

# TIMELINESS OF ANNUAL REPORT RELEASES IN RELATION TO THE DIRECTION AND MAGNITUDE OF EARNINGS AND SHARE PRICE REVALUATION: THE CASE OF MALAYSIA

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## ABSTRACT

This paper examines the relationship between the timing of earnings announcement and the direction and magnitude of earnings for more than 2482 firm-years in the Bursa Malaysia. The results confirm that CEOs time their earnings announcement based on the direction and magnitude of the unexpected earnings. CEOs announce earnings early for positive unexpected earnings, and delay the announcement for negative unexpected earnings. The market reacts to the timing of the announcement accordingly. These findings are relevant and useful to judge company performance by observing the announcement date of the company, especially those that perform less than satisfactorily in anticipation of bad news release from these firms.

Key words: Annual report release, magnitude of earnings, timeliness of report, Bursa Malaysia.

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## INTRODUCTION

The theory of earnings conservation and management, that is, whether bad news in financial statements is captured faster than good news, has been a relevant study in accounting and finance. Timing the disclosure of information has become an important decision to be made by the chief executive officers (CEOs) of listed firms. While CEOs may want an optimal disclosure time, it is questionable whether this timing strategy is effective for earnings announcement. Earnings announcements have been widely accepted as highly regular and predictable events. The announcement effects have been proven to be strongly correlated with share price revaluation. On the other hand, the Efficient Market Hypothesis has also postulated that “timing” *per se* cannot affect securities prices, as all information including timing is already imbedded into the securities prices prior to the date of announcement. However, earnings conservation and management appear to be a common practice of financial reporting. Indeed, regulators and standard setters have expressed strong concern over its widespread practice. The Malaysia Accounting Standard Board (MASB) has stated that firms must announce their earnings within a time frame from their financial year-ends. Evidence has shown that firms normally announce their earnings on an average of three months after the financial year-end.

The history of formal financial accounting and reporting in Malaysia is fairly short when compared to the more developed economies, spanning a period of only three decades. The development and advancement of accounting standards only began in the late 1970s,

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and most of the approved standards were initially mere adoption of International Accounting Standards (IASs). While some improvements were noticeable in recent years, the current reporting practices are largely based on and strongly influenced by statutes, such as the requirements of the Companies Act and the Kuala Lumpur Stock Exchange (KLSE) or Bursa Malaysia listing requirements. As such, not much has changed over the years in terms of the reporting format and the disclosure practice. Nevertheless, many listed companies were recently fined by Bursa Malaysia for delayed disclosure and their names published in local newspapers. Is this a new development in efforts by Bursa Malaysia to improve corporate covenant, or is it due to improvement in earnings management by public listed companies?

This paper examines the “timeliness effect” in terms of the duration of the announcement from the financial year-end, and their respective unexpected earnings and share price revaluation. Unexpected earnings are the actual earnings less the expected earnings calculated from the previous year’s earnings using the naïve model. The findings are important to settle the issue that the direction and magnitude of the unexpected earnings are relevant parameters as reported by Cheng et al. (2001). The authors provided evidence that investors in Bursa Malaysia revalue firms’ share prices in terms of direction and magnitude of their earnings, sometimes by as much as one is to one magnitude.

## LITERATURE REVIEW

Studies on earnings management using timing behavior have been carried out widely including the United States (Basu, 1997; Lara et al., 2005), the United Kingdom, France, Germany (Lara and Mora, 2004) and China (Haw et al., 2000).

Chen and Mohan (1994) surveyed 3,090 companies to determine whether managers placed much significance on the timing of earnings announcement. They reported that about half of the firms maintained a fixed earnings announcement schedule, whereas another half adjusted their announcement dates. Firms that varied their announcement timing reported that unexpected earnings levels have the most impact on the timing of their decision. Lower-than-expected earnings or negative unexpected earnings were more likely than higher-than-expected earnings to prompt a change in timing. These findings are important in empirical research on timing of annual reports, especially studies on why managers behave in a manner contradicting the efficient market theory.

Sinclair and Young (1991) examined the association between the timeliness of half-yearly report for Australian firms and the abnormal stock price behavior around the time of the announcement. Their results show that reports containing “good” news were released earlier than reports containing “bad” news.

Haw et al. (2000) studied the timeliness of annual report release and market reaction to earnings announcement in China. They found that firms with good news released their annual reports earlier than firms with bad news, that is, firms with losses released their annual reports late. They also observed a significant price reaction to annual earnings announcements for both early (good news) and late (bad news) reporting firms. Their results are consistent with Chambers and Penman (1984) and Bagley and Fisher (1998) that firms

unexpectedly accelerate the release of good news and delay the disclosure of bad news relative to their previous reporting pattern.

Lara et al. (2005) investigated the effect of earnings management on the asymmetric timeliness of earnings. They examined earnings conservation from a timing perspective. They interpreted conservatism as capturing accountants' tendency to require a higher degree of verification for recognizing good rather than bad news in earnings.

The reasons CEOs behave in the manner reported in the above studies are possibly due to (1) the "stakeholder theory" and (2) "internal reporting hypothesis". The "stakeholder theory" suggests that in the absence of an opportunity to hide bad news, because of the mandatory disclosure requirements, CEOs have turned to delaying their release (Watts and Zimmerman, 1990). Alternatively, the "internal reporting hypothesis" maintains that CEOs are concerned about internal evaluation, which will affect their compensation (Kross, 1982). CEOs may require more time to prepare responses, or announce it together with good news that come along. The above literature confirms the timing behavior of the CEOs, but there is little study on the subject in Malaysia. This paper examines the timing behavior of Malaysian firms which will hopefully assist regulators and standards setters to erect appropriate rules and regulations for more transparency in reporting.

## METHODOLOGY

### Research Design

This study is designed to determine whether the timing of earnings announcements and earnings changes affect the direction and magnitude of stock price revaluation. The standard event study method was applied in the study.

#### 1. Analysis of Abnormal Returns

Sharpe's Market Model (Sharpe, 1963) was used as a standard general equilibrium relationship for asset returns. Abnormal return (AR) is:

$$(1) \quad AR_{it} = R_{it} - [\alpha_i + \beta_i R_{mt}]$$

where  $AR_{it}$  is the abnormal returns of firm  $i$  at time  $t$ .  $R_{it} = \ln (P_{it}/P_{it-1})$  and  $R_{mt} = \ln (I_t / I_{t-1})$ , where, in addition to terms already defined,  $\ln$  is natural logarithm,  $P_{it}$  is the stock price of the firm  $i$  at time  $t$ , and  $I_t$  refers to the market's composite index at time  $t$ . The market parameters  $\alpha_i$  and  $\beta_i$  are estimated as ordinary least square regression parameters over trading periods,  $-60$  months to  $-3$  month relative to the announcement month. Returns are adjusted for thin-trading bias using Fowler-Rorke's method (Fowler and Rorke, 1983). The resulting risk-adjusted abnormal returns of each observation at any time over the test window is added and averaged across all the observations to obtain the arithmetic average abnormal return (AAR). The average abnormal returns over  $t = 1$  to  $T$  is then cumulated as:

$$(2) \quad CAR = \sum_{t=1}^T AAR_{it}$$

where, CAR is the cumulative average abnormal return and  $AAR_{it}$  is the average abnormal return for firm  $i$  at time  $t$ .

The accumulation is carried out over a price reaction window of  $-50$  to  $+1$ (CAR 50), and  $-1$  to  $+1$ (CAR 1), consistent with other studies for testing the statistical significance of the returns (Cheng, et al., 2001; Arif et al., 1997).

## 2. Analysis of Unexpected Accounting Earnings

Unexpected earnings are computed using the naive expectation model, which assumes that the next period's expectation is simply the current period's earnings. This is also consistent with the design of the study to investigate the contemporaneous effect of price change at a point in time. Raw unexpected earnings (RUE) are computed using the naive model:

$$(3) \quad RUE_{it} = E_{it} - E_{i(t-1)}$$

where  $RUE_{it}$  is the raw unexpected earnings of firm  $i$  at time  $t$  and  $E_{it}$  is earnings for firm  $i$  at time  $t$ . The unit normal variables are estimated as follows:

$$(4) \quad SUE_i = RUE_{it} / \sigma_{(UEi)}$$

where  $SUE_i$  is standardized unexpected earnings for firm  $i$ , and  $\sigma_{(UEi)}$  is standard deviation of unexpected earnings.

This transformation, which mitigates the effect of changing variance or heteroscedasticity on the variables, yields unexpected value of earnings variable adjusted for volatility differences,  $\sigma_{(UEi)}$ .

## 3. Analysis of Shift in the Earnings Announcement Dates

This paper uses two measures on the dates of announcement. The first measure (1) is the days of announcement from the year-end dates (DYE) and (2) is the days of announcement from the mean announcement dates, which is the unexpected shift in earnings announcement dates (UAD).

Unexpected shift in earnings announcement dates are computed using current period's earnings announcement dates less the previous period average announcement dates. The values are either negative or positive, where negative means a shift to earlier announcement and positive means a delay in announcement. This is also consistent with the design of the study to investigate the contemporaneous effect of price change at a point in time. Unexpected earnings announcement dates (UAD) are computed as follows:

$$(5) \quad \text{UAD}_{it} = \text{AD}_{it} - \text{MAD}_{i(t-1)}$$

where  $\text{UAD}_{it}$  is unexpected announcement dates for firm  $i$  at time  $t$  in days,  $\text{AD}_{it}$  is announcement dates for firm  $i$  at time  $t$  in days, and  $\text{MAD}_{i(t-1)}$  is average announcement dates for firm  $i$  at time  $t-1$  days.

## Research Methodology

### 1. Grouping Stocks into Quartiles.

Grouping the data according to unexpected announcement dates helps to reduce the effect of the disturbance term which is large in individual stocks. This leads to an increase in the estimated t-test at group level. Grouping is one approach that has been used to reduce the errors-in-variables problem (Beaver et al., 1979; 1980; 1987; Ariff et al., 1997).

The portfolios are set up initially by ranking all stocks according to the magnitude of their unexpected announcement dates (UAD). To form 4 quartiles, 25% of the stocks with the highest UAD ranking are placed in the first quartile. The next highest 25% are arranged in the second quartile, and so forth until the fourth quartile which contain the last 25% of the observations with the lowest unexpected announcement dates (UAD).

An independent sample test is then used to test the difference of means for the first and the fourth quartile in terms of the days of announcement from financial year-end, the days of announcement from the previous mean announcement dates, the raw unexpected earnings, the standardized unexpected earnings, the CAR(50) and CAR (1).

The study includes calculating the correlation coefficients of the unexpected earnings and their respective abnormal returns for samples that announce earnings early and samples that announce earnings late. The magnitudes of the correlation coefficients are compared for any differences.

## Hypotheses

The major hypothesis in this study is that firms unexpectedly accelerate the release of good news and delay the disclosure of bad news relative to their previous reporting pattern. The abnormal returns will also vary according to the dates of the announcements.

Hypothesis 1: Changes in the unexpected earnings affect changes in announcement dates.

Null Hypothesis:  $\mu_1 = \mu_4$ . (Where,  $\mu_1$  is the mean announcement dates for quarter 1 firms, and  $\mu_4$  is the mean announcement dates for quarter 4 firms)

The null hypothesis is that there is no difference in the mean announcement dates of quarter 1 and quarter 4 firms. The null hypothesis is rejected when the t-test for equality of means is significant, that is, the unexpected announcement dates have

different means for early earnings announcement firms and late earnings announcement firms.

Hypothesis 2: Changes in announcement dates affect the investors' valuation of the share price in response to the unexpected earnings.

Null Hypothesis: Correlation coefficients between earnings and returns ( $\rho$ ) = 0, and the t-test is insignificant.

However, if the correlation coefficients between earnings and returns ( $\rho$ ) is  $> 0$  at 0.05 level, this will provide evidence that investors revalue share prices in response to the changes in announcement dates.

## Data

The data used in this study are from the Daily Diary, Investor Digest published by the Kuala Lumpur Stock Exchange. The data consisting of daily, monthly stock prices, and earnings announcement dates were collected from a random sample of 160 firms over the period of January 1988 to July 1997. From these firms, a total of 2,482 annual earnings announcements were collected.

### 1. Earnings Announcement

The sample period is from January 1988 to July 1997. During this period, no major significant event happened in the Accounting Profession, except for:

- a. The revision of the Ninth Schedule of the Companies Act in 1985, which specifically requires that a statement of source and application of funds be an integral part of the financial statement; and
- b. The establishment of Securities Commission under the Securities Commission Act 1993, and the issuing of Policies and Guidelines on the issue/offer of securities in December 1995. The latter contains the corporate disclosure policy, post-listing obligations and accounting standards and valuation/revaluation of assets.

Therefore, the sample collected during this period is considered to be "clean" enough for analysis. An issue of concern in collecting earnings data is the confounding effect of other information such as accounting changes, merger proposals, bonuses or restructuring occurring at about the same time as the earnings announcements. This study selected only pure earnings announcements for analysis eliminating observations confounded by the above.

## 2. Earnings Announcements over January 1988 to July 1997

The Kuala Lumpur Stock Exchange's Daily Diary earnings announcement dates were collected for a random sample of 160 firms over the period January 1988 to July 1997. The total sample consists of 2,482 annual earnings announcements.

Table 1, column 2 and 3, shows the monthly frequency distribution of the financial year-end for all the observations from 1988 to 1997. The distribution shows that 50.2% had the financial year-end in December, followed by 25.7% in June, 12.2% in March and 9.1% in January. Less than 5% of the firms had financial year-end in the remaining months. Comparing the frequency distribution with the actual frequency distribution in the KLSE main board (Table 1, column 6 and 7), the two distributions are very close to each other. Therefore, the sample is representative of the firms listed on the KLSE main board.

Table 1. Monthly Frequency Distribution of Financial Year-end  
for all Observations from 1988 to 1997

Month	Financial Year-end for Total Sample		Financial Year-end for Test Sample		KLSE Main Board	
	Number	%	Number	%	Number	%
Jan	226	9.1	38	8.9	33	7.4
Feb	6	0.2	0	0.0	3	0.7
Mar	304	12.2	29	6.7	58	13.0
Apr	91	3.7	5	1.2	18	4.0
May	28	1.1	5	1.2	4	1.0
Jun	638	25.7	61	14.2	85	19.1
July	32	1.3	3	0.7	7	1.6
Aug	54	2.2	5	1.2	7	1.6
Sep	59	2.4	4	0.9	10	2.3
Oct	34	1.4	8	1.8	3	0.7
Nov	13	0.5	5	1.2	2	0.5
Dec	1247	50.2	267	62.2	215	48.3
Total	2482	100.0	430	100.0	445	100.0

The frequency distribution of all categories of earnings announcement dates by year and by month is presented in Table 2, column 2, 3, 7 and 8. There were 200 to 300 announcements per year. Generally most of the firms made their announcement in March, April, May, June and September, the reason being that most firms have their financial year ending on 31<sup>st</sup> December (see Table 1). Therefore they announced their annual year-end results three to four months after the financial year-end, that is in March and April.

Table 2. Frequency Distribution of Earnings Announcements

Year to Year Basis					Month to Month Basis				
Year	Total Sample		Test Sample		Month	Total Sample		Test Sample	
	Number	%	Number	%		Number	%	Number	%
88	315	12.7	51	11.9	Jan	49	2.0	4	0.9
89	226	9.1	48	11.2	Feb	115	4.6	32	7.2
90	255	10.3	40	9.3	Mar	289	11.6	171	38.9
91	221	8.9	41	9.6	Apr	388	15.6	84	19.0
92	209	8.4	53	12.4	May	278	11.2	41	9.3
93	205	8.3	48	11.2	Jun	267	10.8	10	2.3
94	209	8.4	39	8.9	July	126	5.1	8	1.9
95	269	10.8	44	10.3	Aug	149	6.0	20	4.6
96	259	10.4	39	9.1	Sep	242	9.8	34	7.6
97	314	12.7	27	6.3	Oct	116	4.7	14	3.2
					Nov	92	3.7	7	1.6
					Dec	71	2.9	5	1.2
Total	2482	100.0	430	100.0		2482	100.0	430	100.0

The Companies Act 1965 requires all companies to prepare and publish audited financial statement latest by six months after the financial year unless special permission is granted by the KLSE. However, most firms announced their results earlier and published the financial statement later. Table 3 shows the frequency distribution of the earnings announcements after the financial year-end. The table shows that 41.0% announced their results between 2–3 months from the financial year-end, 22.8% between 3–4 months and 13.5% between 4–5 months. Less than 3.4% of the announcements were released after six months from the financial year-end.

Table 3. Frequency Distribution of Earnings Announcement based on Days after the Financial Year-End (n = 2482)

Days	0–30	31–60	61–90	91–120	120–150	150–180	>180
Count	35	260	1018	566	336	182	85
Percent	1.4	10.5	41.0	22.8	13.5	7.3	3.4

### 3. Final Earnings Announcement Test Sample

Imposing the selection criteria described in (1) led to removal of rights, bonus, and special issue announcements in order to remove the confounding effects of these non-earnings related disclosures. The announcement of financial year-end pure disclosures formed the sample consisting of 430 earnings announcements in this study. In forming portfolios by ranking the earnings, cases with zero values are identified and excluded from the portfolios;



the final sample consisted of 430 observations.

Table 1, column 4 and 5, shows the frequency distribution of the test sample annual earnings announcement by their financial year-end. The table indicates that 62.2% of the test sample has financial year-end in December, followed by 14.2% in June and 8.9% , 6.7% in January and March respectively. Very few firms have financial year-end in other months.

The frequency distribution of the test samples annual announcement dates by month and year is shown in Table 2, column 4, 5, 9 and 10. There were about 40–50 earnings announcement selected for each year, indicating an even distribution throughout the years 1988 to 1997, except for 1997 where fewer test samples were obtained as they were collected only up to July 1997.

For months, the percentage announcements vary from 0.9% (January) to 38.9% (March). The percentages for the rest of the months are 19.0% in April, 9.3% in May, and less than 10% for the rest. This distribution as compared with the total sample from Table 1 is similar in terms of frequency.

A total of over 2,482 earnings announcement observations were collected for the 10-year test period. From the above large sample, only 430 annual year-end announcements were selected for analyses after applying strict selection procedures to remove confounding effects to produce pure observation samples.

## RESULTS

Table 4 (Panel A) shows the descriptive statistics for the days of announcement from the financial year-end, the unexpected earnings and the cumulative abnormal returns of the test sample. The days of announcement from the financial year-end (DYE) have a mean of 89 days (approximately 3 months). The standard deviation is 23 days. The minimum number of days for firms to declare their year-end results is 36 days, slightly more than a month. The maximum number of days for firms to announce their year-end results is 161 days (approximately more than 5 months) in this sample. The descriptive statistics also show that some firms have shifted the announcement day earlier by 48 days and some have delayed their announcement dates from the previous period mean announcement dates by 69 days. The raw unexpected earnings have a mean and standard deviation of 2.576 cents per share and 10.918 cents per share respectively. The minimum raw unexpected earnings of firms is –40.7 cents per share (loss). The maximum raw unexpected earning is 50.2 cents per share (gain). The 50 days risk adjusted cumulative abnormal earnings has a mean and standard deviation of 0.4% and 11.2% respectively. The minimum risk-adjusted cumulative abnormal return is –36.1% and the maximum risk-adjusted cumulative abnormal return is 35% during earnings announcement. The risk adjusted cumulative abnormal returns on the day before and after the announcement varies from –14.5% to 12.5%. The firms in this sample can have a 14.5% drop or 12.5% increase in their share price over the three days window. The mean and standard deviation of the earnings per share are 23.2 cents per share and 22.2 cents per share respectively. The raw earnings per share vary from –37 cents per share (loss) to 106 cents per share (gain) for the test sample during these periods.

Table 4. Descriptive Statistics for Days of Announcement, Unexpected Earnings and Cumulative Abnormal Returns for Full Test Sample (Panel A), 1<sup>st</sup> Quartile (Panel B) and 4<sup>th</sup> Quartile (Panel C)

Panel A: Full Test Sample: n = 430				
Indices	Mean	Std. Deviation	Minimum	Maximum
DYE	89	23	36	161
UAD	0	15	-48	69
RUE	2.586	10.918	-40.700	50.200
SUE	0.291	0.903	-2.590	3.106
CAR50	0.004	0.112	-0.361	0.350
CAR1	0.002	0.035	-0.145	0.125
EPS	23.20	22.20	-37.00	106.40

  

Panel B: 1 <sup>st</sup> Quartile (Early Announcements): n = 104				
Indices	Mean	Std. Deviation	Minimum	Maximum
DYE	78	14	36	123
UAD	-16	9	-48	-6
RUE	3.816	8.194	-20.800	49.500
SUE	0.412	0.857	-2.125	2.812
CAR50	0.034	0.115	-0.236	0.339
CAR1	0.008	0.033	-0.078	0.104
EPS	21.00	18.90	-13.00	100.10

  

Panel C: 4 <sup>th</sup> Quartile (Late Announcements): n = 104				
Indices	Mean	Std. Deviation	Minimum	Maximum
DYE	113	23	57	161
UAD	19	15	6	69
RUE	0.964	10.667	-36.900	43.000
SUE	0.132	0.838	-2.590	2.383
CAR50	-0.024	0.115	-0.306	0.276
CAR1	-0.003	0.034	-0.082	0.114
EPS	17.90	21.20	-15.30	101.50

Indices: DYE = the number of days from announcement dates to Financial year-end dates  
 UAD = the number of days between the announcement dates to the previous mean announcement dates  
 RUE = Raw Unexpected Earnings = this year earnings minus last year earnings  
 SUE = Standardized Unexpected Earnings  
 CAR(50) = Cumulative Abnormal Returns from -50 to +1 days  
 CAR(1) = Cumulative Abnormal Returns from -1 to +1 days  
 EPS = Earnings Per Share

Table 4, Panel B shows the descriptive statistics of the 1<sup>st</sup> quartile of the test sample. The 1<sup>st</sup> quartile consists of 104 firms that announce earnings earlier by 6 to 48 days from the previous average announcement dates (mean announcement dates). These firms announce their earnings from 36 to 123 days from their year-end dates. Their mean UAD is 16 days earlier than their mean announcement dates or 78 days from the year-end dates. These firms have a mean EPS and raw unexpected earnings of 21 and 3.816 cents per share respectively. The CAR50 and CAR1 are 3.4% and 0.8% respectively

Table 4, Panel C, shows the descriptive statistics of the 4<sup>th</sup> quartile of the test sample. The 4<sup>th</sup> quartile consists of 104 firms that have delayed their earnings announcement. The 4<sup>th</sup> quartile firms delay their earnings announcements by 6 to 69 days from their previous average announcement dates or they announce their earnings from 57 to 161 days from their year-end dates. Their mean UAD is 19 days later than their mean announcement dates or 113 days from the year-end dates. These firms have a mean EPS and raw unexpected earning of 17.9 and 0.964 cents per share respectively. The CAR50 and CAR1 are -2.44% and -0.3% respectively.

Table 5 shows the frequency distribution of the earnings announcement date based on the day after the financial year-ends (Panel A) and previous mean announcement dates (Panel B). Panel A shows that all firms have announced their earnings within the six months period stipulated by the accounting standard. The firms announce their earnings between 2 to 3 months is 58.1%, 3 to 4 months is 31.3%, 4 to 5 months is 9.0%, 1 to 2 months is 8.6% and follow by 5 to 6 months at 1.4%. Table 5, Panel B shows the frequency distribution of

Table 5. Frequency Distribution of Earnings Announcement based on Days after the Financial Year-end (Panel A) and Mean Announcement Date (Panel B)

Panel A: Days after Financial Year-end: n = 430							
Days	0–30	31–60	61–90	91–120	120–150	150–180	>180
Number	0	37	250	135	39	6	0
Percent	0.0	8.6	58.1	31.3	9.0	1.4	0.0
Panel B: Days from the Mean Announcement Dates: (n = 430)							
Days	-48 to -20	-20 to -10	-10 to -1	0	1 to 10	10 to 20	20 to 69
Number	27	45	141	35	122	26	23
Percent	6.2	10.5	32.8	8.1	28.3	6.0	5.3

firms that announce their earnings early and later than their previous mean announcement dates. Most of the firms have maintained their announcement dates within ten days from their previous mean announcement dates (70%). Some of the firms (16.7%) have announcements earlier by more than 10 days and some (11.3%) have delayed their announcement by more than 10 days.

Table 6 summarizes the independent samples test for the 1<sup>st</sup> quartile (firms that announce earnings early) and the 4<sup>th</sup> quartile (firms that announce earnings late). The results

show that the days from the announcement dates to the financial year-ends have a t-value of  $-13.087$ , which is significant at 0.000 level. Similarly, the t-statistics for the days of announcement from their previous mean announcement dates is  $-20.258$ , significant at 0.000 level. The raw unexpected earnings and the standardized unexpected earnings have t-statistics of 2.165 and 2.381 respective which are significant at 0.05 level. The 50-days risk-adjusted cumulative returns (CAR50) have a t-statistic of 3.605, significant at 0.000 level. The t-statistics for CAR1 is 2.445, significant at 0.05 level. All the above results indicate that the t-test reject the null hypothesis of equal means, which suggest that the firms that announce earnings early are different from the firms that announce earnings late in terms of their unexpected earnings and the share price revaluation. The magnitudes are such that the firms that announce earnings early have a higher raw unexpected earning (RUE) and larger cumulative abnormal return for both long (CAR50) and short (CAR1) windows. The t-statistics for EPS is 1.122, and a p-value of 0.263, which is not significant at 0.05 level. In

Table 6. Independent Samples Test For 1<sup>st</sup> Quartile (Early announcement firms) and 4<sup>th</sup> Quartile (Delay announcement firms) Samples: t-test for Equality of Means

Indices	Mean Difference	Std. Error Difference	t-values	Significant (2-tailed) p-values
DYE	-35	2.668	-13.087	0.000***
UAD	-35	1.735	-20.258	0.000***
RUE	2.852	1.317	2.165	0.032*
SUE	0.280	0.118	2.381	0.018*
CAR50	0.057	0.016	3.605	0.000***
CAR1	0.011	0.005	2.445	0.015*
EPS	0.031	0.028	1.122	0.263

Note: Significant at  $p=0.05$  (\*),  $p=0.01$  (\*\*), and  $p=0.001$  (\*\*\*) levels. For details of indices, please refer to Table 4.

other words, firms that announce earnings early or late are not influenced by the level of earnings per share. They based their decision on the raw unexpected earnings and the standardized unexpected earnings. The investors will then revalue their share accordingly. This is consistent with the literature in developed markets that CEO time their earnings announcement dates based on the direction and magnitude of their earnings. Malaysian CEOs are behaving in the same way as managers in other developed countries, as suggested by either the “stakeholder theory” or the “internal reporting hypothesis” where they delay announcing bad news.

Table 7. Correlation Coefficients between Unexpected Earnings and Cumulative Abnormal Returns.

Panel A					
Correlation Coefficients between RUE with CAR(50) and CAR(1)					
Sample	n	RUE with CAR (50)	t-values	RUE with CAR (1)	t-values
Early announcement	205	0.295	4.40***	0.327	4.96***
Delayed announcement	181	0.245	3.38***	0.164	2.22*

  

Panel B					
Correlation Coefficients between SUE with CAR(50) and CAR(1)					
Sample	n	SUE with CAR (50)	t-values	SUE with CAR (1)	t-values
Early announcement	205	0.334	5.06***	0.290	4.32***
Delayed announcement	181	0.268	3.74***	0.158	2.14*

Note: t-values are significant at  $p=0.05$  (\*),  $p=0.01$  (\*\*), and  $p=0.001$  (\*\*\*) levels

RUE = Raw Unexpected Earnings = this year earnings minus last year earnings

SUE = Standardized Unexpected Earnings

CAR(50) = Cumulative Abnormal Returns from -50 to +1 days

CAR (1) = Cumulative Abnormal Returns from -1 to +1 days

Table 7 shows the correlation coefficients between the unexpected earnings and cumulative abnormal returns for firms that announce earnings early and firms that announce earnings late. Table 7, Panel A, shows that the correlation coefficients between the raw unexpected earnings (RUE) with CAR(50) and CAR(1) are 0.295 and 0.327 respectively for firms that announce earnings early. Their t-values are 4.40 and 4.96 respectively which are significant at 0.000 level. However, for firms that announce earnings late, the correlation coefficients between raw unexpected earnings with CAR(50) and CAR(1) are 0.245 and 0.164 respectively. The t-value for correlation coefficient of 0.164 is 2.22, significant at 0.05 level only. Table 7, Panel B, shows that the correlation coefficients between standardized unexpected earnings (SUE) with CAR(50) and CAR(1) are 0.334 and 0.290 respectively for firms that announce earnings early. Their t-values are 5.06 and 4.32 respectively which are significant at 0.000 level. However, for firms that announce earnings late the correlation coefficients between standardized unexpected earnings with CAR(50) and CAR(1) are 0.268 and 0.158 respectively. Therefore, firms that announce earnings late have consistently smaller correlation coefficients between the unexpected earnings and the abnormal returns. These results provide evidence that investors value early earnings announcements and respond weakly to late announcements. The reasons may be due to (1) the lower unexpected earnings in late announcement, (2) investors have already adjusted their expectation or (3) more non-earnings information was released prior to the earnings announcement thereby resulting in a lesser announcement effect. The results in this section

confirm that although CEOs time their earnings announcement based on the direction and magnitude of their firms' unexpected earnings, investors are however, intelligent enough to price their shares according to their own interpretation of the financial results.

## CONCLUSION

This paper investigates the timeliness of the annual report announcements of Malaysian firms in relation to the direction and magnitude of their unexpected earnings, and the reaction of the market to the announcements. The study concludes that the direction and magnitude of the unexpected earnings differ significantly between firms that release their annual reports early and firms that release their annual reports late. Market reaction to their releases also indicates their differences in terms of the values of the risk-adjusted cumulative returns.

The findings in this paper are that Malaysian CEOs announce positive unexpected earnings early and negative unexpected earnings late. In the absence of an opportunity to hide bad news, because of the mandatory disclosure requirements, Malaysian CEOs have turned to delaying their announcement of negative unexpected earnings. Alternatively, the Malaysian CEOs are concerned about internal evaluation, which will affect their compensation. Malaysian CEOs require more time to prepare their responses in the hope of announcing them together with good news that might come along. This study confirms that Malaysia CEOs have a set timing behavior which is little different to their overseas counterpart.

For the investors, they react significantly to the timing of the announcement of unexpected earnings, their response being positive to announcements that are early. Earlier studies by Cheng et al. (2001) indicated that investors can price the share value as much as one is to one to unexpected earnings. On the other hand, investors react to delayed earnings announcements with less vigour and enthusiasm.

In summary, this paper concludes that the direction and magnitude of earnings released by Malaysian firms affect the timing of the annual report. The market then reacts to the announcements accordingly. This study adds to the existing literature on financial reporting, as it documents the timing behavior of Malaysian firms listed in the Bursa Malaysia which was not available earlier. Further, this study also established the direction and magnitude of earnings that affect the timing behavior of Malaysian firms, together with the response of the investors to them. Based on this study, it is suggested that the MASB should streamline the timing of annual report announcements in line with our emphasis on better corporate covenant in public listed companies.

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