp	0	1	0.51	0.22
Dulity	0	1	0.97	0.17
Panel (C): independent variables (OS)				
DirOwn	0	0.95	0.13	0.2
OwnCon	0	1	0.4	0.29
InstOwn	0	1	0.31	0.3
FrgOwn	0	0.94	0.06	0.17
Panel (D): control variables				
Country	1	11	7.65	2.67
ROA	–0.65	0.58	0.07	0.09
AudTyp	0	1	0.74	0.44
Lvg	0	0.96	0.18	0.19
IndTyp	1	2	1.41	0.5
Sector	1	8	3.42	1.78
FrmSize	16.34	25.26	20.27	1.63
FrmAge	0	4.62	2.91	0.84

Table 5 Audit report delay for each country in the study sample

	ARL						
Countries	*≤30*	*31–60*	*61–90*	*91–180*	*181–240*	*≥240*	*Total*
Bahrain	5	10	0	0	0	0	15
Egypt	4	7	39	19	1	0	70
Jordan	9	11	10	3	0	2	35
Kuwait	4	32	52	2	0	0	90
Lebanon	0	3	1	1	0	0	5
Morocco	0	9	21	0	0	0	30
Oman	13	40	7	0	0	0	60
Qatar	7	41	21	1	0	0	70
Saudi Arabia	129	352	5	4	0	0	490
Tunisia	0	0	1	47	2	5	55
United Arab of Emirates	3	28	47	2	0	0	80
Total	174	533	204	79	3	7	1000

Table 5 shows the number of days taken for the audit report to be released in different Arab countries. Almost 30–50% of companies in almost all the countries listed in the table released the audit report within 31–60 days with the exception of Saudi Arabia and Bahrain where two-thirds of companies released the audit report within the same period. Egypt and Morocco are the only two countries in the table where over half of the companies released the audit report within 61–90 days while almost all the companies in Tunisia took more than 90 days to release their audit report. Very few companies in all the countries released the audit report in a period that exceeded 90 days.

Table 6 illustrates the number of days it takes for a number of companies in different sectors of industry to release the audit report. As much as 50% or a slightly higher percentage of the companies in different sectors took between 31 and 60 days to release their audit report with the exception of the IT sector where 100% of companies in this sector submitted their reports between 91 and 180 days. Very few companies released their audit report in a period that exceeded 181 days while the majority of the companies released the audit report in less than 90 days.

Table 6 Audit report delay for each sector

	ARL						
Sectors	*≤30*	*31–60*	*61–90*	*91–180*	*181–240*	*≥240*	*Total*
Energy	11	37	19	1	0	2	70
Material	73	171	52	25	3	0	324
Industry	30	113	53	24	0	5	225
Consumer discretionary	17	74	30	15	0	0	136
Consumer staples	25	73	25	2	0	0	125
IT	0	0	0	5	0	0	5
Telecommunication	17	47	20	6	0	0	90
Utilities	1	18	5	1	0	0	25
Total	174	533	204	79	3	7	1000

Figure 1 illustrates the number of companies releasing their audit report within different time periods in two industry types, manufacturing and service. As many as 281 companies out of the 533 companies that released their audit report between 31 and 60 days are manufacturing companies compared to 252 service companies. The number of manufacturing companies releasing their audit report in less than 30 days is 50, which is higher than the number of service companies releasing their audit report in the same time period. This trend of higher number of manufacturing companies submitting their report within 90 days continues in the rest of the time periods illustrated in the figure.

Figure 1 Audit report delay per industry type (see online version for colours)

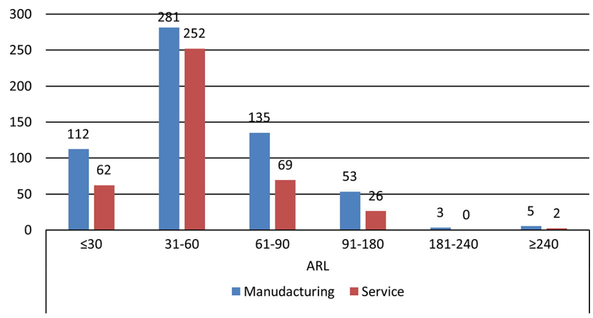
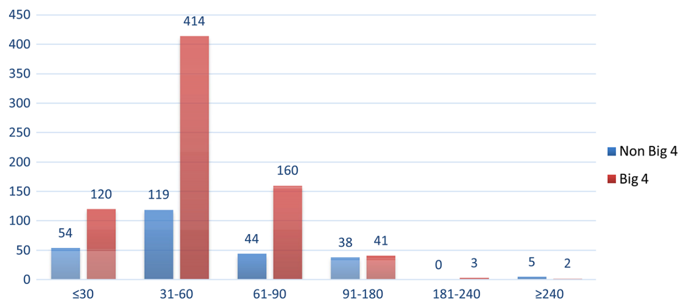


Figure 2 shows that about 69% of the companies that released their audit report in less than or equal to 30 days are audited by the big four firms compared to 31% audited by non-big-four firms. Furthermore, about 78% of the companies that released their audit report within a 31–60 days' time frame are audited by the big four firms compared to 22% audited by non-big-four firms. The higher percentage of companies audited by the big four and releasing their audit report in less than 60 days shows that big four firms are characterised by a higher audit quality.

Figure 2 Audit report delay specific to audit type (see online version for colours)



4.2 Correlation matrix

Table 7 shows the correlation matrix between the dependent variable (ARL) and the independent variables and also between the independent variables themselves. Emory (1982) suggests that multicollinearity could be found if the correlation between independent variables is more than 0.80. The correlation matrix in Table 7 shows that there is no multicollinearity between the independent variables and that the highest correlation, 0.685, exists between the ownership concentration (Owncon) and the institutional ownership (Instown). This reflects a slight multicollinearity if we hold a more conservative view. This problem can be resolved by dropping one of these two variables or by ridge regression. In this study, we will adopt both ways as a solution for this problem.

Table 7 Correlation matrix

Variables	*ARL*	*Brdsiz*	*Brdindp*	*Dulity*	*Dirown*	*Owncon*	*Instown*	*Frgnown*	*ROA*	*Audtyp*	*Lvg*	*Frmsiz*	*Frmage*
ARL	1												
Brdsiz	−0.004	1											
Brdinpd	−0.096**	0.011	1										
Dulity	−0.120**	0.049	−0.044	1									
Dirown	−0.020	0.064*	−0.072*	−0.110**	1								
Owncon	0.266**	0.119**	−0.197**	−0.060	0.109**	1							
Instown	0.249**	0.161**	−0.061	0.009	−0.261**	0.685**	1						
Frgnown	0.128**	0.197**	0.016	0.023	0.062	0.259**	0.330**	1					
ROA	−0.158**	0.104**	−0.083**	0.007	0.186**	0.175**	0.088**	0.080*	1				
Audtyp	−0.092**	0.120**	−0.070*	0.029	−0.025	0.174**	0.205**	0.073*	0.081*	1			
Lvg	0.059	−0.001	−0.051	−0.036	−0.094**	0.056	0.080*	−0.031	−0.255**	0.182**	1		
Frmsiz	0.032	0.163**	−0.076*	0.162**	−0.076*	0.079*	0.143**	0.082**	−0.046	0.242**	0.413**	1	
Frmage	0.113**	0.102**	−0.108**	−0.037	0.045	−0.017	−0.148**	−0.127**	0.111**	−0.217**	−0.125**	−0.150**	1

Note: *Significant at 5% level; **Significant at 1% level.

4.3 OLS regression results

This section provides the results from hypotheses testing carried out to examine the impact of internal corporate governance mechanisms on ARL using OLS analysis. Table 8 provides the results for the multivariate regression model. The following equation is used for this model.

Model 1:

$$\begin{aligned} ARL = \alpha &+ \beta_1 BrdSize + \beta_2 BrdIndp + \beta_3 Duality + \beta_4 DirOwn \\ &+ \beta_5 OwnCon + \beta_6 InstOwn + \beta_7 FrgnOwn + \beta_8 ROA \\ &+ \beta_9 AudTyp + \beta_{10} Lvg + \beta_{11} FrmSize + \mathrm{B}_{12} FrmAge + \varepsilon \end{aligned}$$

Table 8 OLS regression results

Variables	*Predicted Significance*	*Model 1*	*VIF*	*Model 2*	*VIF*	*Model 3*	*VIF*
boardsize	–	–0.774*	1.14	–0.856*	1.13	–0.567	1.12
		(–1.685)		(–1.855)		(–1.234)	
brdindp	–	–10.066**	1.09	–13.086***	1.05	–8.924*	1.08
		(–2.084)		(–2.734)		(–1.838)	
ceoduality	–	–22.851***	1.06	–23.975***	1.06	–22.966***	1.06
		(–3.677)		(–3.840)		(–3.670)	
dirown	+	5.037	1.39	13.416**	1.19	–6.485	1.07
		(0.819)		(2.341)		(–1.194)	
owncon	+	19.788***	2.41			34.998***	1.19
		(3.609)				(9.016)	
instown	+	22.185***	2.72	36.788***	1.34		
		(3.900)		(9.145)			
frgnown	+	16.795**	1.20	17.079**	1.20	22.491***	1.14
		(2.470)		(2.497)		(3.362)	
Roa	–	–82.424***	1.18	–79.637***	1.17	–80.515***	1.17
		(–7.002)		(–6.739)		(–6.797)	
audittype	–	–9.689***	1.17	–9.257***	1.17	–9.170***	1.17
		(–3.817)		(–3.629)		(–3.592)	
Lvg	–	–0.763	1.35	0.398	1.34	–0.928	1.35
		(–0.118)		(0.061)		(–0.143)	
firmsize	+	1.162	1.35	1.109	1.35	1.254*	1.35
		(1.585)		(1.504)		(1.699)	
firmage	+	6.453***	1.17	6.977***	1.16	5.676***	1.14
		(4.897)		(5.295)		(4.327)	
Constant		45.043***		49.477***		44.701***	
		(2.857)		(3.128)		(2.815)	

Table 8 OLS regression results (continued)

Variables	*Predicted Significance*	*Model 1*	*VIF*	*Model 2*	*VIF*	*Model 3*	*VIF*
Mean VIF			1.43		1.20		1.17
Observations		1,000		1,000		1,000	
R^2		0.182		0.171		0.169	
Adj. R^2		0.172		0.162		0.160	
F-statistics		18.302		18.560		18.320	
p-Value		0.000		0.000		0.000	

Note: *Significant at 10% level; **Significant at 5% level; ***Significant at 1% level.

Table 8 reports the OLS regression results for ARL as the dependent variable and board characteristics, ownership structure and some control variables as independent variables. The analysis for this model shows that the F-statistics is 18.302, which is significant at 1% level and R^2 equals 0.182.

For the board characteristics, the coefficient of board size (BrdSize) is negative and is statistically significant at 10% level, suggesting that decrease in the number of the board size leads to higher ARL. This study is consistent with the empirical findings of the study of Yap, Saleh and Abessi (2011) where the board size was positively significantly related to financial reporting timeliness. So, it can be said that that the increase in the board size can affect and decrease the audit report delay or increase the financial reporting timeliness. The coefficient of board independence (BrdIndp) is negative and is statistically significant at 5% level. This study is consistent with the study of Shukeri and Islam (2012), who argued that strong monitoring may affect the assessed level of inherent and control risks leading to a reduction in the extent of tests carried out to examine details, which in turn affects the timing and extent of audit work. Finally, the coefficient of CEO duality (Dualty) is negative and is statistically significant at 1% level, suggesting that the separation of CEO duality is recommended where the control risk and audit risk will be less than those risks if there is duality where exists more room for fraud. So, this study is consistent with the empirical findings of Abdelsalam and Street (2007) and Affify (2009), who found that CEO duality is associated significantly with a less timely corporate reporting.

For ownership structure, the coefficient of ownership concentration (OwnCon) is positive and is statistically significant at 1% level, suggesting that companies with high ownership dispersion are expected to urge the management to provide more information in a timely manner than those companies with higher ownership concentration. Thus, the dispersion of ownership is expected to encourage firms to disclose their financial information more quickly and to urge their auditors to issue audit report earlier (Mouna and Anis, 2013). The coefficient of institutional ownership (InstOwn) is positive and is statistically significant at 1% level, which is consistent with the empirical findings of the study of Lim, How and Verhoeven (2014), who argue that large institutional ownership can reduce information asymmetry as the institutional owner can force the management to disclose financial information in an appropriate time. Finally, foreign ownership structure (FrgnOwn) is positive and is statistically significant at 5% level. The result is consistent with the results reported by Ishak, Muhamad Sidek and Rashid (2010) and can be explained by the fact that investors are more likely to invest in firms that provide timely information to overcome the problem of information asymmetry between foreign and local investors with managers (Ahearne, Griever and Warnock, 2004; Portes and Rey 2005).

For control variables, the coefficient of audit type (Audtyp) is negative and significant at 1% level, where the big four audit firms are more encouraged to keep their reputation and name by trying to submit their report in a timely manner. This finding is consistent with the findings of other studies that reveal a significant relationship between audit type and financial reporting timeliness (Ibadin, Izedonmi and Ibadin, 2012; Shukeri and Islam, 2012; Türel, 2010). Firm age (FrmAge) appears to have an effect on ARL, where the estimated coefficient is positive and statistically significant at 1%, which is consistent with the findings of the study of Dibia and Onwuchekwa (2013), who argue that older firms are usually associated with strong internal control system, fewer control weaknesses and higher potential of reduced financial reporting lag. Finally, return on assets (ROA) has an effect on ARL, where the estimated coefficient is negative at 1% level. This study is consistent with the findings of Haniffa and Cooke (2002), who report that managers of profitable companies are more eager to disclose more and timely information.

The slight multicollinearity in model 1, where the correlation between the ownership concentration (Owncon) and institutional ownership (Instown) is 0.685 and the VIF for those variables at 2.41 and 2.72, respectively, could be due to the fact that the majority of the shares of the companies in the Arab countries are held by institutions. To overcome this problem, one of the factors should be dropped. Table 8 shows that for the two other models model 2 and model 3, in model 2 the first variable, Owncon, was dropped and in model 3 the second variable, Instown, was dropped. Consequently, the VIF values of all variables in model 1 and 2 are around 1.The results show that all three models are similar in their significance except for the following variables in model 3: the board size (Brdsize) is not significant and firm size (Frmsize) is significant, but both are not significant in the other two models. Finally, this indicates that most of the results in all the three models are similar.

4.4 Ridge regression results

To further test the hypotheses and check the robustness of the results, ridge regression can be used. Ridge regression provides an alternative estimation method that can be used where multicollinearity is suspected. Ridge regression gives an alternative estimator (k) that has a smaller total mean square error value. Table 9 shows the results of using ridge regression where the coefficients of CEO duality (Dulity), ROA and audit type (Audtyp) are negative and statistically significant at 1% level. For ownership concentration (OwnCon), institutional ownership (Instown), foreign ownership (Frgnown) and firm age (Frmage), the coefficient of each of them is positive and statistically significant at 1% level. For the board independence (Brdindp), the coefficient is negative and statistically significant at 5% level. These results of ridge regression are quite similar to the results of OLS regression provided in Table 8, especially the results of model 3. Consequently, it can be said that the results of ridge regression provided in Table 9 support the results of OLS provided in Table 8.

Table 9 Ridge regression (GRR) results

	Dependent variable (ARL)		
	Predicted significance	*Coefficients*	*t-Statistics*
Brdsiz	–	−0.689	−1.50
Brdinpd	–	−9.703	−2.01**
Dulity	–	−21.650	−3.48***
Dirown	+	3.877	0.63
Owncon	+	19.551	3.56***
Instown	+	20.524	3.61***
Frgnown	+	16.254	2.39**
ROA	–	−76.427	−6.49***
Audtyp	–	−9.200	−3.62***
Lvg	+	0.253	0.04
Frmsiz	+	1.007	1.37
Frmage	+	5.979	4.54***
Cons		47.286	3.00***
Ridge k value	0.05728		
p-Value Chi^2 (12)	0.000		
p-Value F(12, 987)	0.000		
Raw moments R^2	0.7663		
Raw moments R^2 adj	0.7635		
Log likelihood function	-4894.568		

Note: **Significant at 5% level; ***Significant at 1% level.

5 Summary and conclusions

This paper examines the effect of board characteristics and ownership structure on the timeliness of financial reporting. It investigates and reports on the extent, nature and determinants of ARL in companies listed on S&P Pan Arab. There is little empirical study on ARL in the Middle East. The importance of this paper is derived from the fact that it extends previous literature in financial reporting timeliness by examining the effect of corporate governance mechanisms on ARL among companies listed in the stock exchange of 11 countries in the Middle East. Timely financial reporting and good corporate governance is critical to the investment activities in the Middle East in a period of both political and economic instability when these countries seeks to attract more investment, particularly foreign investment. Therefore, the results of the paper provide valuable insight into the Arabian stock markets for those who seek to invest in the Middle East.

This study uses a sample of non-financial listed companies on the S&P Pan Arab Index during 2009–2013, resulting in 1,000 firm-year observations. The findings of this study reveal that the number of manufacturing companies releasing their audit report in less than 30 days is higher than the number of companies in the services sector.

Furthermore, about 78% of the companies that release their audit report within a 31–60 days' time frame are audited by the big four firms compared to 22% audited by non-big-four firms. The higher percentage of companies releasing their audit report in less than 60 days and are audited by the big four firms shows that the big four firms are characterised by a higher audit quality. The results of this study reveal that about two-thirds of companies operating in Saudi Arabia and Bahrain have an ARL of less than 60 days, which is higher compared to the timeliness of report submission by 30–50% of companies listed in the other 9 Arabian stock exchanges. Egypt and Morocco are the only two countries where over half of their respective companies release the audit report within 61–90 days while almost all companies in Tunisia take more than 90 days to release the audit report. A small number of companies in all the countries release the audit report in a period that exceeds 90 days.

For the board characteristics, the findings of this study indicate that board size, board independence and CEO duality significantly affect ARL. Using board characteristics will lead to a reduction in the extent of tests carried out to examine company financial details, which in turn affects the timing and extent of audit work. For the ownership structure, we find that ownership concentration, institutional ownership and foreign ownership significantly affect ARL. This can reduce information asymmetry as the ownership structure can force the management to disclose financial information in an appropriate time. Finally, audit type, ROA and firm age are the control variables that have a significant effect on ARL.

Shareholders in the Middle East seem to be mainly viewed as financiers with only short-term transitory interest in companies' affairs, rather than owners who are investing for the long-term. Perhaps this due to the fact that shareholders are not professionally and effectively exercising their ownership rights, such as attending and voting at AGM meetings, appointing directors and approving their remuneration, approving the appointment of company auditors and their fees, and keeping themselves informed of the affairs and performance of the company. Investors can play a vital role in improving corporate governance and disclosure practices in the Middle East. Therefore, investors should play a more active role in driving corporate governance reforms. Moreover, investors should integrate corporate governance factors in their investment decision processes.

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Note

[1]Based on information from Crowe Howarth: Country by Country Financial Reporting and Auditing Framework and PWC: Doing Business in …