Aalto University
School of Business

Understanding timeliness and quality of financial reporting in a Finnish public company

Accounting

Master's thesis

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2013

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Aalto University
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Master's Thesis
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Spring 2013
Accounting

Approved in the Department of Accounting __ / __20___ and awarded the grade

____

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Abstract of master's thesis

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Title of thesis Understanding timeliness and and quality of financial reporting in a Finnish public company

Degree Ms.c Accounting

Degree programme Master

Thesis advisor(s) Seppo Ikäheimo

Year of approval 2013 **Number of pages** 93 **Language** English

Abstract

The objective of this study is to understand the reporting practices of the case company in terms of timeliness and quality. The study aims to explain and describe the factors behind the reporting behavior, both motivational factors and those affecting the quality and reporting lag. In addition, it aims to observe and analyze the case company's perceptions of reporting lag and quality of financial information. This study does not particularly aim to look for a generalization to a wider array of companies but the goal is to understand and interpret the phenomenon in this specific case company, eventually offering us a better comprehension of its reporting practices.

The empirical part of the study is conducted in a case company by doing a qualitative research. The qualitative research was executed as interviewees. The case company was chosen based on the fact that it has gone through major changes in its reporting environment recently and these changes have concerned especially the fastening of financial reporting and improvements of quality. This offers a great basis for analyzing the reporting behavior.

The main outcomes of this study present that the size and multinationality affect the reporting lag as well as taxation and other internal determinants stated in the study. The board and CFO's role can be seen as important factor contributing to faster reporting and the employees also affect this practice by executing the changes. On the motivational side, company image is a major reason for faster reporting in the case company. In addition, the welfare of employees and management capability are important motivators behind case company's reporting behavior. Lastly, the good quality of financial reporting indicates better transparency and best practice behavior which ultimately improves the company image.

Keywords Timeliness, financial statements, quality, information content, transparency

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Maisterintutkinnon tutkielman tiivistelmä

Tekijä Tiia Lehtinen		
Työn nimi Understanding timeliness and quality of financial reporting in a Finnish public company		
Tutkinto Maisteri		
Koulutusohjelma Laskentatoimi		
Työn ohjaaja(t) Seppo Ikäheimo		
Hyväksymisvuosi 2013	**Sivumäärä** 93	**Kieli** Englanti

Tiivistelmä

Tämän tutkielman tavoitteena on ymmärtää case-yrityksen raportointikäytäntöjä laadun ja raportointinopeuden näkökulmasta. Tutkielma pyrkii selittämään ja kuvaamaan niitä tekijöitä, jotka vaikuttavat raportointinopeuteen, kuten myös motivaationtekijöitä. Lisäksi se pyrkii analysoinmaan ja havainnoimaan case -yrityksen näkemystä raportointiviiveestä ja tiedon laadullisuudesta. Tämä tutkielma ei erityisesti tavoittele tulosteen yleistämistä laajempaan joukkoon yrityksiä, vaan päämääränä on ymmärtää ja tulkita ilmiötä tässä kyseisessä case-yrityksess, tarjoamalla paremman käsityksen sen raporointikäytänteistä.

Tutkielman empiirinen osio toteutettiin case -yrityksessä kvalitatiivisena tutkimuksena. Kvalitatiivisena tutkimusmenetelmänä käytettiin teemahaastatteluja. Kyseinen case-yritys valittiin, koska se on tehnyt suuria muutoksia raportointikäytänteissään viime vuosina ja nämä muutokset ovat koskeneet erityisesti raportoinnin nopeuttamista ja sen laadun parantamista. Tämä tarjosi erittäin hyvän pohjan tutkielman empiiriselle tutkimukselle.

Empiirinen tutkimus osoitti, että yrityksen koko ja kansainvälisyys vaikuttavat selvästi raportointiviiveeseen kuten myös verotus ja muut sisäiset tekijät, jotka on tarkemmin esitelty tutkimuksessa. Hallituksen ja CFO:n rooli voidaan myös nähdä merkittävänä vaikuttajana nopeammalle raportoinnille kuten myös itse työntekijät, jotka toteuttavat muutokset. Motivaationa nopeammalle ja paremmalle raportoinnille toimii erityisesti hyvä yrityskuva. Lisäksi työntekijöiden hyvinvointi ja johdon kyvykkyys ovat tärkeitä tekijöitä, jotka vaikuttavat case-yrityksen raportointikäytänteisiin. Myös raportoinnin hyvä laatu indikoi parempaa läpinäkyvyyttä ja best practice -käytöstä, mikä taas johtaa parempaan yrityskuvaan.

Avainsanat Raportointiviive, raportoinnin laatu, läpinäkyvyys

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FASB: Financial accounting standards board

IASB: International accounting standards board

1. Introduction

1.1. Motivation

"The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.-- Consequently, they are the primary users to whom general purpose financial reports are directed.-- However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors." Conceptual framework for financial reporting of IASB, 2010

As the accounting standard-setters IASB and FASB have justified the aims of financial reporting, prior academic literature also gives various reasons for the disclosures. These include among others the reduction of transaction costs in the markets, the avoidance of adverse selection and the prevention of big negative share price changes due to the earnings releases (Lang and Lundholm, 1993). Moreover, the financial reporting aims to ease the efficient allocation of capital in the markets (Chen et al., 2011).

Considering the quality and timeliness of financial statements, they both are of high significance to the wide array of various users; stakeholders, managers, financial analysts, regulatory authorities and professional bodies (Mahajan and Chander, 2008). In fact, the importance of financial information is in many cases justified with the agency problem. Managers usually possess superior information compared to many stakeholder groups (Kothari et al., 2009). The stakeholders are parties who affect or are affected by the company explicit or implicit. These parties include among others investors, employees, customers and suppliers. (Bowen et al., 1992) In this context, the stakeholders are usually interested in monitoring the company, but the level of interest varies. According to Bowen et al., the stakeholders with big commitments are more interested in overseeing than the parties who have smaller ties to the company and who prefer low-cost monitoring e.g. financial press news. The authors argue that the managers might manipulate the timing of

earnings releases since they know that influencing these less informed stakeholders can probably be beneficial to the company.

Prior literature has given a lot of evidence which indicates that timing is a crucial element for the financial statements. Givoly and Palmon (1982) state that the timeliness of earning releases is a critical factor in determining the usefulness of financial information. Following Carslaw and Kaplan (1991), timeliness is also an important qualitative attribute in the financial releases meaning that the financial information should reach the interested parties as soon as possible. However, there are also contrary arguments indicating that the usefulness of financial information has been deteriorating due to a change in the economic conditions and operations of the companies (Lev and Zarowin, 1999). However, many researchers argue that the timing of earnings releases is of high significance since markets' reactions are created by the announcements of financial releases (Kinney and McDaniel, 1993).

In addition, most national regulatory authorizes have recognized the importance of timeliness of earnings releases; they have set limits to the maximum allowed disclosure time which depends on the country in a question. However, in the fast-developing global economy, where among others investors and other stakeholder groups demand for more transparent and open communication with the companies, the filing requirements have to be adapted to the changing needs. For instance, Securities and Exchange Commission (SEC) has reduced the filing deadlines for the annual reports from 90 days to 60 days in order to improve the market efficiency in the U.S. (SEC Form 10-K). However, it should be noted that regulatory strains e.g. introduction of SOX caused significant increases in the companies' financial reporting lags in the U.S. (Ettredge et al., 2006). Yet, the managers of companies have an opportunity to decide the time for their earnings releases to some extent and for that reason the timing of earnings releases varies widely among companies (Aljiri, 2008). Hence, what can we expect the timing of earnings release to reveal of the company or the motivations of the managers? And what kind of factors lies behind the company's timing decisions and actions? For instance, it has been presented that the financial reports published earlier than expected have bigger price effects compared to later than expected announcements on the markets. The later announcement indicates that the information

content of report is rather negative for the market. (Chamber and Penman, 1984) According to Kasznik and Lev (1995), the companies going to inform about bad news tend to give more discretionary disclosures than the companies with good news. Moreover, the companies tend to give warnings when the bad results have a tendency to be permanent and usually do not inform about transitory disappointments. In addition, the larger the earnings surprise, the bigger the probability of discretionary disclosures. (Kasznik and Lev, 1995)

Moreover, Chambers and Penman (1984) suggest that the companies with larger reporting lags are associated with less price variability which indicates that some of the information is supplied through other sources than the actual earnings announcement to the interested parties. Hence, the annual earnings releases are most probably not the only source of financial information for the stakeholders, but the earnings announcements are at least less costly and more reliable compared to other sources of information (Givoly and Palmon, 1982).

Although timing seems to be an essential feature per se, quality is closely related to timeliness and also an important character of financial statements. FASB (1980) has stated that reliability and relevance are two key concepts which make financial information useful for the shareholders and other stakeholders and that the financial statements must be timely in order to be relevant.

"Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is."
Conceptual framework for financial reporting of IASB, 2010

Thus, the financial information has two qualitative aspects which are relevance and reliability. FASB (1980) notes that timeliness is an important factor affecting relevance but it also points out that emphasizing timeliness of reporting may have a negative impact on other characteristics of financial information and result in a loss in usefulness. FASB argues that it may be sometimes justified to sacrifice precision for timeliness since quickly made approximations are often more useful than precise information taking too long to publish. However, FASB points out that if the reliability is too questionable due to the emphasizing of timeliness, the total usefulness of information may suffer significantly.

While experiencing nasty flashbacks as a result of the Enron era and recent financial crisis, it is not surprising that the different interest groups as well as the regulatory authorities have put serious attention towards the quality of financial statements, not forgetting transparency aspect either. The quality of financial reporting is an important feature not only for the companies but also for the stakeholders and for the whole capital market. For instance, it has been presented that the reporting quality has positive effects on the efficiency of investing (Chen et al., 2011). However, Choi and Pae (2011) state that the quality of financial statements varies a lot even if the companies follow same accounting standards and even if they operate under same financial reporting rules. Thus, many factors having an effect on quality have been recorded in the previous research. For instance, the reporting quality is affected by the degree of earnings management, the degree how accurately accruals predict future operating cash flows and the degree of accounting conservatism. The third dimension of quality, the degree of accounting conservatism, refers to the timelier recognition of bad news than of good news. (Choi and Pae, 2011)

This short overview of the prior literature shows how important subject timeliness is, not only for the stakeholders but also for the companies in the sense that they have an opportunity to influence the shareholders' perceptions about the information content and importance of their financial statements by determining the timing for the disclosures. Moreover, as a result of fast developing operational environments and technology, the timeliness of financial reporting has become a significant factor for the companies to consider (Owusu-Ansah and Leventis, 2006). Regardless of a wide set of accounting standards and regulations aiming to guarantee a harmonized and fair financial reporting, there seems to be large amount of varying practices concerning the timing and quality of reporting. That is why it is interesting to research what kind of motivational factors affect the disclosure behavior of companies and what the companies believe they might benefit from the fast reporting.

1.2. Objectives

The empirical part of the study is conducted in the case company in order to analyze and observe its reporting practices and conceptions, and to compare practice to the theory. The

company in question is a publicly traded Finnish industrial company and one of the biggest companies in Finland measured by the amount of sales (Balance Consulting, 2011). The case company has a strong international focus by operating worldwide in the paper and wood products industry and has recently gone through an enormous transition process in its financial and accounting administration side. This has changed the company's accounting and reporting practices significantly. Moreover, the company renewed its closing and reporting practices considerably in 2011 and it also aims to continue improving its reporting customs in the future.

The objective of this study is twofold; the study aims to investigate what kind of motivation factors make the firms to speed up the publication of their financial reports. On the other hand, the study also focuses on the quality perspective of financial statements. The former is conducted through analysis of different factors related to timeliness; first, the study aims to reason why earnings announcements, whether quarterly or annual, are important to the stakeholders. Secondly, the study validates why the timeliness of earnings releases is a crucial determinant of relevance concerning financial information. Thirdly, the factors affecting the timing of releases are examined.

To sum up the above-mentioned research questions, the main purpose of this study is to explain and describe the timeliness and quality aspects of financial reporting in the case company and to shed light to this phenomenon using a case perspective. Since the majority of previous studies regarding the topic are executed through quantitative research methods, this study's objective is to understand the topic by using a different approach and to give a new perspective to the research concerning the timeliness and quality of reporting with a case method.

The empirical research of the study is conducted in a case company by doing a qualitative research in the form of interviews. The basis for this study is the recent changes in the case company's reporting environment as well as the writer's research regarding a solution to the automation of financial reporting process. The author's investigation concerning the proposal for the interface creation is made utilizing interviews and other data collected from the case company. The key objectives of author's research are the improvements in the quality of financial reporting and the possibility to decrease company's reporting lag by

automating the notes. This automation proposal and recent improvements in the case company's closing practices offer great examples of actions which companies do in order to fasten their reporting. This provides an interesting foundation to compare the perceptions of the company and the theoretical aspect of timeliness and quality of financial reporting.

Prior literature on the timing and quality aspects of financial reporting has strongly focused on quantitative analysis with national or international data. These studies have mainly explored the factors affecting the reporting lags or the effect of the lags on the stock markets. This study aims to extend the prior literature by assessing the timeliness and quality aspects of financial reporting from the case company's perspective. By analyzing the motivations within the company this study can present the viewpoint of the company and find out how the company responds to the previously mentioned questions concerning the reporting lag and quality of financial releases. Moreover, since the majority of existing research is based on international data and little research has been conducted with Finnish data, it is worthwhile to extend this research area with Finnish context. Hence, this study provides important addition to the existing literature on the topic by comparing the motivation elements of the company and those introduced by prior research. In this way, this study supplements the subject by focusing on investigating the timing and quality from inside out perspective, from the case company's viewpoint.

1.3. Scope and structure of study

In order to clarify the scope of this study, following aspects need to be considered. In general, this study concentrates mainly on researching the timeliness phenomenon among regulated annual and quarterly announcements for two reasons. Firstly, the annual and quarterly reports are probably the most relevant information source for the interested stakeholders. For instance, Sengupta (2004) states that the quarterly announcements are long-waited events and they draw attention from media and shareholders. Secondly, the empirical part of the study concentrates on examining the reporting of interim and annual results and the actual case executed by the author concerns the automation of notes in these reports which ultimately draws the attention of the study in a natural way to these two types of financial releases.

This study does not particularly separate the total reporting lag into audit reporting lag and discretionary reporting lag, but focuses more on the reporting lag as a whole. This is justified since the empirical part of the study concentrates on the improvement of the total reporting lag in the case company even if the literature review discusses the audit lag as well. However, since the audit delay can have a significant effect on timeliness of financial statements, it is worthwhile to take it into account in this particular study.

The remainder of the study is structured as follows. In the next chapter, the most relevant concepts are described, that are, the concept of timeliness of financial reports, the concept of earnings releases and the concept of reporting quality. The definition chapter is followed by the review to the prior academic research and literature. In the fourth section, the empirical part concerning the case company is discussed. In the fifth chapter, the discussion of empirical results and theory is presented and the study is finally completed with the conclusion chapter.

2. Definitions of relevant terms

This chapter describes the most relevant concepts related to the study. First, the concept of timeliness of an earnings announcement will be defined. Then, the study aims to outline what companies actually release when timeliness is concerned. Last, the chapter identifies the key characteristics of reporting quality.

2.1. Timeliness of earnings announcements

Timeliness of earnings announcement can be defined as a period from fiscal year end to the day of the official earnings announcement. Following Lee et al.'s (2008) definition, this period can be referred as a total report lag. In addition, Lee et al. state that the total reporting lag can be separated further in the audit reporting lag and the discretionary reporting lag. The previous means the days between the fiscal year end and the date of audit signing and the latter the number of days between the date of audit signing and the date of official earnings announcement (Lee et al.). After the signing of the audit report the audited financial statements can be released. However, the managers have the possibility to decide

the timing of earnings releases which might differ from the date of completion of audit (Lee and Son, 2009). The length of discretionary reporting lag depends on the managers' opinion on the optimal timing while taking into account the costs and benefits arising from it (Lee et al., 2008). Separating the total reporting lag into the audit and discretionary lags helps to observe whether the announcement delay occurs due to the managements' decisions or the audit process (Lee et al., 2008). When considering quarterly reporting, the absolute or total reporting lag is the time between the end of interim period and the date of quarterly announcement (Annaert et al., 2002).

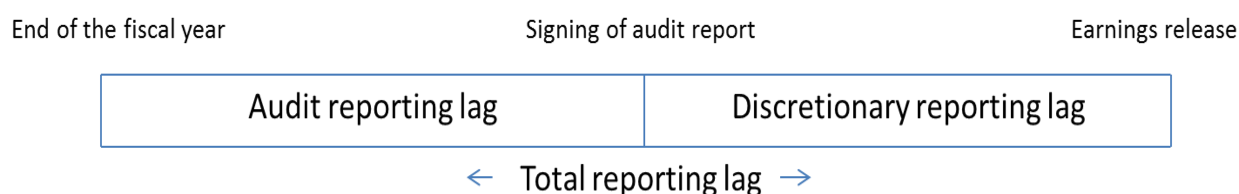

Figure 1 Components of total reporting lag

Most countries have regulatory authorizes who have set limitations to the maximum time for publishing financial information and to the minimum frequency of disclosures. In spite of these limitations to the timing, not every company complies with the disclosure regulations. For instance in the study of Alford et al. (1994), 20 per cent of American companies filed their 10-K after the due date. However, almost all regions in the world impose some sort of liability, civil or criminal, on the companies which are violating the rules concerning the timing of disclosures or which give misleading or false information to the markets (Mahajan and Chander, 2008).

2.2.Information content of releases

Following Gibbins et al. (1990), financial disclosures can be defined as any intentional release of financial information in order to inform the stakeholders. This financial information can be compulsory or voluntary, it can be delivered through formal or informal

information channels and it can include quantitative or qualitative data (Gibbins et al.). Regulated disclosures include financial statements, management discussion, footnotes and other regulatory fillings (Healy and Palepu, 2001). In addition to mandatory disclosures, the companies can release voluntary information e.g. through press releases, analysts' presentations, internet sites and management's forecasts (Healy and Palepu).

It is worth noticing that the companies do not always release their profit announcements and financial statements simultaneously. Concerning especially the developed markets, the financial statements might be published after the profit announcement indicating that the financial reports are not necessarily superior information source when it comes to timing and are not that strongly associated with the market value of the companies. (Mustafa et al., 2007)

2.3. Quality of reporting

The reporting quality stems from the overall quality of financial statements and it refers to the extent to which the published information describes the financial position and operations of the company (Robinson and Munter, 2004). Following Bowrin's (2008) definition, the financial reporting quality can be seen deriving from the two qualitative characteristics from IASB's conceptual framework: relevance and reliability. IASB's conceptual framework states that the financial information is relevant if it influences the economic decisions of users. According to Bowrin, relevance is strictly related to the information's ability to affect users' decision making and timeliness is one part of relevance. Further, reliability means the extent to which the financial releases are free from material errors (Bowrin). In addition to the framework's concepts of relevance and reliability, earnings quality can also been seen as a qualitative attribute to financial reporting. The earnings quality is defined as earnings' ability to provide useful information for evaluating cash flow prospects (Entwistle and Phillips, 2003).

Although the definition of quality can be described quite easily in the broader context, many researchers argue that the description of quality is relatively complex and a wide consensus among the academics does not really exist (Cozma, 2009). Since the academics

have not reached a consensus on the definition, prior research has concentrated on factors e.g. financial restatements and earnings management which prevent achieving high quality financial releases (Cohen et al., 2004). However, the quality information is proposed to have at least following characteristics; the information quality means that information meets the requirements or specifications given to it and that the information quality meets or exceeds the expectations of users meaning that data must be useful and add value (Kahn et al., 2002). Hence, the quality and the timeliness of financial information are closely related to each other as can be seen in FASB's statement (1980): timeliness is an important factor affecting one of the qualitative characteristics of financial statements, relevance. Moreover, they both contribute to usefulness (FASB). For that reason it is rational to examine both aspects of financial information in this study.

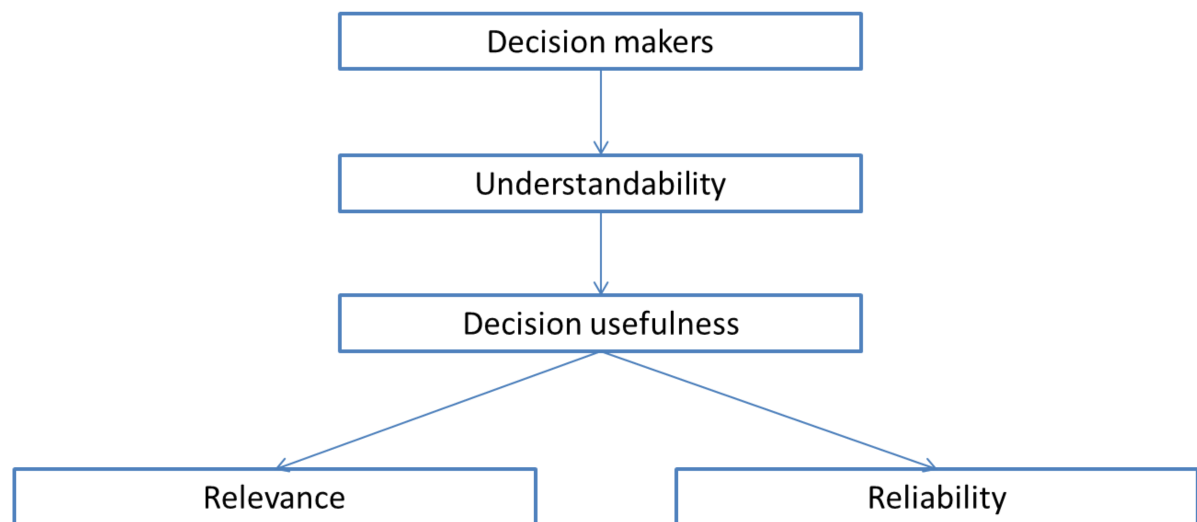

Figure 2 Characteristics of financial statements FASB SFAC no. 2

3. Prior literature review

This section provides an overview of the most important studies concerning the reporting lag and the quality of reporting. Extensive literature on the topic of timeliness regarding earnings releases has been developed in the past decades due to the fact that timeliness is a

key aspect of the relevance when it comes to the financial information. This prior timeliness and quality research consist of various studies exploring the different features of timing in diverse environments. This chapter goes through the prior literature by focusing on the four most important aspects of timeliness for this study. First, the reporting lag and its connection to the information context and firm characteristics are analyzed. Second, the importance of timeliness is discussed. Third, the factors having an effect on the reporting lag are identified. Lastly, the quality aspect of earnings releases in relation to timing and the factors affecting the quality are examined.

3.1. Relation between reporting lags and information content and firm characteristics

As already mentioned in the beginning, the purpose of financial disclosures is to inform the interested parties about the performance, financial position and cash flows of the company. It has even been stated that delivering financial information to the shareholders is the most significant factor which guarantees the effectiveness of shareholders' decision making (Mustafa et al., 2007). However, it can be questioned why particularly shareholders' position raises concerns, when the financial statements and information usefulness are considered. Since the investors are offering capital with a risk to the company, the information they require mostly satisfies the financial information qualifications of other interested parties as well (Conceptual framework of IASB, 2010).

Many prior studies have stated that timeliness is related to the information content of financial statements. There is a lot of evidence that the companies tend to delay earnings releases if they have bad news and in return, report their results earlier in a case of good news (e.g. Givoly and Palmon (1982) and Dogan et al. (2007)). Two theories are provided for explaining the managers' willingness to delay their financial releases. Dogan et al. (2007) state that the shareholder theory explains well the behavior of managers; by delaying bad news managers make sure that the negative effect on the stock price will happen later and on the other hand, releasing good news earlier prevents other resources from counteracting good news. The authors also argue that delaying bad news basically means preventing the information from reaching the stakeholders and is beneficial until

other companies release bad news in the industry. The second possible explanation is the internal reporting hypothesis according to which managers having compensations related to earnings performance tend to delay unfavourable news until it is verified (Lurie and Pastena, 1975). Moreover, Graham et al.'s study (2005) reveals that one of the reasons for delaying the release of bad news is that the company could further investigate and interpret the information content of this negative news. On the other hand, the majority of interviewed CFOs of their study admitted that releasing bad information in a faster manner gives to the market a vision of the company as a transparent reporter (Graham et al.).

Indeed, it seems that managers are better able to withhold bad information till it is sure that this bad news will be released while good news tend to leak to the markets even if they are not yet officially published (Kothari et al., 2009). On the other hand, the markets tend to view published good news with skepticism while bad news are considered as more accurate and less biased (Kothari et al.).

Regardless of the evidence that some companies tend to report good news earlier, there is also contradictory studies showing that companies e.g. in France and Germany tend to report bad news sooner (Rees and Giner, 2001). For instance, Basu (1997) points out that (accounting) conservatism could be a reason for reporting bad news earlier since earnings react more quickly to the bad news than to the good news. Similarly to Rees and Giner, Begley and Fischer (1998) argue that bad news may no longer be reported later since the management and also the auditors encounter nowadays higher litigation risks than earlier. However, their results suggest that timing pattern still occurs. In addition, Doyle and Magilke (2009) state that by releasing the financial reports after market closes or Fridays might reduce the media and investor attention towards the bad news indicating possible management's opportunistic behavior. However, their findings do not support this opportunism but indicate that the reasons for releasing financial information Fridays or after market closes are more related to other factors e.g. the complexity of company and the location of the headquarter in eastern and central time zones versus western time zones. In fact, complexity can be one reason why consolidated companies report their financial statements later than non-consolidated companies. This could be one reason why some regulatory authorities have set longer deadlines for the publishing of financial statements

concerning the consolidated companies than those concerning non-consolidated firms. (Aktas and Kargin, 2011)

Nevertheless, not only are “the public deadlines” to be considered but the companies’ own, private deadlines as well. Bagnoli et al. (2002) state that the earnings releases include bad news especially when the management passes its own expected reporting date to the markets. Bagnoli et al. find that not only is bad news published later but the late reporters tend to have a more modest analyst coverage compared to the early announcers having heavy analyst coverage. They also argue that the response from the market depends on whether the analysts or shareholders are considered: the analysts do not typically alter their forecasts after a delay in an announcement, while the shareholders usually react to the missed disclosing date. In addition, when the analysts do alter their forecasts, they tend to lower them which reflects the practice of reporting bad news later. Further, the investors usually react more strongly to the early announcements, whether good or bad. (Bagnoli et al.)

Indeed, the analysts are some of the most significant users of financial statements and they also provide information based on the financial reports to the investors. According to the literature, there are two opposite arguments explaining the analysts’ influence on the disclosure timing. Firstly, the analysts’ estimates are usually released earlier than company’s financial releases, so these reports are considered to be timelier and sometimes even a substitute for the company’s financial statements. On the other hand, the analysts’ reports may complement the earnings releases suggesting that the companies having heavy analyst coverage disclose their financial statements earlier since these companies have a big market interest. Likewise Bagnoli et al., the authors’ results support the complementary role of analysts’ reports indicating that a heavy analyst following is associated with timelier reporting by the companies. Moreover, they note that the analysts are more likely to follow companies which publish their financial statements timely. (Son and Grabtree, 2011)

Regardless of the almost unanimous consensus concerning the existence of the good news early, bad news later phenomenon, the characteristics of good news should be considered in order to understand, what good news actually mean in this context. Haw et al. (2003) examined the effects of audit opinions and earnings surprises on the timing of earnings

releases and they found that the positive earnings surprises with a modified audit opinion result in a longer reporting lag compared to the negative earnings surprises with an unmodified opinion. The authors argue that the positive earnings surprises (an increase) do not automatically mean good news if they are not certified as ‘clean’.

Similarly, Zeghal (1984) points out the important role of early releases, but emphasizes that timeliness is more significant to the interim rather than to the annual reports since the annual reports mainly confirm the stakeholders’ predictions which are already, at least partly, based on the information of interim reports. In addition, another reason for the more important role of timeliness regarding interim reports can be the fact that preventative voluntary disclosures are more common for the annual earnings announcements including bad news than for the interim reports comprising bad news (Begley and Fischer, 1998). A longer reporting lag can also be a sign of financial distress which a company might be entering (Whittred and Zimmer, 1984). Consequently, a very long delay (longer than in a case of bad news) in an earnings announcement can be a sign of losses which the company is carrying (Haw et al., 2000).

On the contrary, Alford et al. (1994) have found evidence that some companies doing extremely well experience reporting lags. However, they also point out that features like recent mergers and acquisitions, small size of a company, low liquidity and high financial leverage can result in a delay in earnings releases. Supporting the result of Whittred and Zimmer (1984), Alford et al. also find out that some companies in a condition of financial distress delay their earnings announcements. Unlike the many studies mentioned previously in this chapter, Annaert et al. (2002) argue that timeliness is not really value relevant for interim reports and that the type of news rather than timeliness has more effect on abnormal returns indicating that the interim reports contain unexpected information to the shareholders.

Atiase et al. (1989) suggest that the reactions to the earnings announcements of small companies are bigger than the reactions to the financial releases of large firms, and that the smaller companies publish their financial reports relatively later than the larger companies. The authors argue that it does not matter whether the information content is good or bad, the smaller companies are still later disclosers. Lang and Lundholm (1993) point out that,

in addition to the firm size, the companies with a weaker connection between earnings and annual stock returns and the companies which issue securities, have higher disclosure scores. There is also evidence that multinationality, that is, having important sales, operations and employees in the foreign countries, is a significant determinant in the timing of earnings announcements; in general domestic companies release their earnings announcements later than multinational companies due to a greater asymmetry between shareholders and managers of multinational companies and agency costs originating from international diversified operations (Lee et al., 2008). Lee et al. point out that this greater asymmetry is caused by the higher complexity of operations in the multinational companies and can lead into the higher costs of external financing and monitoring. The higher the complexity of operations, the more difficult it is for the shareholders to monitor the company and its management (Lee et al.).

In addition to the determinants mentioned above, Trueman (1990) has researched the possible explanations why early announcements result in positive share price effects while late reports indicate a decline in a share price. Trueman's study is based on the assumption that some companies having unfavorable earnings use earnings management to increase their reported income. His results point out that the reporting lag is caused by the managements' willingness to observe other companies' results first or by the fact that earnings management requires a delay in releasing the financial information. Concluding Trueman's study, earnings management can be seen as one possible indicator of a delay in the earnings announcements. Similarly, Chai and Tung (2002) argue that the late reporters use a greater amount of discretionary accruals in order to raise their future profits.

Another internal, company-related reason for reporting lags can be the division managers' intentional prevention of reporting bad news to the board of directors. The division managers might hope that some good news might offset the bad news by mitigating them if they postpone the reporting to the upper organizational levels. Or the company is facing so serious problems e.g. liquidity issues that the accounting closing process for the end of the year might suffer since the company is dedicating its time to solve these severe difficulties which it is going through. (Kross, 1982)

As seen in this chapter, prior studies have found various reasons for reporting lags. These factors are mostly related to the company characteristics or the information content of financial releases. The company specific characteristics include among others the size of the company (Atiase et al., 1989), the level of financial distress (Whittred and Zimmer, 1984), multinationality (Lee et al., 2008) and the complexity of consolidated companies (Aktas and Kargin, 2011). In addition, earnings management (Truemann, 1990) and managers' opportunistic behavior (Lurie and Pastena, 1975) can influence the reporting lag. Moreover, analysts' coverage (Son and Grabtree, 2011) and missing company's own filing deadlines (Bagnoli et al., 2002) can possibly be reasons behind the delayed reporting. Some studies also point out the significance of information content indicating that companies tend to delay bad news and report good news earlier (Givoly and Palmon, 1982).

3.2.Importance of timeliness and auditing

The timing of earnings releases and the content of financial information are of equal importance to the stakeholders. Thus, the share prices are strongly affected by the disclosed information and the timing of earning releases is a determinant factor of company value. (Dogen et al., 2007) Consequently, since the share prices are affected by the financial information, the early announcers (quarterly reports) have significantly higher abnormal returns compared to the late announcers (Kross and Schroeder, 1984). Although the content of financial statements is mostly based on historical information, the value relevance of timely announcements is definitely important (Lee and Son, 2009). Givoly and Palmon (1982) also point out that too long reporting lag decreases significantly the level of usefulness of financial information.

However, Ball and Shivakumar (2008) question the importance of earnings releases and argue that the earnings announcements do not actually provide that much new information to the markets since they are of low frequency due to the quarterly reporting. Naturally, the share markets receive more timely information concerning industry and company specific data from other sources resulting in the situation where the reported earnings correspond usually to the markets' expectations (Ball and Shivakumar). Another reason for the low amount of new information is the non-discretionary nature of earnings releases; the

company has to report its earnings regardless of whether or not it has new information to offer to the markets (Ball and Shivakumar).

Regardless of the suspicions concerning the novel nature of information of earnings releases among some researchers, the earnings announcements are mostly regarded as beneficial. Releasing financial information to the markets decreases the need for searching private information which saves resources of the market participants. In addition, the public earnings announcements make the risk sharing better since the speculations will decrease and markets' believes are more consistent. (Diamond, 1985) Further, audited financial statements are highly significant and possibly the only reliable source of financial information in emerging markets which is why the timeliness of earnings releases is especially important factor for the developing countries (Mahajan and Chander, 2008).

Releasing financial information on time seems to reduce the possibility to take the advantage of non-published information. For instance, Leventis and Weetman (1994) find that a delay in earnings announcements is an opportunity for the misappropriation of company's assets and insider trading. This is notable especially for the emerging markets where sanctions concerning the insider trading might be insufficient compared to the developed countries, and where the companies tend to be slow in disclosing financial information (Mustafa et al., 2007). However, the possibility for the insider trading in the developed countries should not be underestimated. In addition to the trading activities of insiders, the timely releasing of financial information also prevents rumors and leaks in the markets (Owusu-Ansah, 2000). Further, the timely reporting reduces the asymmetries and interest conflicts and boosts the decision making in the markets (Owusu-Ansah and Leventis, 2006). The authors argue that in addition to the large companies, service firms and firms audited by big audit firms are faster reporters. Thus, auditing plays also a significant role in the company's reporting lag. However, the filing deadlines for the auditing process are set by the management of the company or are at least a result of a negotiation with the audit firm. Moreover, the timing for auditing can affect the reporting lag since the audits conducted during a busy season (January and February) have shorter lags than those conducted during other time, perhaps due to the fact that audit firms use more staff or increased overtime during the busy season (Ashton et al., 1989).

Lee and Son (2009) state that audit lag is a reason for the negative association between earnings management and total reporting lag since earnings management is then less likely because the auditors spend more time on the audit (the auditors are vulnerable and subject to the high litigation risk). They also note that timing is only associated with the level of earnings management if the financial statements are released after the audit report date. Prior research has found a positive association between the earnings announcement lag and audit reporting lag e.g. Givoly and Palmon (1982). For instance, SEC (2002) has stated that the audit is complete or substantially complete by the time the company gives its earnings announcement. However, some audit companies note that audit usually still requires substantial additional effort following the earnings release date. Krishnan and Yang (2009) find that both audit reporting lag and earnings announcement lag have increased during the period 2001-2006 suggesting that the audits have lengthened and the quality of reports may be a concern. They argue that the increase in lags was possibly due to the numerous policy changes. Consequently, the authors point out that the longer earnings reporting lag might be due to the longer audit for the companies which wait until the audit is completed. On the other hand, the longer audit reporting lag might be due to continuous tax issues faced by the company or due to incremental audit effort (Knechel and Payne, 2001). It is quite obvious that the more hours an engagement consumes, the longer the audit report lag will be and since the tax issues affect directly the financial statements, they have to be solved before an audit opinion can be given (Knechel and Payne). The longer audit reporting lag might indicate that the companies are making their earnings releases more in advance of the completion of the audit compared to the past and that the companies have pressure to hurry up their reporting (Krishnan and Yang, 2009). Both factors might also reflect the lower quality of financial reporting.

There is also evidence that the auditor changes can result in the reporting delays. Schwartz and Soo (1996) note that the auditor changes in the beginning of the fiscal year decrease the reporting lag compared to the auditor changes in the end of the year. On one hand, a new client-relationship and the start-up time needed for getting to know the company and its operations might indicate a longer reporting lag (Schwartz and Soo). On the other hand, the newly born client-auditor relationship could make the audit more efficient (Schwartz and

Soo). Hence, the authors argue that the best time for the auditor changes is the beginning of the year in order to guarantee the audit efficiency and proper planning. However, according to the study of Schwartz and Soo, the most of auditor changes occur in the fourth fiscal quarter perhaps due to the year-end adjustments requiring restatements of interim reports or a need for other opinions.

It has been proven that the releases of financial information are important for the company's shareholders for various reasons as stated earlier. In addition, Wang and Song (2006) note that the timely releases of financial statements are even more significant to the small investors since the greater the reporting lag, the bigger the likehood that the information leaks to the large shareholders instead of small ones through other sources. Further, the companies having bigger institutional ownership and greater trading volume have shorter reporting lags since they face pressures from the investors to publish their financial information fast (Sengupta, 2004).

However, some attempts to make information transfer better have been introduced. In order to decrease the inequity concerning the possible information leakages, SEC has issued (in 2000) Regulation Fair Disclosure which requires that the companies must disclose the same information to the public if they intend to release some information to the institutional investors or analysts (Yang and Yang, 2011). Before the issuing of Regulation Fair Disclosure, most conference calls were open for only certain analysts and institutional investors. The researchers split the companies in two groups: companies with closed conference calls and those companies with open conference calls in order to distinguish the Regulation Fair Disclosure's effect. The study of Yang and Yang indicates that Regulation Fair Disclosure had an impact on the companies' earnings release decisions since the both type of companies now delay their releases more compared to the period before the regulation. To conclude, this kind of regulatory actions can in fact affect the disclosure decisions of companies even if they are designed to reduce the imperfections and inequities in the markets.

Timing of financial statements is likely to influence the stock markets. Prior research argues that the timeliness of earnings releases yields positive share price reactions in the markets while the late reporting results in a decline in a share price (e.g. Chambers and

Penman (1984), Givoly and Palmon (1982), Trueman (1990) and Rambo (2005)). The empirical researches by Chambers and Penman and Givoly and Palmon indicate that the companies with later releases are viewed in a more negative light than the companies with early releases. However, when considering the timeliness of financial reports, not only should the earnings releases of company in question to be taken into account, but also the releases of the competitors within the same industry. According to Han and Wild (1997), the companies, which have disclosed their earnings, have no information transfers while the companies releasing their reports later are exposed to the negative information transfers. Thus, they suggest that the earnings announcements affect the share prices of competitors as well. Following Atiase et al. (1989), a longer reporting lag results in smaller price reactions which supports the fact that earlier releases are more relevant. Similarly, Chen et al. (2005) point out that earlier earnings announcement contain more information, measured by returns and trading volume, indicating that there is information asymmetry between early and late filings. The authors state that the early earnings announcements surprise the markets since they receive a higher return reaction and abnormal volume compared to the later earnings announcements. Concerning these reporting lags, the markets usually create expectations of these publications as days pass by, so the later announcements can be considered as more predictable (Chen et al.).

Further, timing plays a key role to managers too. For the managers the timeliness of earnings releases gives an opportunity to decide the timing of earnings announcements within the given time limits in a specific country. The managers have a chance to affect the stakeholders' perceptions of the company's performance by making accounting decisions like deciding the timing of financial statements (Bowen et al., 1992).

Despite the prior studies showing that the timing of earnings releases has an effect on different stakeholders of the company, there are also converse opinions indicating that the companies seem not to have speeded up the disclosures dramatically in recent years. According to Williams (2008), the editor of Information World Review, the speed of availability concerning much financial data has not really risen even though business and various events are changing and evolving more and more quickly. He states that this fast speed emphasizes the insufficiency of relevance and timeliness of financial releases which

eventually affects the business decisions of many parties. Williams' point of view demonstrates the various expectations of markets, regulators and companies regarding the timing of reporting. That is why it is important for the companies to recognize the changing needs concerning timing and quality too.

Even though this study focuses on the timeliness and quality aspects of financial statements, it is worthwhile to consider transparency feature too. Transparency can be defined as availability of company specific information in the economy outside the company (Bushman et al., 2003). Bushman et al. developed a framework for measuring the information systems which contribute to transparency; these measures for information mechanism include among others timeliness and audit quality of financial disclosures. Their results suggest a positive association in the quality of information systems that contribute to transparency. These information systems include among others high-quality financial reporting.

In general, transparency along with quality and good timing can be seen as some of the most desired characteristics for adequate financial reporting. Although the concept of transparency is not used as a fundamental characteristic of proper financial statements in FASB's official conceptual framework, it is still implied (Mensah et al., 2006). Mensah et al. note that transparency helps reducing earnings management, aggressive reporting customs, questionable off-balance sheet practices and reporting frauds among others. The authors state that there are many levels at which transparency has been studied; varying from the country-level financial reporting transparency regimes to the transparency of certain transactions. Transparency of transactions questions whether financial reports include all transactions which actually have influence on performance and financial position (Mensah et al.) The authors also note that the transparency of transactions is the most critical level since any problems at this grade would lead to further issues at the higher levels of transparency. Usually the transparency of transaction is judged by auditor's opinion (Mensah et al.).

In conclusion, preceding academic literature has shown the importance of timely financial releases to various parties. From shareholders' perspective, the timely reports are meaningful as they reduce asymmetries and the possibility of inside trading (Leventis and

Weetman, 1997), and affect the share prices (Givoly and Palmon, 1982), to mention a few. The companies should not only consider the possible reactions of shareholders but also the earnings releases of their competitors since the share prices also react to the financial releases of other companies within the same industry (Han and Wild, 1997). Finally, the importance of timing to the managers is justified by the fact that the timing decisions give to the managers an opportunity to influence the shareholders' attitudes towards the company (Bowen et al., 1992). Moreover, the auditing plays an important role in reporting lag in many ways e.g. via auditor changes (Schwartz and Soo, 1996). Considering transparency, it helps to reduce many unfavourable accounting practices e.g. earnings management and aggressive reporting customs (Mensah et al., 2006).Lastly, the prior academic literature highlights the fact that timely financial information is especially important in the emerging markets where the audited financial statements are probably the only available and reliable source of information (Mahajan and Chander, 2008).

3.3.Factors affecting timing of earnings releases

According to prior studies, there are many factors affecting the timeliness of earnings announcements as already introduced some of those in this study. At least the size of the company, the efficiency of internal control systems and the complexity of operating activities are considered as meaningful determinants affecting the time of disclosure (Givoly and Palmon, 1982). In addition, Leventis and Weetman (2004) have found evidence that the proprietary costs for companies, the shareholders' information cost savings and unfavourable versus favourable news are significant determinants in explaining the timing of earnings releases. While many factors have been recognized as having an important impact on timing, audit-related and company-specific factors have been proven to be especially significant (Aktas and Kargin, 2011).

The national regulatory authorities have the power to decide the filing deadlines for earnings releases of interim and annual reports. Thus, the regulation can be an effective improver of timeliness and reporting lags can be shortened by using it. However, there is

always a possibility for information leakage before the official release of financial information which can benefit some parties with the cost of another. For instance, Haw et al. (2006) find that the regulation does not reduce the leakage of financial information even though the reporting lags decreased. Further, they state that good news early, bad news late phenomenon still exists after the introduction of new regulation in China.

Firm size is proven to have an effect on timing, and Haw and Ro (1990) point out that this is due to three main reasons. Larger companies have more efficient and bigger data processing systems making the information preparation and audit process shorter. The audit involvement is higher for the larger companies because they offer quarterly reports which small companies do not, for instance. Lastly, the larger companies face stronger pressures to release financial statements more timely as the demand for their financial information is greater. (Haw and Ro, 1990) The company size also affects the audit delay. Al-Ghanem and Hegazy (2011) find that the audit delay and company size as measured by total assets are negatively associated. The authors state that this might be due to good control systems within large companies and due to the fact that their accounts are revised more frequently.

Contrary, Khasharmeh and Aljiri (2010) argue that the company size does not really affect the timeliness of annual reports but that profitability, sector type, dividend payout ratio and debt ratio have a significant influence on the timing of financial information. They state that profitability reflects the good and bad news phenomenon indicating that favourable news are published before unfavourable information. Some evidence has been recorded that the sector type affects the timing of financial information and the reporting lag is smaller for the banking sector since it is the most regulated and monitored sector of all (service, insurance and industrial being the other categories) (Aljiri, 2008). Similarly, Ashton et al. (1989) state that the audit lags are shorter for the financial service companies. The connection between high debt ratio and reporting lag can be explained by the fact that the companies with a lot of debt are audited more carefully and with a longer time since the possibility of failure and consequently the resulting legal liabilities are higher (Owusu-Ansah, 2000). Similarly, a debt ratio is also a determinant affecting quality: Klai and Omri (2011) argue that the high debt ratio is indeed related to the better quality since the creditors

require high quality financial information from the companies so that they can guarantee repayment of the debts and grant debt to the companies.

Ashton et al. (1989) note that reporting delay and audit delay are not identical even though they are highly correlated. For instance, Davies and Whittred (1980) have found evidence of substantial differences between these two different lags for Australian companies.

In addition to previously mentioned determinants, other internal organizational factors affecting the timing of financial information are the history of a company and the personality and preferences of CEO (Gibbins et al., 1990). Gibbins et al. state that traditions and formerly experienced consequences of disclosures are factors behind the company history and possibly shape the disclosure position of the company. Although the disclosure choices are in many cases a result of a group decision, the managers' attitudes are usually following CEO's point of view (Gibbins et al.). When analyzing the companies' disclosure position, that is, the preference for a certain manner to manage a disclosure, two different dimensions should be noted; ritualistic dimension means that the company follows the norms and standards as given and the disclosure process is standardized and managers are passive, while in the opportunistic dimension managers seek actively ways to benefit from the disclosure of financial information (Gibbins et al., 1990).

In addition, Wu et al. (2008) have found evidence that the financial reporting process is affected by the board characteristics. Generally, bondholders and minority shareholders do not have such an influential monitoring power but they have to trust on the auditing for instance. Eventually board of directors is responsible for corporate governance, and better timing of financial reports requires better monitoring and coordination by the board. Some research results suggest that the reporting lag is positively and considerably affected by the controlling shareholders of the board since their interest are not necessarily in line with outside investors and controlling owners might not have incentives for better timing of financial statements. Moreover, the presence of independent directors can increase the reporting lag since their monitoring role requires them to verify the material accounting transactions of the company which can considerably take time. (Wu et al., 2008)

Further, the greater direct or indirect ownership of equity capital by the company's insiders e.g. top management is associated with less punctual filing of financial statements. This might be due to the fact that these insiders are often also the majority shareholders and do not commonly sell their shares which makes them less interested in informing the markets and less concerned about the share prices. (Owusu-Ansah and Leventis, 2006)

In addition, it is worth investigating what kind of motivational factors might affect the managers' disclosure behavior. In the study of Dye (1985), three main reasons were identified why managers would withhold nonproprietary information; firstly, the shareholders might not know that managers have nonproprietary information, secondly, the principle-agent problem between the shareholders and management exists and thirdly, the managers have a wide array of information of which a part is nonproprietary and this information may not be published if it is a part of such an array. Kothari et al. (2009) suggest that career concerns e.g. promotion, termination and future employment opportunities might be an incentive to the managers to delay the release of bad news. They point out that the incentives of managers to delay unfavourable information is the main factor of managerial disclosure behavior. In general, the managers basically decide the timing of releases based on measures of cost and benefits concerning early versus late reporting (Sengupta, 2004).

Trueman (1990) argues that there are two theories explaining the timing of financial reports and its connection to the market reactions. The first reason is that the management tends to delay the publication of bad news in order to sell securities before the announcement (Trueman). However, the author points out that this explanation is not fully satisfactory since the companies usually release their reports (quarterly) within a short time of the expected publication date and so, the delay would have an effect on the share price only for a short time and only of a little value for the managers. According to the second theory, Trueman suggests that earnings reports containing bad news take longer time to be audited. Similarly, Rambo (2005) states that the markets consider the timing of earnings releases as a sign of possible earnings management from the company.

There might also be other factors than firm specific determinants which explain the reporting lag of the financial releases. These non -firm related factors are often connected

to the firms' environment where they operate. Some prior evidence suggests that the nature of country's legal system affects strongly the value relevance and timing of financial statements. For instance, Conover et al. (2007) find that the differences between the reporting delays of companies operating in the common and code law countries exist. They argue that timely reporting is less frequent in the code law countries perhaps due to the fact that e.g. banks, which have superior information, monitor the companies and that is why timing of financial statements might not be as important to the investors. This would mean that less timely reporting does not automatically indicate financial problems. In addition, the authors state that longer reporting lags and poor performance of the companies are more associated with the common law countries where the late announcers are usually poor performers. According to the authors, this finding indicates that there is not as big incentive to report on a timely basis in the code law countries if the debt finance and monitoring is provided by the banks which have superior information about the companies compared to the other stakeholders. Conover et al. also point out that the market value of equity and reporting lag are significantly related to each other meaning that the companies having larger market capitalization tend to report faster in the common law countries than in the code law countries. Another non-company factor affecting the timing of financial releases can be related to politics. Strong political pressures faced by the companies might be a reason for the reporting lags if the political conquer the reporting early the good news (Chai and Tung, 2002). However, the authors did not find support to their hypothesis.

In general, the companies must obey the rules set by national regulatory authorizes and adapt their reporting to the limits of timeliness for the interim and annual reports. For instance, Wang and Song (2006) state that government policies have had significant impact on the improvement of timing of financial statements in China. In addition, Ali and Hwang (2000) have studied the country specific factors affecting the value relevance of financial information in which the value relevance is defined as explanatory power of accounting variables (book value of equity and earnings) for security returns. They found that the value relevance is lower in the financial statements of companies which operate in the countries where standards-setting process does not involve private sector parties. They also point out that the value relevance is lower for the companies which operate in the countries where

financial accounting is significantly influenced by tax rules since tax laws are affected by political and social rather than investors' objectives. The authors also state that higher spending on auditing services, which indicates the importance of financial accounting, is associated with higher value relevance of financial information because when the importance of financial accounting increases so should the relevance of financial statements too.

The information content of earnings releases interest two different markets: the debt markets and the equity markets. The basic value relevance principle suggest that the financial reports are assigned to serve and inform the equity markets but there is also evidence that the debt markets have a significant effect on the accounting practices meaning that the timeliness is associated with the demand of debt markets (Ball et al., 2008). Thus, the earnings releases are in the interest of two highly demanding markets. However, Gibbins et al. (1990) argue that the external demand for the financial information does not only arise from the capital markets but also from the product markets e.g. through supply contracts.

To conclude, there are both firm specific determinants and factors not related to the company which affect the timing of financial releases. Prior research has found evidence that at least firm size (Haw and Ro, 1990), profitability (Khasharmeh and Aljiri, 2010), sector type (Aljiri, 2008) and debt ratio (Qwusu-Ansah, 2000) affect the reporting lag. Moreover, factors within the company e.g. CEO's preferences (Gibbins et al., 1990), board characteristics (Wu et al., 2008), ownership (Owusu-Ansah and Leventis, 2006) and managers' motivation (Dye, 1985) influence the timing practices of the company too. However, the context in which the company operated has to be taken into account as well since it has also a significant impact on the company's reporting decisions. At least the regulations (Conover et al., 2007), country's legal system (Conover et al.) and taxation (Wang and Song, 2006) have an effect on the reporting lag.

3.4.Quality aspect of earnings releases and timing

Based on the previous chapters regarding the importance of timeliness and the factors affecting reporting lag, it is obvious that timing is a key determinant of useful financial information in order to guarantee efficient decision making. However, another important aspect is also the reliability of information. Thus, the information must be both relevant and reliable in order to be useful. This is why the quality aspect of financial statements is also a crucial element to be considered by companies and stakeholders. Without high-quality financial information, equity markets would not work properly (Shaw, 2003). Timing and quality are closely related to each other which is reasoned by IASB (2010) which states that information must not only be relevant but also faithfully presented. For instance, unexpected lags in the reporting of financial statements may be associated with lower quality of information (Knechel and Payne, 2001).

Although quality is recognized as a significant characteristic of financial reporting, the quality is to some extent contradictory concept when it comes to defining it. Since academics have are not reached a consensus on the definition, prior research has concentrated on factors e.g. financial restatements and earnings management which prevent achieving high quality financial releases (Cohen et al., 2004). In addition, various measures for the quality have also been utilized, for instance, Beatty et al. (2010) used four different measures for the accounting quality in order to aggregate them to one combined measure: first measure shows how accruals cover the cash flows, second comprises the earnings quality, third consists of earnings predictability and fourth measures cash flow predictability.

Generally speaking, the value of financial information is related to its reliability and without reliability this information is not valuable. The object of financial information is to help the different parties in decision making process or performing certain action. That is why quality financial information is certainly needed. (Kundeliene, 2011) The quality aspect of earnings releases is also related to earnings management; earnings management can decrease the effectiveness of capital markets since it can reduce the quality of financial statements (Lee and Son, 2009). However, quality is not just a required element of

company's financial information from the investors' perspective. According to the study of Ahmed et al. (2009), quality affects also much wider area of parties since by increasing the quality of pre-announcement information and earnings, the efficiency of capital markets can actually improve.

On the other hand, the quality of financial information has also significant impacts on the company. Lambert et al.'s (2006) study examines how the quality influences company's cost of capital which is defined as expected return on company's share. They find that the quality of information influences the cost of capital both directly and indirectly by affecting markets' perceptions concerning future cash flows and by influencing the decisions which have an effect on the distribution of future cash flows. The indirect effect occurs since the quality can change the company's real decisions and the direct effect occurs due to the fact that an increase in the quality has an impact on the company's assessed covariances with other companies' cash flows (Lee et al., 2006). Moreover, Choi and Pae (2011) point that the accounting conservatism is one dimension of reporting quality. The accounting conservatism means that company's accounting has higher requirements for recognizing good news than bad news resulting in earnings reflecting unfavourable news earlier than favourable news (Basu, 1997).

As stated previously, the timeliness of financial reporting can reduce asymmetry between managers and shareholders. Even so, the quality of accounting information can also affect this in a positive way by decreasing the asymmetry and financial constraints (Beatty et al., 2010). The authors find that the quality of financial information is most essential for companies having financial constraints since these companies probably have the biggest asymmetry issues. Moreover, Beatty et al. (2010) suggest that the companies improving accounting quality face diminishing investment-cash flow sensitiveness if they issue bank or public debt since higher quality reduces information problems which eventually could result in the sensitivity of investments on their internally generated cash flows.

Some evidence has also been presented that the companies having higher-quality disclosures, meaning in this context, better informing about the items in their financial statements e.g. via footnotes, smooth their reported income more aggressively by using discretional accruals and delay the recognition of important earnings information. So, the

companies delay bad news until they have prepared the markets for this news. Consequently, higher disclosure quality does not necessarily mean that the company is having less earnings management. (Shaw, 2003) Disclosure quality is also related to the company image indicating that it affects positively the corporate image and reputation, and stakeholder credibility (Ussahawanitchakit, 2011). Corporate image is the view which market participants have about the company and it is the result of doing the best business practices. Thus, disclosure quality is associated with the usefulness of financial information (Ussahawanitchakit).

The quality also affects the company's choice between private and public debt and the debt contract content. The companies having poorer quality of financial information choose more probably private debt, they face higher interest cost, higher likely of collaterals and lower maturity. Since banks have superior information, the companies having poorer accounting quality prefer private debt in order to reduce adverse selection costs. (Bharath et al., 2008) Biddle and Hilary's (2006) research results support the connection between accounting quality and efficiency of capital investments; they find that higher quality strengthens the investment efficiency and that the effect is more influential in economies where e.g. stock markets is the dominant source of capital.

The high-quality financial statements, both quarterly and annual reports, are of significant importance to the financial analysts who prepare analyst's forecasts. It has been proven that higher quality financial disclosures are associated with the analysts' more precise information which they include in their forecasts concerning the future earnings (Byard and Shaw, 2003). Moreover, the analysts actually put more value on the public disclosures provided by the companies compared to the private discussions with the management indicating that the importance of public financial disclosures is definitely high (Byard and Shaw, 2003).

The quality of financial information should also be analyzed in the context of auditing. The audit process is relevant for the decision makers since it establishes the reliability of financial statements (Al-Ghanem and Hegazy, 2011). When considering the relevance of audit reports to the stakeholders, some evidence has been found that the users do not really utilize the audit reports in the decision making and that they would like to use additional

information to complement the audit reports. Turner et al. (2010) note that there are different options how audit reports could better communicate the assurance of financial statements to the stakeholders. For instance, in addition to the acceptability, the auditor's judgment about the quality of accounting practices could be included in the auditor's report. When it comes to the judgment of the quality of financial reporting system, the requirement for the auditors to communicate significant control deficiencies or material weaknesses to the management and persons in charge of governance could be a basis for an additional disclosure for the stakeholders. (Turner et al., 2010) Again, timing is a critical aspect to the audited financial statements since the value of information decreases as the audit reporting lag increases due to the additional sources of information available for the users (Knechel and Payne, 2001).

It seems that the timeliness of financial information and the quality of information content are in a relatively close relation to each other. Whittred (1980) finds out that the audit and timeliness requirements seem to be collective requirements of disclosure framework but that those are competing against each other due to *ceteris paribus*; audit declines significantly the timeliness of earnings announcements. He argues that audit qualifications, that are, the auditor is unable to confirm the company's compliance with required standards, cause a reporting lag in the release of financial information. The reasons for the delay in the releases are increased time in auditor and client negotiations and natural growth in audit time (Whittred, 1980). Wang and Song (2006) also note that the audit qualifications can be bad news for the shareholders as they indicate a lower assessment of management performance than what the managers itself have thought. Consequently, the more serious the qualification is, the bigger the reporting lag is (Whittred, 1980).

To conclude, timeliness alone is not enough to make financial information useful for its users – quality is also needed in order to enhance financial statements' usefulness. Thus, the value of financial information is related to its reliability and without reliability this information is not valuable (Kundeliene, 2011). However, a coherent definition of quality does not really exist and mostly the quality is reviewed by factors which might prevent achieving high quality financial statements (Cohen et al., 2004). Hence, better quality is important not only for the shareholders but for capital markets in general due to improved

efficiency (Ahmed et al., 2009). Moreover, the quality is significant for the company as well since it affects its cost of capital (Lambert et al., 2006). The quality financial releases are also meaningful to analysts since it is associated with the analysts' more precise forecast information (Byard and Shaw, 2003). The better quality can also help to reduce asymmetry and financial constraints (Beatty et al., 2010) as well as to enhance a corporate image (Ussahawanitchakit, 2011). The quality has also an effect on the company's decision between private and public debt (Bharath et al., 2008). Lastly, reliability in a meaning of audit and timeliness are to some extent competing characteristics of financial releases since the audit declines significantly the timeliness (Whittred, 1980).

3.5.Determinants of financial statement quality

According to prior literature, the quality of financial statements is affected by many factors among others the incentives of managers and auditors, company characteristics and the quality of accounting standards comprising GAAP (Ball et al., 2003). Two very potential company characteristics affecting quality are industry affiliation and company size (Bowrin, 2008). The size is also one of the recognized determinants concerning timeliness as stated previously.

When it comes to the industry affiliation, banking industry seems to have higher quality concerning financial statements (Bowrin, 2008). Moreover, company size is widely proved to be closely related to timeliness and consequently, to the quality of financial reporting (Jaggi and Tsui, 1999; Owusu-Ansah, 2000 and Bamber, 1993). This is due to the fact that larger companies are commonly audited by big audit firms which have more experience and resources (Ashton et al., 1989).

The increased complexity of accounting and auditing standards and requirements has raised concerns about the auditors and companies' ability to meet the requirements while shortening their reporting lags, for instance as a result of SEC's new filing requirements in 2003 (Krishnan and Yang, 2009). SEC's introduction of a shorter filing time for the companies and the demand for a greater quantity of financial reporting e.g. due to Sarbanes-Oxley Act of 2002 have resulted in the reporting challenges. After the release of

new filing rules by SEC in 2003 many parties raised their concerns about the possible change in the quality of reporting; greater reliance on the revenue and expense accruals and estimates, reduction in the quality of audit, errors and poor judgment in preparing the reports, inadequate time for reviewing draft reports by the senior management or board of directors. However, the possible conflicts between faster reporting and quality of financial statements seem not to appear according to Krishnan and Yang (2009) since the long audit reporting lags were not in association with lower quality of accruals according to their study.

There are also studies concerning the effects of quality and quantity of information on the equity returns. It has been stated that the quality of financial statements is significantly affected by the quantity of information which in this context refers to the amount of financial analysts. In case that the company is followed by number of analysts, the quantity of information influences strongly the quality of financial statements. This also indicates a small earnings surprise. By having increased quantity and quality of financial information, the stock prices can actually adjust more quickly. (Chen et al., 1997) Shkurti and Naqellari (2010) also state that third parties' lack of demand for financial information is one reason for low quality financial statements and continue that lack of professional experts and poor best practice incentives supported by authorities can lead to an absence of high quality data.

Several studies concerning the association between corporate governance and financial information quality have been conducted in the past and the subject is widely debated. For instance, Klai and Omri (2011) researched the characteristics of the board and the ownership of Tunisian companies and note that power of families, foreigners and blockholders decrease the quality of financial statements, but companies facing control from financial institutions or state have better quality disclosures. Since the state and institutional investors are present on the boards, they have the possibility to guarantee the quality of reporting and the monitoring of management. On the other hand, the power of families affects negatively the quality of reporting indicating that they want to protect their wealth and do decisions which are based on their own personal goals. (Klai and Omri, 2011)

The effect of international and national accounting standards should also be taken into account when considering the quality of financial statements. Latridis (2010) among others has found evidence that adoption of IFRS standards leads to higher quality of financial information e.g. due to more timely loss recognition and reduced earnings management. Although Barth et al. (2008) also highlight the importance of IAS standards for better quality financial information (a higher association of accounting results with share prices and returns, in addition to earlier mentioned factors); they argue that there are two reasons which might worsen the positive impact of accounting standards. Firstly, they state that IAS could be to some extent of lower quality than national standards e.g. when standards reduce management discretion resulting in accounting measurements which do not reflect performance and financial position as well as domestic standards. Secondly, Barth et al. note that quality improvements arising from IAS could be offset by the characteristics of financial reporting system other than standards.

To analyze the content of financial statements in more detail, their significance to the stakeholders should also be considered. When listed companies own one or more subsidiaries, they are required to prepare consolidated financial statements for the group. However, they are also obligated to present a parent company financial statement. This dual obligation has raised a question of which one is more relevant from the decision making point of view (Müller, 2011). Müller researched the biggest European stock markets and found that the importance of consolidated financial statements is clear but his results question the importance of parent company financial statements. The author states that consolidated financial statements offer information of the whole economic business combination giving more relevant information compared to parent company financial statements whose information content might be insufficient.

In conclusion, the prior research has presented several factors which possibly affect the financial statements' quality e.g. industry affiliation and company size (Bowrin, 2008) as well as the level of analysts' following (Chen et al., 1997). Moreover, some evidence has been presented that the lack of professional experts and poor best practice incentives might result in the lower quality (Shkurti and Naqellari, 2010). Institutional or state ownership might also contribute to the better quality (Klai and Omri, 2011). Again, IFRS standards

seem to increase the quality of financial reports too (Latridis, 2010). However, some concerns have been raised about the conflicts between higher regulation requirements and faster reporting (Krishnan and Yang, 2009). Finally, the significance of some parts of financial statements e.g. parent company financial statements is questioned by some researchers (Müller, 2011).

3.6. Framework based on theory

This chapter aims to provide a summary of the theory part presented earlier in this study. The framework constructed later in this chapter is intended to serve as a basis for the empirical part of this study and also to assist the reader to develop a comprehensive understanding of those factors affecting the reporting lag and quality as well as the importance of financial statements and their reliability.

It should be noted that the author has selected the main results of prior empirical research and studies which are of particular interest to the topic of this study. As already seen in the previous theory chapters, there are various and also contradictory results regarding timeliness of and quality of financial releases, but the author has aimed to select those outcomes which are most useful for this study. Thus, the following framework does not either present all possible previous studies regarding the topic nor does it reveal all mixed results of subject. In general, the framework aims to provide some sort of consensus and main outcomes of previous researches.

Reporting lag	
Size of the company	Small firms report late, large firms report early[1]
Information content of releases	Good news are reported early, bad news late[2]
Complexity of operations	More complex firms report late, less complex firms report earlier[3]
Analyst coverage	Firms with heavy analyst coverage report early, firms with light analyst coverage report late[4]
Healthiness of firm	Financial distressed firms report late[5]
Multinationality	Multinational companies report earlier than domestic companies[6]
Earnings management	Firms using earnings management report late, firms not using earnings announcement report early[7]
Managers' own intentions	Firms having managers with opportunistic bahavior report late, firms without opportunistic managers report early[8]
Auditor changes	Firms having auditor changes report late, firms without auditor changes report early[9]
Firm history and CEO	Influence firms' timing decisions[10]
Ownership	Larger institutional ownership indicates earlier reporting, greater ownership of company's insiders is associated with less timely filing[11]
Board characteristics	Reporting lag is positively affected by controlling shareholders of the board[12]
Debt ratio	Firms with high debt ratio report late[13]
Legal system and regulation	Timely reporting is less frequent in code law countries[14]
Information leakage	Timely reporting helps to mitigate insider trading and leaks to the market[15]
Auditing	Firms with longer audit reporting lag report late, firms with shorter audit reporting lag report early (tax issues)[16]
Share price effect	Timeliness is associated with a positive share price reaction, late releases with a decline in a share price[17]
Small and large investors	Timely reporting more significant to small investors than for large investors[18]
Profitability	As an indication of good or bad news, firm experiencing losses report late, firm experiencing good result report early[19]
Accounting complexity	Firms with more comlex accounting report later[20]
Importance of timeliness	
Inside trading	Timeliness reduces inside trading and possibilities to take advantage of non-published information (asymmetries)[21]
Leaks	Timeliness prevents rumours and leaks reaching the market[22]
Shareholders	Timeliness is more important to small shareholders than for large shareholders[23]
Share price effect	Timeliness of earnings releases results in a positive share price reaction, late reporting results in a decline in the share price[24]
Management influence	Timing decisions give management an opportunity to influence shareholders' attitudes[25]
Interin and annual releases	Timeliness is more significant to interim than annual reports[26]

Quality	
Firm size	Large firms are closely related to quality financial statements[27]
Analyst coverage	Higher number of analysts following firm indicates better quality[28]
Board	Institutional investors presented in the board are associated with better quality, power of families is associated with lower quality[29]
IFRS	Aboption of IFRS leads to higher quality[30]
Ownership	Firms having control from institutional investors have higher quality reports[31]
Earnings management	Earnings management reduces quality[32]
Importance of quality	
Asymmetry	Quality decreases asymmetry and financial constraints[33]
Firm image	Quality enhances corporate image, reputation and stakeholders' credibility towards firm[34]
Efficiency of markets	Quality can improve efficiency of capital markets[35]
Cost of capital	Quality can affect cost of capital[36]
Private debt	Poorer quality indicates that firm uses private debt[37]

Figure 3 Framework of theory

[1]Atiase et al. (1989)	[11]Owusu-Ansah and Leventis (2006)	[21]Leventis and Weetman (1994)	[31]Klai and Omri (2011)
[2]Givoly and Palmon (1982)	[12]Wu et al. (2008)	[22]Owusu-Ansah (2000)	[32]Lee and Son (2009)
[3]Aktas and Kargin (2011)	[13]Owusu-Ansah (2000)	[23]Wang and Song (2006)	[33]Beatty et al. (2010)
[4]Bagnoli (2002)	[14]Conover et al. (2006)	[24]Rambo (2005)	[34]Ussahawanitchakit (2011)
[5]Whittred and Zimmer (1984)	[15]Owusu-Ansah (2000)	[25]Bowen et al. (1992)	[35]Ahmedet (2009)
[6]Lee et al. (2008)	[16]Krishna and Yang (2009)	[26]Zeghal (1984)	[36]Lambert et al. (2006)
[7]Chai and Tung (2002)	[17]Trueman (1990)	[27]Jaggi and Tsui (1999)	[37]Bharath et al. (2008)
[8]Kross (1982)	[18]Wang and Song (2006)	[28]Chen et al. (1997)	
[9]Schwartz and Soo (1994)	[19]Khasharmeh and Aljifri (2010)	[29] Klain and Omri (2011)	
[10]Gibbins et al. (1990)	[20]Sengupta (2004)	[30]Latridis (2010)	

4. Empirical research: case company

The empirical part of the study is conducted by doing a qualitative research in the case company. The chapter is opened with an insight into the selection of research method and the reporting environment of the case company. This is followed by the introduction of management accounting change model which offers a framework for the empirical analysis. Finally, the actual analysis of reporting practices is discussed.

4.1. Research method

The empirical research was conducted in the case company as a qualitative research. Widely speaking, the qualitative research can be described as any empirical research which is not quantitative (Tuomi, 2007). However, Tuomi points out that a single coherent definition of qualitative research does not really exist. Typical characteristics of qualitative method are a small amount of information sources, unique results which do not aim to achieve a generalization, data sources which are carefully selected and gathered information which is related to meanings created by people (Tuomi). Moreover, qualitative research offers a wide range of methods e.g. different techniques used to do interviews (Bansal and Corley, 2012).

The qualitative method can be used to understand what actually lies behind a certain phenomenon and it can give such details of that phenomenon which are difficult to convey with a quantitative research (Strauss and Corbin, 1990). Thus, the nature of research problem is a major reason for selecting the qualitative method for this study: by using carefully selected interviews this study aims to find results to understand the phenomenon in this specific case company.

The qualitative research was conducted by doing interviews in the case company: four persons were selected for these interviews. The interviewees present Senior Vice President of Investor Relations, Vice President of Accounting Services, Vice President of Group Accounting and Vice President of Group Reporting. The interviewees were selected on the basis of the fact that they represent different aspects of case company's accounting and

reporting environment. As the names already indicate, one of the interviewees was chosen from the reporting field of the company, one from the accounting side, one from the investor relations and one from the accounting services function. By selecting the interviewees from the different aspects of case company's accounting environment some diverse perceptions could be possibly gathered during the interviews and a wider understanding of company's reporting practices could perhaps be achieved. In addition, the interviewees are positioned on different organizational levels. Moreover, three interviewees were members of fast closing project's steering group indicating that they have the knowledge and background information about the motivational and other factors behind the initiatives of case company's faster financial reporting.

The interviews were conducted in the case company to discuss the possible motivational factors behind the company's disclosure behavior as well as other elements affecting disclosure actions. The interviews were executed as theme interviews. The theme questions were designed to figure out those factors which affect the disclosure decisions, particularly those related to the timing and quality and the underlying perceptions of those, and the implications related to the importance of timing and quality (See appendix 1). In addition, all interviewees received the theme questions beforehand.

Showing and presenting qualitative data is challenging and requires extra work from researchers compared to quantitative data which usually can be showed e.g. in tables without any major presentational problems (Bansal and Corley, 2012). This particular study aims to solve the problem by utilizing a management accounting change model as a basis for the presentation of qualitative data. The management accounting change model and its implication to this research are introduced later in the following pages.

The chosen qualitative research method suits for this study because the aim of the study is to observe and analyze the case company's perceptions of reporting lag and quality of financial information and to understand the behavior behind the phenomenon and to explain the underlying factors resulting in this behavior. Following the definition of Bansal and Corley (2012), qualitative research uses existing theory as a foundation for the interpretation of particular phenomenon and the qualitative data is utilized to analyze the topic deeply, and finally, qualitative research aims to shed new light into the phenomenon.

Moreover, the qualitative method is suitable for this study since it helps to better understand the reporting practices of case company. Thus, the chosen qualitative method also supports this study which aims to build a story between theory and practice using the management accounting change model introduced later in the following pages. In addition, interviewing the case company's personnel is more appropriate than other research methods since it might better reveal interviewees' opinions and impressions about the mentioned topics and give a deeper understanding of underlying factors behind the company's closing and reporting process. Hence, this study does not particularly aim to look for a generalization to a wider array of companies but the goal is to understand and interpret the phenomenon in this specific case company, eventually offering us a better comprehension of its reporting practices.

4.2.Regulatory framework for timely reporting in Finland

Most countries have set limitations to the maximum disclosing time for quarterly and annual reports. Usually the listed companies must obey the rules set by the stock exchange in which they are listed. In Finland, the Nasdaq OMX Helsinki has announced The rules of stock exchange which specify the disclosure requirements for issuers of listed securities. Moreover, the Finnish listed companies must comply with the rules arising from the Finnish securities market act or from other legislation and lower level regulation. Nasdaq OMX Helsinki requires that the listed companies disclose their interim reports within two months from the end of the reporting period and shall state whether or not these reports are audited (Nasdaq OMX Helsinki, Rules of stock exchange). In addition, the auditing affects the deadline of annual reports. The financial report of listed companies has to be released within two months from the end of reporting period if the financial statement is not based on the audited annual financial report. If the financial statement is based on an audited financial report, it has to be disclosed within three months from the end of the reporting period (Nasdaq OMX Helsinki, Rules of stock exchange) (see the Figure 4). While this provides a maximum allowed reporting lag and a basic framework for disclosing earnings releases, the managers of Finnish companies still have discretion to decide when exactly they release their financial information.

Moreover, the Finnish accounting act requires that the financial statements have to be done within four months from the end of the reporting period (Finnish accounting act 6§). The filing requirements according to the Finnish law are slightly more flexible since they give one more month time to prepare the financial statement. Moreover, the public limited companies have to register their financial statement to the National board of patents and registration of Finland within six months from the end of the reporting period. However, public listed companies must register their financial statements with two months from the verification of the financial statements (Finnish limited liability companies act 10§). The announcement to the Patent and registration office requires a copy of audit report and a verification from a member of board or CEO (Finnish limited liability companies act 10§). If the deadlines are not complied, the CEO or a member of board can be fined or a default can result in the deleting of Finnish trade register (Finnish limited liability companies act 10§).

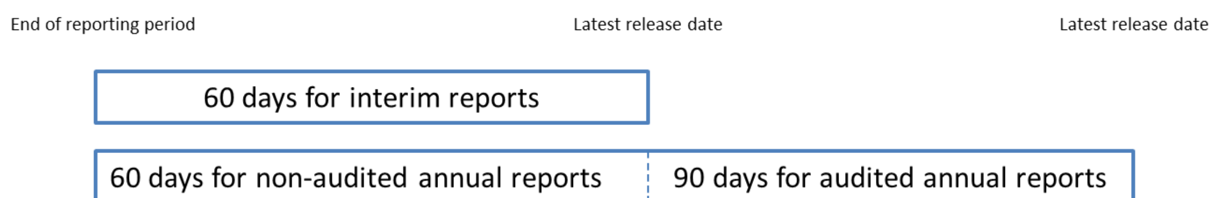

Figure 4 Regulatory deadlines for financial releases

4.3. Case introduction and basis of empirical research

As stated in the beginning of this study, the case company has executed some large scale changes in its accounting and finance field in the recent years. This will provide an interesting basis for the study. Other origin for the this study is the case executed by the author for the company in order to improve its quality of reporting and create a possibility for decreasing the time needed for publishing the quarterly and annual financial statements.

The case concerned an automation project regarding the notes of financial statements. Currently the case company has automated profit and loss and balance sheet statement in its

consolidation system, but the creation of notes for the purpose of financial statements has been totally manual. In other words, the information transfer from accounting system to the reporting system via interfaces is possible for the profit and loss and balance sheet but the automation of notes would require a creation of interface. Thus, in order to improve the reporting, the possibility to automate the notes had to be investigated. The case combines the both aspects of the study, timeliness and quality, since by automating the notes the case company would be able to improve the quality. This is due to the fact that the amount of errors arising from the manual work could most probably be decreased if the interfaces would transfer the information automatically to the notes. On the other hand, the automated information transfer is potentially a faster way compared to the manual filling work. Of course one cannot assume that automation would be an error-free solution and in some cases the automation might not even be utilized since it is not possible in practice.

The case was executed by first investigating the existing reports and instructions created for the notes in order to get a clear understanding of the process of reporting notes. Several meetings were arranged so that the information sources of notes and their nature would be understood. The outcome of the case is a presentation of the existing notes and what they actually include. Each note and the reports and instructions related to it are demonstrated as well as the party responsible for the note. However, the most important outcome of the case is the detailed specification of those notes which could be automated and how this could be done. In addition, the reasons for the obstacles of automation are clarified. This proposal gives to the company the opportunity to further investigate whether the trade-off between costs and benefits actually supports the creation of the interface for certain notes.

However, since this automation project is intended to last longer than the release of this study and the actual outcome of the project could be seen after even longer time, the author uses the case as a basis for the empirical research. This case is a great support and foundation for the study since it offers a fair example of actions what companies might actually do in order to improve the timing of financial reporting. The case also gives a good opportunity to investigate the reasons why a company is interested in speeding up its reporting. In general, the case company selection was based on the fact that it has done major changes in its closing and reporting practices and is also looking for new ways to

improve these customs even further. This is why the company's accounting and reporting environment has been an interesting research subject and excellent source for observing the motivational factors behind faster reporting and also some outcomes of it.

4.4.Fast closing

However, another interesting development object has been the project aiming to improve the company's closing process. The case company has gone through major changes in its reporting environment during 2011. The company executed a fast closing project aiming to reduce the number of days required for preparing monthly, quarterly and annual closings. More specifically the closing process development was initiated by Group controlling after the Group board of directors had set tighter quarterly release timelines. The aim of the fast closing project was to reduce the closing days with approximately one week meaning that radical changes in the way of doing closing and thinking of closing and reporting practices had to be done. This project had an effect on a wide array of functions which are involved in the closing process. The fast closing project affected considerably the case company's reporting time. Moreover, it can also been noticed that the audit report lag has been reduced as well and this was due to the ambition to release audited financial figures while giving the earnings announcement for the first time in the company's releasing history (see the Figure 5). Naturally there have been some other events which have had an effect on the reporting time since there have been some variations in the case company's reporting lags over time (see the Figure 5). However, this study focuses mainly on the major reporting change executed recently, known as fast closing project which helps to shed light to the factors behind the company's reporting behavior.

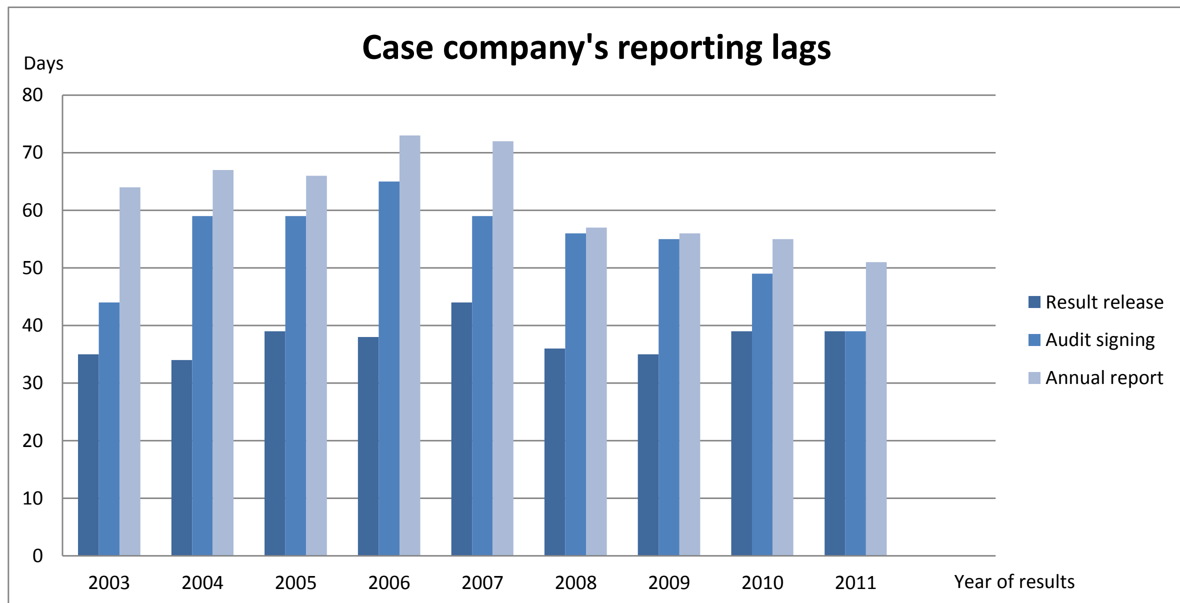

Figure 5 Case company's reporting lags for annual releases

In addition to the interviews which the author has made in the case company, she has had the opportunity observe the accounting department during the fast closing project development and after the execution. This offers an additional insight into the company and in a way it has given her a possibility to further analyze the case company and built even deeper understanding regarding the meaning of timeliness and quality for it.

4.5. Analysis of empirical results based on the accounting change model

As mentioned earlier, qualitative data can be difficult to present in a study (Bansal and Carley, 2012), that is why the author has decided to utilize an existing accounting change model by Cobb et al. (1995) in order to show the outcomes of the empirical part of this study in a more understandable way. Next chapters consist of the analysis of topics that arose during the interviews as most important motivational factors for faster reporting and as possible determinants of reporting lag. In addition, some other subjects e.g. importance

of quality and timeliness and auditing are also discussed through here since they are closely related to the topic and their importance is highly supported by the theory.

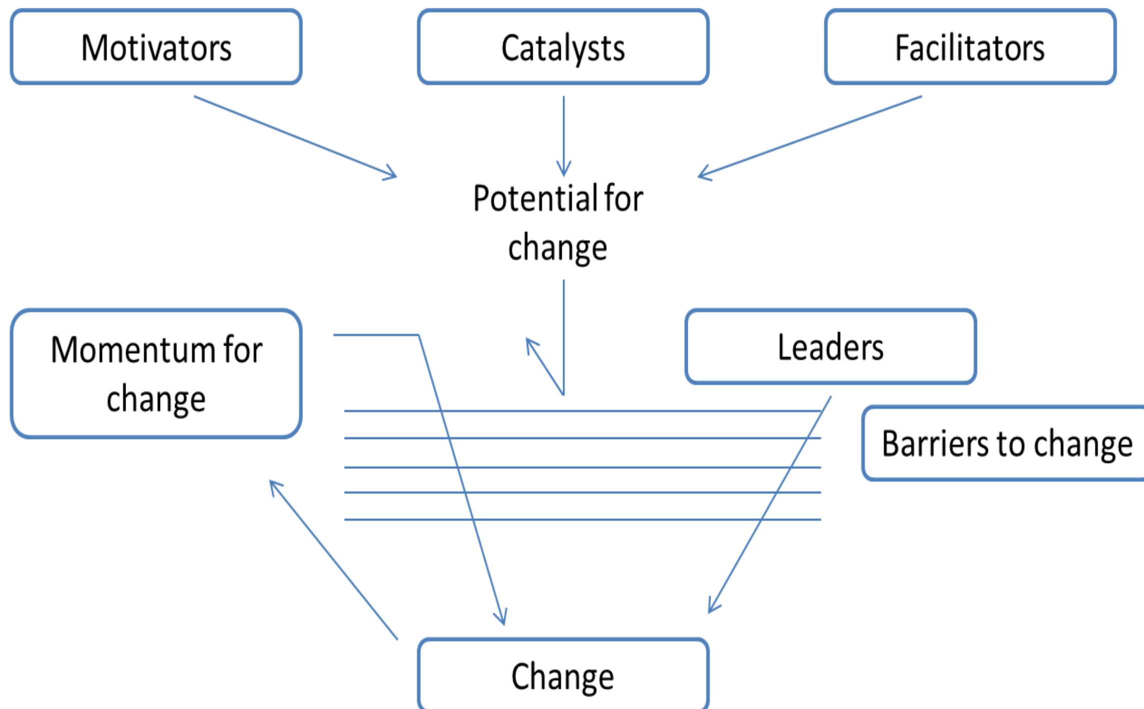

Figure 6 Accounting change model, Cobb et al. 1995

Many prior studies have examined the factors affecting the accounting change process (e.g. Innes and Mitchell, 1990 and Cobb et al., 1995). The management accounting change model based on Cobb et al's framework (1995) provides a basis for analyzing the factors behind timeliness and quality of financial reporting (see the Figure 6). The accounting change model explains why and how the accounting transformation happens. Innes and Mitchell analyzed in their study three different factors contributing to the change in the behavior; facilitators are factors which are necessary but not sufficient so that the accounting change will happen (Innes and Mitchell, 1990). These factors include e.g. accounting resources and availability of adequate accounting staff which influence the success of the transformation (Innes and Mitchell). The authors state that motivators, on the other hand, are factors which in general affect the change, e.g. the motivating role of

production technology, organizational structure or competitiveness of markets. The last set of factors is called catalysts which are directly connected with the change and its timing, for instance declining profitability, loss of market share, organizational change or arrival of new accountant. Generally, the management accounting change happens through the interaction between these facilitators, catalysts and motivators. (Innes and Mitchell)

However, Innes and Mitchell's accounting change model does not consider any barriers to the change which are included in Cobb et al's model (1995). Since it is worth considering also those factors influencing negatively the accounting change, Cobb et al's model is utilized in this study. Thus, taking into account both benefiting and preventing elements is crucial in order to analyze throughout the timeliness and quality of financial reporting. Cobb et al. developed the accounting change model further and added factors known as leaders and barriers. According to Cobb et al., barriers are factors e.g. attitude of staff to change which might hinder or even prevent the accounting change. Moreover, leaders highlight the role of individuals contributing to the change. Hence, Cobb et al. point out that the accounting change succeeds due to the people and their attitudes in the organization. Thus, this study comprises catalysts and leaders following Cobb et al.'s definition of individuals as having a dual role in the accounting change process. Cobb et al. also discuss momentum of change in the banking sector referring to the expectation of continuing change which is a significant factor supporting the transformation. The authors also state that motivators, facilitators and catalysts are needed in order to create a potential for the change but the role of individuals is crucial to overcome prospective factors hindering the accounting change. Furthermore, the momentum of change is needed to maintain the pace of transformation (Cobb et al.). The accounting change model in the context of case company is discussed in the next chapters and each chapter covers one factor of the change model as well as the practical side of timeliness and quality of financial reporting in the case company. Momentum of change, which refers to the expectation that the accounting change will proceed without any breaks, is not discussed separately in the following chapters. This is due to the fact that the fast closing project group could be seen as a source for the momentum of change since their main goal was to finalize this project and make it come true. As the fast closing project was successfully executed and people per

se will be discussed separately as a significant force for the change in the following chapters, the author has excluded momentum of change from the following analysis part. Thus, the accounting change model assists as a framework for presenting the empirical results and is intended to work as a structure for the rest of the study in order to make it more understandable to analyze the empirical outcomes.

4.5.1. Motivators

Welfare of employees

In addition to more concrete benefits e.g. faster and improved closing process derived from the case company's fast closing project, the case company has also targeted a softer goal: better welfare of employees. Working in the accounting department does not always come without pressure and regular nine to five -days have to be compromised every once in a while. Especially this is true during the monthly closings when employees' stress tolerance can be pushed to the limits and days in the office do not definitely follow 8 hour -routine. Even more pressure is faced during the quarterly and annual closings when the investors, markets and stakeholder groups in general are eagerly waiting for the release of financial information from the company. In that kind of situation, one has to get his or her work done and that does not necessarily happen within eight hours. Moreover, one might also feel that it is not appropriate to leave the unfinished work on the table and leave home to continue next day if others stay at office later. Thus, employees might feel that they have both pressures to finish their jobs in a fast pace and also from the working environment in a sense that their colleagues might work longer hours. One could call that loyalty and support from colleagues since the releasing of financial information is considered as a common goal which has to be achieved by working together.

It is easy to assume that fastening the closing timetables must have put even more pressures towards employees in the accounting field since now they have even less time to execute the tasks assigned to them in the monthly and quarterly closings. However, it is the exactly opposite what has happened in the case company. The welfare of employees and their

satisfaction in their work has actually improved as a result of fast closing project. This makes sense if we think the whole process development itself: *“when people know what expectations are set to them and when they are expected to meet those expectations, it is more comfortable to a single employee to execute his or her job in a proper manner”,* noted one of the interviewees. The fast closing really forced the company to consider its processes and what kind of output is expected from those employees participating in the closings. Now the company has a clear and well-communicated timeframe and task split which helps the employees to be better aware of their duties. It should also be noted that seeing the actual outcome of the working and succeeding in own job help boosting the satisfaction in employees’ own work too.

However, one of the disadvantages of fastening the reporting has been the fact that sometimes some individuals have been under very high pressure during the closing process. As noted by one of the interviewees*: ”There have been some single cases where certain people have had to work under significant pressure during certain quarters due to some exceptional problems”.* However, as a whole the fast reporting has been a positive experience for the employees, even if there have been some single problem cases. One of the main advantages is that the employees have now one extra week time to do something else than closing-related tasks. As Vice President of Group Reporting pointed out: *“Once you have completed something, you have time to be spent on something else, hopefully something even more precious”*.

Another aspect of well-being of employees the actual working time dedicated to closing process. The fast closing project was not only about cutting the days needed for closing execution but also improving the processes related to it as well. This is also one of the case company’s future goals: *“At least we aim to stream line everything in a way, so that even if the current closing time table would be used, the employees participating in the closing would need x % less working hours to do his or her job”*, stated one of the interviewees. By having cut the time required to do the monthly and quarterly closing and reporting, the employees actually now have more time to spend to other things or have a day off and take care of themselves and their health. To conclude, the employees’ welfare has improved since they know now better what the expectations towards them are and when those

expectations are supposed to be met. Moreover, they also have additional time to be spent to themselves or other tasks due to the improved processes.

Management capability

Moreover, one interesting remark is related to the faster reporting's other benefits. The case company sees that the management and its different levels is the party which is especially aimed to benefit from the faster reporting. These benefits are strongly related to the management's ability to analyze and interpret the information. As one of the interviewees stated: *"--when financial data is delivered faster to them, they have a chance to do corrective actions earlier if required"*. Of course this also means that the corrective actions done by the management can be made in a faster pace since they receive the information earlier and naturally, the earlier the corrections are done, the better.

Moreover, the management is willing to see the financial results relatively early. This is understandable since the management needs time to consider how they want to comment on the results and what the company's perception of financial results, which they want to promote to the outside, is. As one of the interviewees noted: *"The fast closing project has brought a clear advantage for us since the management can create faster an impression of what the company's position in the market is"*. The board has naturally the same benefit from the faster closing and they are able to reflect earlier their expectations against the actual financial results and bring the discussion on what the board and management's message to the market is. When they have more time to consider these aspects, the outcome is better thought through and probably more versatile than if they had less time to consider the message and content of financial results and had to rush to deliver their opinions. Moreover, one of the interviewees also pointed out: *"The faster reporting also means that they can now form their view of company's future prospects against estimates in a faster manner and think how the results might affect the company's financing"*. Thus, the fast closing project has affected the management and its working in two ways: firstly, the management and board can start considering earlier their message to the market and they have also more time for that task. Secondly, they have more time to analyze the results and evaluate how the company has succeeded and whether the set expectations have been met.

Lastly, any corrective actions can now be made earlier if needed. This is important since the information becomes outdates fast and in order to make right decisions, solutions should be based on the as recent as possible data.

The case company believes that the markets really appreciate fast releases and short reporting lags when publishing its results. However, it is also acknowledged within the company that even if the target is to reduce the reporting lag even further and be among the best reporters in Finland, there is a level which ultimately cannot be reached – the demands of shareholders and other stakeholders. The case company is really willing and motivated to develop its reporting further, but at the same time it is aware of the fact the shareholders' wishes and demands are eventually unobtainable. As one of the interviewees stated: *"Of course the analysts and others appreciate the more, the sooner the information is delivered, there's no doubt of that, but the demand for information seems unattainable".* The interviewees experience that the shareholders and other stakeholders would like to have the financial information immediately after the reporting period is over. In a way this seems natural, since the informativeness and importance of financial information declines as the time goes by. Thus, the shareholders and other users of financial information are seen as they have insatiable need for information – both in terms of amount and timeliness. As an outcome the case company tries to satisfy the shareholders' demand for fresh financial information while knowing at the same time that the task is impossible to fully achieve. However, even though they admit this, the case company seems to be highly motivated to improve the timeliness of quarterly reporting even further. As Vice President of Group Reporting noted: *"Development will continue and the goal is definitely to do actions which improve our processes through which quality will improve and this all makes it possible to fasten the timetable".*

This faster reporting of financial statements and the appreciation from the stock markets are not only seen as enhancing factors affecting positively the company image, but the timeliness of financial statements is also seen as a sign of management capability. As one of the interviewees pointed out*:"The reporting has to be in accordance with the way the company is managed".* This competence has also been an important motivational reason behind the fast closing project. Thus, the quarterly and annual reports and their results are

not the only factor which the users of this information might consider. When the company publishes its financial statements without a huge reporting lag, it signals from its part that the management has been capable of performing its tasks as expected. A fast reporting is a positive sign to the stock market regarding the fact that the company and especially the management are doing right things and that the management is able to direct the company efficiently and effectively. Or the other way around, it would mean that a long reporting lag should be taken as a warning sign of management's inability to run the business and make the right strategic decisions. Naturally, the timeliness of financial statements does not tell the whole truth of management capability because it only sheds some light to the management's success in the form of delivering the results, but the case company considers it as a significant determinant which the users of financial statements take into account for evaluation purposes.

Although the case company feels strongly that the faster announcing of financial results has positive effects since it enhances a good corporate image and management capability among its stakeholders, some doubts were expressed whether the benefits from the faster reporting could actually be quantified. On the conceptual level the interviewees were on the same page that it is better to announce the financial reports early, but any actual positive outcomes based on stakeholders' reactions e.g. an effect on market value were not brought up.

Transparency

When talking about financial statement quality, one should also consider transparency aspect of it. The case company considers itself as being pretty open and wide communicator in its annual reports and in financial reports in general. The management's high requirements for good transparency can be seen in many ways. As Vice President of Group Reporting noted: *"Our management has decided that certain things will be announced to markets even if from Finnish Financial supervisory authority's or auditor's point of view some issues were under threshold and not necessary to announce to the markets"*. This tells about the level of transparency which the case company has set to itself – it is more open and more sensitively announcing releases than what is required from

authorizes. Naturally it is always possible to tell more, there is no doubt of it. However, it has not been experienced within the interviewees that they would not have been allowed to tell about something to public.

Although the case company has a clear vision of how transparent company it wants to be and what its own threshold for transparency is, sometimes conflicts related to transparency and especially what should be published arises within the company. Occasionally there are single cases where for instance Investor Relations would like to promote a positive picture of the company to the markets even if e.g. Accounting department were on a slightly different view and liked to give more careful announcement. As Senior Vice President of Investor Relations pointed out:*"Facts are unchangeable but it is totally different thing how you want to tell about them and what you want to highlight"*. Thus, some issues exists concerning the decision of what the correct image the company wants to promote outside is, but it should be once again noted that accounting transparency is not black and white. The same thing can be told in different ways to the markets while still doing it correctly and according to the rules. It is about interpretation of the issue and in what light the company wants to publish it. *"In any case you cannot be dishonest or try to conceal anything, but what you want to emphasize is a different thing"*, stated Senior Vice President of Investor Relations. Moreover, as one of the interviewees pointed out: "*We can tell nice stories, but the numbers have to follow them. The numbers have to prove that the stories are true"*. Regarding Finnish reporting practices, Senior Vice President of Investor Relations also points out*: "We Finns have this desire to highlight negative events and for us, the class is half empty, not half full. And when we consider areas outside Finland, where the most of our owners are, there is totally different customs and they do not understand this type of underrating"*. The company definitely sees that it is necessary to present bad things, but there is no need to overemphasize them.

Good transparency is usually considered as telling about the company, its operations and financial results as openly as possible. And a transparent company must behave in a way that the stakeholders' expectations of transparency are met. However, the interviewees' common understanding is that the stakeholders, especially investors' demands are endless and never totally achievable. As one of the interviewees noted: *"If you ask investors, they*

would like to have all information and forecasts and everything". There is also another aspect to transparency, that is, understandability. Even if the company would announce all possible information they have and what stakeholders require, it is of little usefulness in a case that those who read this information are not able to interpret it. *"--I have always had the same principle: if a random person from street was asked to read a part from our annual report, he/she should be able to understand it",* exemplified Vice President of Group Accounting.

During the execution of fast closing project it was also considered whether their financial releases include information which is not relevant or useful to the users of these reports. Hence, the case company had earlier two comparison years in the financial statements but it was no longer considered as relevant to have that much comparison. *"Now we only have one comparison year in our annual report, while before we had two*", noted one of the interviewees. Thus, the company wanted to preserve the level of transparency while improving the understandability – it is still possible for the users of financial statements to find the information for both two comparison years, but they now have to look at two financial reports. Therefore, transparency and financial reporting in general are closely related to the case company's communication policy. In many times the case company has also published announcements of changes in its operative functions and together with financial reports these together have made the announcements even more meaningful.

Importance of quality

In the past the case company's financial reporting quality has not always been exemplary. A few years earlier during or after many quarterly releases it informed about a correction or exemption to its published financial figures and those were not always insignificant amounts. As one of the interviewees stated: *"I'm not talking about any representing cases and that kind of problems, but real accounting errors"*. This was not that type of quality which boosts the credibility of the company among its stakeholders. Gradually, the employees and management themselves acknowledged the problem: *"Our reliability was questionable because of those additional announcements and correction releases"* noted the Vice President of Accounting Services. Meanwhile the company also went through

changes in its board's composition: the chairmen of the board and of financial audit committee changed. These new chairmen had a great ambition to make a change to the case company's past unfavorable release behavior. As one of the interviewees stated: *"the past events together with the motivation of these new people leaded to a highly strict financial audit committee-- which sets us tight frames for how to make sure that the reporting is of high quality and for what kind of guidelines and other beforehand work have to be done"*. In this respect, it has guaranteed that the faster reporting does not sacrifice the quality of financial statements.

Thus, the case company's principle for decision making is that right and correct information is received in order to make right decisions within the organization. *"It has to be of high quality so that we can see how the strategy comes true and whether it happens in a way that we expect",* stated one of the interviewees about the importance of quality. However, as one of the interviewees pointed out: *"Accounting is not black and white meaning that things are not either right or wrong, but a correct outcome and possibly a different outcome can be achieved through various ways and still say that it is correct. Many times people talk about errors even if it is actually just a result of different interpretations"*. Accounting is prone to interpretations and sometimes addressing one correct way to do things is not suitable and in some cases not even possible.

The case company sees that the quality of financial statements can be improved in two different ways when considering the fast closing project. On one hand, it can be improved by increasing the quality of input data. This means that information in the accounting system and in the consolidation system has to be correct which requires that the instructions and controls have to guarantee the quality and not forgetting that the basic data has to be filled in correctly. On the other hand, the quality of financial statements can be improved by increasing the time available for analysis and review. By dedicating more time to analyzing the figures the company can give a better view of its results to the market since it has more time for a broader and more in-depth review. The analysis and review -phase can be improved and more time can be dedicated to it when the company level data is possible as early as possible.

Quality financial information is not only relevant for a reliable company image and for the markets so that it can make its own interpretations and actions based on this information, but also for the company itself. The important user of financial information is the top management too. By producing reliable information the management can actually make good and right decisions since those actions are then based on correct information. If the quality is questionable, the management cannot trust the figures and ultimately making of right decisions is threatened.

Importance of financial statements

The whole financial reporting process is a huge task for a company: it requires producing the actual financial numbers, making sure that the figures are correct as well as the processes of producing them, arranging auditing and writing the actual annual report to mention a few steps. It is especially important for quarterly and annual financial reporting when the reports are also released to the markets. However, sometimes it can be questioned whether all the information included in the annual report serves the users for their best. It might be that the information is so complicated in some sections that is does no longer serve the needs of investors, at least those who are less sophisticated and aware of financial reports and their content. For instance the case company feels that some parts of the financial reports are so theoretical and complicated e.g. pensions that they might not bring that much additional value to the users if they are not able to understand it. This is partly due to IFRS which requires much more complex and detailed parts to be included in the financial reports. On the other hand, there might be parties who really need this information and know how to interpret it. Moreover, as one of the interviewees pointed out: *"--There might also be parts in the financial reports from which the users would like to receive much more information than is actually given in the report, but it is not announced even though this information does exist"*. In general, the financial statements are not perfect: they offer a standard set of information for the users who should be capable of making their decisions based on this imperfect set of information. It is not possible to fulfill the needs of every user, but the company believes that it can do its best to offer a set that it sees as most suitable for its stakeholders.

Even though the financial statements are considered as very important both for the company and its stakeholders, there are also other things in addition to the numbers which the investors are interested in discussing with the company and its management. As Senior Vice President of Investor Relations described the discussion topics with the investors: ”*It is more about strategy discussion and the direction where the company is going and how it has changed. Naturally for happened reasons, we talk a lot about restructuring and now that we have done these big investments, what we are aiming to achieve with them”.*

The timing and the content of financial statement can be seen as related elements too: it might be that the content of financial statements has to be compromised for some parts in order to publish the financial information to the markets as soon as possible. For instance, a really fast reporting might force a company to use a simpler way to present its financial statements than what would be desirable for stakeholders. However, the case company does not see that it has compromised its content of financial statements to any extent. The aim has been to achieve an understandable format for its financial statements with early as possible release without compromising the content or timing of the filing.

In general, the case company sees that the financial releases are important for stakeholders. This is mainly reasoned with the company's view of shareholders and other stakeholders' insatiable demand for early releases containing as much as possible information. Moreover, the interest towards the company's financial releases is also seen as being affected by other than financial information: the case company has many times released simultaneously other information e.g. about changes in its operative environment. Hence, it should be noted that financial disclosures are just one part of the communication policy which the company carries out. Thus, the importance of financial releases is also related to a wider context of the company's communication environment and together with other relevant publications, financial reporting is significant to the users of this information.

Company image

A good image is important to all companies and it is one of motivational factors underlying the faster reporting initiative in the case company. Naturally company image is built in many ways, not only through the financial reports. Regarding the corporate image and its

relation to the timeliness of financial releases, the case company made a contingency plan to find out what would be done if something bad or negative happened for it. The case company considered what the price tag would be as a result of a situation where it is not able to release its financial figures on the informed release day to the market. As one of the interviewees noted: *"There is no price tag for that kind of situation. It would result in a loss of corporate image"*. Good company image creates trust towards all its operations and naturally towards its financial statements. If the image has been lost, there is no trust left. Since good companies and companies with a good corporate image tend to release their financial information early, it is also the goal of the case company.

Moreover, it is believed that early reporting might even have an effect on market value of the company. In general, it is important to report the results as early as possible since it gives a professional image of the company and tells that everything is in order and the company is doing as it should be. In fact, releasing news late to the markets might be seen as a negative sign. However, one of the interviewees stated that it would be interesting to find out what kind of effect early releases would have on the share price since that is what eventually matters. However, no matter how early the results are published, the company has to be as good as its word. As one of the interviewees noted: *"I have to know the numbers very well and I have to be able to explain them very well. And I have to know how to explain organizational and structural changes and other things very well"*. Whether or not the early reporting has an effect on the share price, it is sure that the case company does not want to be among the last reporters. That is why peer group analysis and benchmarks do matter when it comes to the case company's reporting lag. It should also be noted that not only competitors within the same industry are followed but the biggest companies in general in Finland. This is probably due to the fact that there are not that many listed companies operating within the paper and wood industry in Finland. Thus, in order to get a large enough peer group for the comparison, companies from other industrial sectors have to be considered as well. To conclude, by reporting the financial releases without mistakes and offering reliable financial information, the case company believes that it can improve its company image in the eyes of its stakeholders.

Competitors

As mentioned the case company follows the releasing time of other big Finnish companies regularly. However, the case company highlights that it sets its reporting time targets itself and that its reporting time decisions are not following competitors' deadlines. It seems like the reporting lags of other companies provide more like a frame within which the company is checking its own reporting time against the others. This peer group analysis offers a chance for the case company to position itself and review whether its reporting time is suitable and acceptable compared to the others. As Vice President of Accounting Services pointed out: *"It is not about thinking when everyone else is publishing their results, it is about us setting our own targets".*

Following the competitors and other Finnish companies is not done for competing purposes: although it is not about who is the fastest reporter, there is anyway some sound ideas behind this reporting pace analysis. The case company wants to be a front-runner also in the area of financial reporting compared to its competitors to the public. Thus, this supports the earlier mentioned framework idea of other companies and monitoring of their publishing.

To conclude, the case company's motivational factors behind the reporting change comprises of different aspects: on the one hand, past unfavorable reporting behavior together with company image, improved welfare of employees and management capability have served as a significant push for the reporting improvements. On the other hand, understanding the markets' desire as well as importance of quality, transparency and financial statements in general have assisted as meaningful sources for better reporting practices too. Lastly, the relevance of competitors' reporting speed has offered a great framework for the case company to position itself when it comes to the reporting lags of Finnish companies.

4.5.2. Facilitators

Employees

The most significant facilitator in the case company could be seen to be the motivation of employees to execute the whole reporting change. From the top organizational level to the single individuals, the spur to improve the reporting process and to dedicate one's time to adapt to the change has been astonishing. Although the fast closing project meant mostly a radical shift in the case company's reporting and closing practices in a practical manner, having a huge effect on many employees' daily working routines, it also influenced the way people think of the whole closing process in the case company. As one of the interviewees pointed out: *"--the foremost change has been mental to us. So that we function well and we prepare properly for the close".* Receiving high dedication from the board and top management and committing and encouraging all individuals to work together in order to improve the reporting process has definitely worked as a significant facilitator in the case company. Thus, it can concluded that in the context of the accounting change model, people per se have contributed significantly to the closing process change as catalyst, leaders as well as facilitators.

"It has been the board which originally required it (the change), but after that they have not of course been those to manage these operations", clarified one of the interviewees. Although the top organization level has been the main force for the closing and reporting change, there has been a high level of freedom to conduct the change in a way the employees have felt is the best manner to execute it. As one of the interviewees described the level of freedom*: "If we know that we need to continue the development (of our processes), I would see that we have freedom to do that development in a way we want which is the optimal situation".* Thus, the spirit of whole closing change in the organizations could be described as free and enthusiastic without been ravaged by top management's too tight steering. According to one of the interviewees*: "Of course in some cases they send us requirements, but in my opinion, they haven't been in a too active role or micromanaging us".*

4.5.3. Catalysts and leaders

People

The board and its chairman's visions of company's reporting time has been the most important determinant of company's decision about the faster reporting. According to one of the interviewees: *"Our chairman's vision is that we position in our peer group relatively high and that is what has affected our reporting decisions".* Indeed, the board and chairman's goal is that the case company would be among the fastest reporters in Finland. In addition, this is not only the board's objective, but also CFO's aspiration. *"Our CFO's wish is that we would be among three best reporters"*, noted one of the interviewees. The case company sees that it aims to be a leading company also in the reporting field: being one of the slowest reporters is out of question. Naturally competitors' reporting times affect the board's perception of suitable and desirable deadlines for the financial publications. However, following other companies' reporting timetables does not mean that the case company only considers when others will publish their results and makes its own reporting timetables based on other companies' publishing days. Following others companies' publishing days is more like a framework which sets certain boundaries and helps the case company to decide where it wants to position itself within its competitors. As Vice President of Group Reporting described the following of competitors: *"One thing we benchmark is to see whether other companies' annual releases are audited or not when Q4 is published"*. Though, if the company noticed that e.g. a competitor has an audited annual report while releasing results, this would definitely cause critical thinking inside the case company regarding what the competitor is doing differently and how it could achieve the same.

However, it is not only the board or top management who make the suggestions and decisions of faster reporting, but also other people within the organization. Before the year 2012, the case company released its results before the auditing was finished and auditors' signings were given which basically meant that if the auditors had found something e.g. from notes after the company had released its results, this would had been a significant mistake for the company and damaging for its reputation. After new Vice President Group

accounting started working in the company, she brought up this significant issue and together with CFO the improvement of releasing audited results was decided. As a consequence of this enhancement idea, the case company released its financial results for the first time at the same day as the auditors signed their report. Thus, as this illustration implies, the reporting development ideas do not just arise from the board's or management's direction but also for instance from this kind of situations where a person outside the company steps in the organization and sees chances for improvements. In addition, after publishing the idea of fast development project, members within the teams in the company's accounting environment also started to give their own ideas of what kind of things the company could actually improve in the closing process.

Of course the board and management do not direct the actual operations related to these improvements in the reporting lag but it is on the responsibility of other organizational levels (accounting department). The case company sees as an optimal situation that the employees know that they will continue developing the reporting and closing processes: they have the freedom to do that in a way that feels best for them and guide the development to the direction they want. Hence, the board's or management's role has not definitely been too active when it comes to the actual development actions.

Thus, we can say that the pressures for the faster reporting arise from inside the company: from top management and board. This is the big picture of reporting pace, but ideas for the better and faster reporting can also arise from other organizational levels. However, it should be noted that the perceptions of board and CFO are based on a certain timing frame which is generated by the publications of other companies. It kind of seems that the company and its employees are motivated and willing to improve the reporting and fasten the releases since they see that things can be done better and when the certain things are possible to do in a better way, there is no reason why to stick with old ways of doing reporting. In the case company it seems that the internal forces are the drive for the faster reporting and they do not only arrive from the top organizational levels but from the motivated individuals regardless of position. Even if the internal motivation is definitely considerable, it is forth acknowledging how much e.g. the board of directors is affected by

outside pressures and demands for faster publications. Since this study does not include interviews from the board level of the case company, this issue remains unexplained.

4.5.4. Barriers to change

Multinationality

Most of the case company's personnel, production capacity and sales are in Europe and it is a leading producer of paper, pulp and board there. However, Latin America has become a significant continent for the case company too: it is a cornerstone of company's strategy of low-cost pulp from tree plantations and the company is having e.g. important joint ventures there. In addition, growth markets in China offer a potential environment on which to focus as well. All in all, the case company has production facilities and employees in more than 35 countries worldwide. Following Lee et al.'s definition (2008), multinational companies are those which have substantial sales, operations and employees in different continents and countries. Within this definition, the case company can be described as a multinational company.

Although the case company is an international paper and pulp producer, its multinationality is not seen as affecting negatively its closing process or reporting. One could also expect that an unstable political atmosphere or national legal systems might affect the reporting lag by increasing it since these type of conditions under which a company operates can complicate the reporting. For instance, the unstable political situation or suspicious legal rules in a country might affect the reporting time negatively. Nevertheless, the case company does not feel that these types of features of multinationality have an impact on its reporting processes even if the company operates with a big contribution in the countries like China, Russia and Brazil where one could assume some sort of political or legal deviations from western manners. As one of the interviewees stated: *"If we blamed our multinationality for our slowness (in reporting), it would be more like an excuse."* However, as Vice President of Group reporting pointed out: *" We are expanding to new*

areas like to China and South America with significant investments and that creates a big challenge for our reporting -- how to transfer our way to do things (reporting) there".

It can be that the international presence of the company has actually worked for its advantage when it comes to reporting, at least to some extent. The company must have well-developed accounting and consolidation systems as well as well-designed processes in order to go through each closing smoothly and report its results on time. Of course there are always some issues which might have an effect on the reporting time. For instance cultural differences might sometimes cause problems especially when considering the conception of time. The Nordic discipline regarding the meeting of deadlines on time and not bypassing them differs from South European or Latin American way of treating deadlines and time concept more carefreely. Other issues can be time differences due to various time zones and national holidays which cause some practical problems for the financial reporting.

Multinationality could also have its effect on the reporting lag if the local accounting standards are considered, especially when IFRS and local standards are in question. The case company has experienced that actually in quite many countries there have been some misunderstandings or misinterpretation of local standards in relation to IFRS. These types of problems have occurred for instance in Brazil as noted by Vice President of Group Accounting: *"In Brazil they have argued that the local accounting standards are same as IFRS but in reality these standards are not same".* This causes problems for the reporting when accounting is done assuming that it is IFRS -based even though it is not. This has not only been the problem of remote countries but there have been problems with European countries as well. Thus, these kind of misleading conceptions can create some sort of risk for the reporting if the local standards are followed as similar to IFRS but there are in reality significant differences which then mess up the financial reporting. In some cases the issue might be that the local accounting standards differ from IFRS so significantly that the comprehension of IFRS based accounting practices might be challenging.

The legal structure of the company is one factor which can affect the speed at which the company reports. As one of the interviewees stated: *"Due to the historic background from mergers and large structural changes in the past, our legal structure is nowadays quite complex and scattered".* However, the legal structure is not seen as any major issue for the

company's reporting processes. The case company admits that a wide legal structure might cause some small problems and complicate the reporting compared to a case if it would be only one legal company and reporting would be pretty straightforward. However, operating in various countries and continents does not make it possible in any way to report with a less complex legal structure. Hence, the legal structure is seen as a challenge, not as an issue for the financial reporting.

However, this multinationality, that is, having subsidiaries and operations around the world has an own impact on the reporting lag in other way. Different countries have their own currencies which have an effect on the financial reporting. Currently the case company is using approximately tens of currencies which have to be consolidated on a quarterly basis. This naturally creates its own challenges for the reporting since the notes for instance require a detailed analysis of currencies as sales and costs. Of course the various currencies create also currency risks. The currency issues have reduced in the case company after the introduction of euro, but still some issues remain. Nevertheless, they are not seen as causing substantial problems for the reporting but in a way they establish some challenges for the closing process.

Size

In addition, one factor which is also related to multinationality is the size of the company. Being one of the biggest companies in Finland measured by sales gives its own challenge for the financial reporting. In a large company there are always some special and unique cases or issues happening during a quarter which ultimately affect the reporting lag by lengthening the required time to prepare the financial reports. This type of special events e.g. closing of mills, acquisitions or disposals of companies have occasionally been perhaps too commonly happening cases which have to be taken into account in the reporting of the case company. As Vice President of Group Reporting described the change: *"Naturally we have only limited resources to be used for these issues but along with the fast closing project, we now try to handle these special cases before the end of reporting process"*. The major change concerning this was that required actions regarding these unique cases would be done before the end of a quarter. After the fast closing project it was emphasized that it

does not matter whether the case is small or bigger but if it is an abnormal case, it should be solved beforehand in order to avoid the situation during the closing that there is a surprise which some departments have known for months but comes now as a surprise to others in the middle of the reporting process. Thus, the fast closing has also caused a mental change within the organization: required things are done correctly and people are well-prepared for everything that is known during the closing and reporting process. When some unexpected surprise arises, the new fast closing timetable allows the company to handle them in a proper manner.

Information content of news

Obviously it is always nice to share good news to the market and informing about bad news is less alluring, not at least due to the fact that these news can have a positive (negative) effect on a company's share price. However, the case company has a standardized process for its reporting meaning that this process cannot be built on the basis of information content. The reporting procedure has to be planned so that whether the news is good or bad, they run through the same process with the same speed. There is not any special treatment for the closing and reporting procedure even though the company is aware of the information content. As one of the interviewees pointed out: *"This type of special treatment would require first thinking case by case whether information is good or bad news, then running the same reporting process and afterwards deciding whether to wait three weeks before publishing the news or to release the information now to the market"*. Moreover, managing the reporting time opportunistically on the basis of information content is seen as dubious practice which does not suit for the case company's concept of having best and leading practices in the financial reporting in Finland. As one of the interviewees commented: *"This is not any type of good communication."*

In addition, the reporting deadlines for quarterly and annual releases are determined well in advance and they are available for stakeholders at the early stage of reporting year. That makes the utilization of information content of news hard to exploit because the company cannot know what is going to happen during the year and kind of news, good or bad, it has to publish in the form of financial reports. In addition, the case company points out that the

Rules of stock exchange (Nasdaq OMX Helsinki) require that companies must disclose any price sensitive information without undue delay and that it has to comply with these rules. Hence, the company does not have an opportunity to exploit the information content of news in its disclosure decisions. However, it probably should be considered how specific the concept of "undue delay" in the Rules of stock exchange is.

One of the interviewees also pointed out: "*Another thing you should not do, is to publish information too early. We have to know what has happened, for instance, what the result is composed of. Or if we think about profit warning situations, you cannot give it too early because that can also mean misleading of markets".* Regarding paper industry and the case company, months and quarters are generally very volatile which means that predicting the future is definitely challenging. As one of the interviewees noted*: "--you are not able to see even after two months what the result of the quarter is. You need to see the last month as well, so that you know what really has happened".*

Thus, the routine closing process does not allow treating the information differently based on its content. Perhaps the content of news and its effect on announcing decisions is more related to other types of communication. There is much other news that the company is releasing in addition to its quarterly financial announcements. In these cases the company is probably more able to decide how it wants to deal with the news and its publishing and how fast it wants to release it to the market since this news is not dependent on the routine and basic cycle of quarterly reporting.

Taxation

Taxation is also seen as one area which has an effect on reporting lag. Although the taxation is not seen as a major issue for reporting speed, the case company has recognized that it has to do improvements regarding the taxation and its connection to the financial reporting in the meaning of timing. The taxation has actually been raised to the company's development list of the year 2012. As mentioned the taxation is not experienced as being a hugely significant factor affecting the reporting time but the feedback received in the company from different functions indicates that improvements should be made. As Vice President of Group Reporting highlighted: "*We need to think even better way how to co-*

operate between accounting and taxation departments". Hence, the taxation is always related to local bookkeeping and accounting. Thus, the company has the opportunity to make corrections to the statutory books after the Group's IFRS books have been closed if some material mistakes still arise. However, it is not possible to do the corrections for parent company's books following this method since its reporting process lasts till the end of auditing due to e.g. dividend distribution while for other Group companies the process continues much longer meaning that problems can still be solved.

On the other hand, the taxation plays not only a role as a factor delaying the financial reporting but also as a framework for the reporting. Since Finnish tax authorities require that the companies deliver their tax form by the end of April, the taxation creates in a way a background deadline. A background deadline is suitable in this context since it should be remembered that the deadline requirements concerning the taxation are not connected to the filing requirements of Nasdaq OMX Helsinki in any way. However, it matters for small companies and subsidiaries whose reporting has to be done when tax reporting is finished. However, the taxation and its effects should also be analyzed in a wider context. The case company experiences that some of its subsidiaries and their tax reporting have a negative effect on its financial reporting. As Vice President of Accounting Services noted: *"Taxation is typically something that takes time, for instance in Germany they are completed with it very late as well as in some other countries where taxation affects significantly to the local statutory result and the taxation and financial statements are closely related to each other".*

Other internal determinants of reporting lag

It seems that the case company's reporting lag of quarterly and annual statements could be described as a result of congregated single determinants which are not as significant when examining them separately but which have together a notable influence on the company's release time. The interviews did not reveal that there would be one factor that is considerably and positively the biggest reason for the company's reporting lag. As one of the interviewees noted: *"The closing process takes the time that has been given to it".* Thus, it appears that the reporting lag is more determined by the case company's ability to

challenge its past customs to do its closing and financial reporting, to search new ways to do it and to motivate its employees to participate in this development. However, the case company recognizes that its way of doing financial reporting and closing is still quite traditional. A good comparison are some American companies which prepare their financial statements already during the fiscal year end and they are for that reason ready to publish their releases pretty soon after the turn of the year. As Vice President of Accounting Services described the reporting approach: *"We aim to close our pre-systems so that we would have as much as possible actual information when we start to prepare financial statements"*. Thus, this type of approach might have some drawbacks and cause a delay in the reporting time e.g. typical cases have been late notice of missing bookings (for instance provisions) and late invoices which then have to be directed to the correct financial period.

Hence, the beforehand planning for instance how the closing of accounting pre-systems is designed plays definitely an important role for the company's reporting lag as seen in the example above. Yet, the case company feels that it does not always succeed in this perfectly. Although it acknowledges the importance of timetables and beforehand designing and their feasibility and communication to the all levels of the organization, there are sometimes certain difficulties. It might be that the communication has not been totally effective and some organization functions have not received the information or they have misinterpreted it. On the other hand, a company of this size always experiences some special and unexpected cases which come as a surprise and solving of them takes then some extra time and eventually has a negative impact on reporting time. Nevertheless, the case company aims to take this into account by predicting the special cases e.g. acquisitions in advance and by making the interpretations and reacting to them before the actual reporting starts. The case company has also pre-closing meetings with the auditors which in this respect helps preventing the negative effect of unexpected cases. In conclusion, a good preparation and scheduling combined with effective communication helps to hold back the reporting lag.

4.6. Contradiction between timeliness and quality

In many cases it is natural to think that if a task is done faster than before, the outcome might suffer and is more vulnerable to mistakes. When it comes to financial reporting, reliability and relevance might sometimes collide and these two qualitative aspects might not be seen as commonly achievable goals in some cases. If a company pushes a relevance-emphasized strategy towards its financial reporting, this might compromise reliability, at least to some extent.

However, the results of fast closing project have been totally opposite to these expectations which arise from this relevance and reliability -contradiction. Naturally it should be noted that fastening processes alone does not improve the reliability of financial information. The enhanced quality has been a result of careful process improvements: In order to fasten the closing procedure, the underlying processes have had to be developed further and improved as well. It has been in a way a forced equation: the case company had to made improvements in its closing and reporting processes which resulted in better quality, so that the faster reporting would have been possible. The better quality would not have been possible without the throughout consideration of all closing steps. As one of the interviewees noted: *"If we had just instructed that let's reduce our reporting by a week without this exhaustive process analysis, then the quality would have been an issue".*

The case company's current timetable for closing has not compromised the reliability to any remarkable extent. As one of the interviewees stated: *"Currently we have had to make some small compromises and they are not probably exactly as should be done if the instructions are followed literally. However, when considering the materiality aspect of these compromises, everything is still correct".* Of course, if the case company is going to further fasten its reporting, which is one of its future goals, it might be that some compromises have to be made which ultimately might have material meaning.

However, the latest audit did not indicate any major issues arising from the faster reporting. When considering this relevance and reliability -issue from the auditor's point of view, it supports the case company's insight of better quality as a result of faster reporting. Some

concerns were addressed to the case company from the auditors, but both the case company and the auditors worked together in order to understand what the case company wanted to achieve with the fast closing and what actions have been made in the company in order to achieve the objectives. As a result, when considering for instance the audit report for year 2011, it did not raise any reliability issues related to the fast closing or in general any significant issues. However, it is difficult to pin down whether the fast closing is the only reason contributing to better quality, but at least it has not destroyed the quality of company's financial statements in any way.

4.7. Importance of auditing for timeliness

According to the theory, auditing plays an important role for reporting lag since the total reporting lag consists of audit reporting lag and discretionary reporting lag (Lee et al., 2008). Moreover, the audit's role in the case company's reporting lag has changed significantly as a result of closing process developments. The fast closing project has naturally affected the auditing process as well and it required some change management and eventually the auditors were able to modify and develop their working like the accounting department in the case company. However, the work itself between the case company and the auditors has not changed but is same as before: co-operation and communication is required from both sides in order to achieve desired outcome. As one of the interviewees pointed out: *"There has not been anything alarming related to the fast closing project in the last year's audit report".* The comments regarding the faster reporting from auditors' side have been positive taking also into account the fact that any critical errors have not been found. Naturally some disagreements and single problems have arisen but those have been issues which were already known beforehand in the case company and for that reason they were not surprises. The case company believes that by working together with the auditors they could fasten further the financial reporting process of both sides. Maybe the most important point to be noted is that eventually it is about tradeoff between costs and timing: audit firms have basically unlimited resources to be used for the auditing process, but when more auditors are recruited to do the auditing, the costs

will naturally rise. The faster reporting has not affected the current auditing costs but if the case company aims to fasten its reporting in the future as well, it might have to pay higher auditing costs. However, as one of the interviewees noted: *" There is also a point at which even a high number of auditors are not anymore able to do the auditing faster in a reasonable way. However, we are not even close to that point".*

As theory highlights the importance of auditing for the reporting lag, the reality looks quite different from the case company's perspective. Auditing should not be seen perceived as a separate function of financial reporting process and as an outside action which makes an intervention in the company's own closing practices. The case company and the auditors have preparation meetings and the auditing days for Q3 and Q4 are asked well beforehand in order to make sure that the business units can prepare well in advance. The case company has a clear view how they want the auditing process to roll off. The country accounting function has an active role in the auditing process which guarantees that the open cases can be discussed through already during the auditing, so that as few as possible real and unexpected problem cases would be found from the annual report. Thus, the case company and the auditors start the preparation of auditing and its schedule already during the autumn. The days for the auditing process are agreed together and they are definitely not just dictated by the audit firm. Further, the case company is actually the side whose opinions have more weight in the timetable decisions regarding the auditing. At the end, the company is the client which is served by the audit firm.

Next figure (Figure 8. Accounting change model applied to practice) presents the above-discussed factors attached to the accounting change model. This figure aims to serve as a basis for the following discussion section between practice and theory.

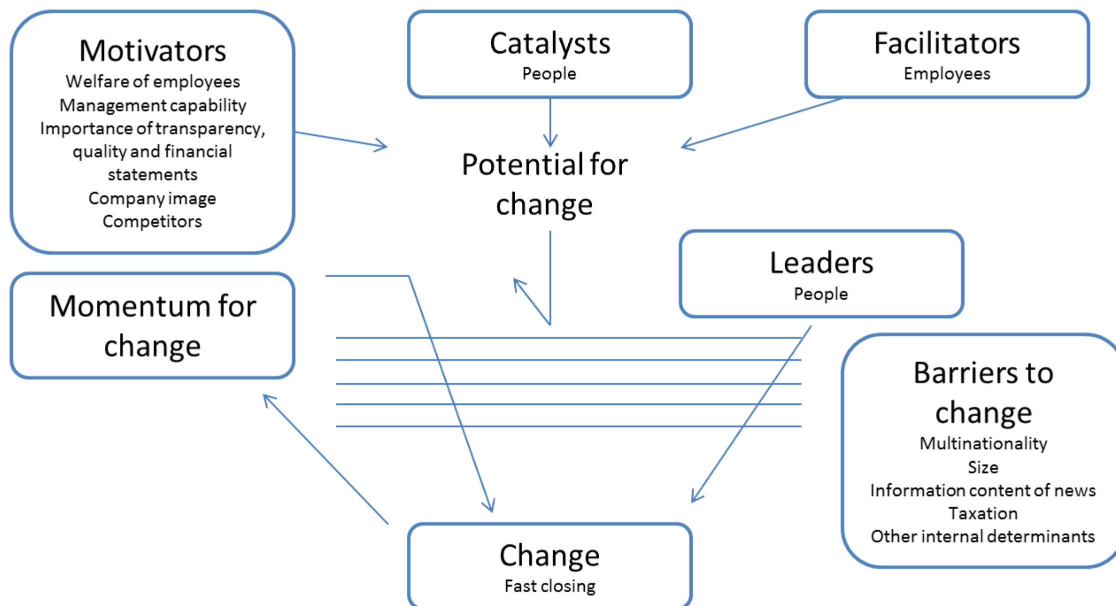

Figure 7 Accounting change model applied to practice

5. Discussion

Disclosure quality is seen as having a significant impact on firms' corporate image among their stakeholders. According to the theory, great disclosure quality affects positively the image and reputation of the company (Ussahawanitchakit, 2011). The disclosure quality is also connected to usefulness of financial information: firms having better disclosure quality tend to provide benefit and usefulness of information so that they can improve their corporate image (Ussahawanitchakit). The theory also highlights that the corporate image as a result of companies doing best business strategies and practices (Ussahawanitchakit).

The theory and the case company's view are parallel when it comes to the quality and corporate image. The case company believes that by offering reliable financial information which is free from errors it can boost its corporate image among its stakeholders. Naturally it understands that the good corporate image is not only a result of correct financial figures but the good image is built together with many other things as well. The theory and case company also agree on the connection of quality and usefulness of information: the case company considered usefulness of financial statements as a significant characteristic of

good quality. Usefulness is enhanced in the case company by deliberating what it really should include in its financial statements and whether that information is meaningful and understandable to the users. Lastly, the company stresses the significance of being the best at reporting practices. It clearly states that being among the slowest reporters is not an option for it and on the contrary, it desires to be one of the best reporters within its peer group. Moreover, the case company sees that it is good to report its statements faster because that is what good companies do. Indeed, this best practice aspect is supported by the theory: Shkurti and Naqellari (2010) point out that those poor best practice incentives can lead to an absence of high quality data. Thus, according to theory and practice, the best practice incentives are meaningful supporter of good quality financial releases.

In a way it is rather straightforward to understand that the case company's view of the quality and its connection to corporate image aligns itself with the theory. Understanding, that doing good things and things, which stakeholders are satisfied with, results in some sort of positive reaction in the markets, is not tricky. The positive outcome of reporting early and without mistakes might however be difficult to recognize or quantify to concern a specific market reaction. Thus, on a conceptual level it is simpler to say that the result of timely reporting is a better corporate image.

When it comes to importance of financial statements, the case company clearly sees that the markets are eager to receive its financial information as soon as possible. Although the company questions some parts of financial statements as highly complex and difficult to understand for not that sophisticated readers, it believes that the financial statements are still an important source of information even though there are a lot of additional information available in the markets. This does support the thoughts presented in the theory e.g. by IASB indicating the importance of financial statements for stakeholders. However, some researchers argue that earnings announcements do not really provide that much novel information to the markets due to their low frequency (Ball and Shivakumar, 2008). The case company sees both quarterly and annual releases as highly important while the theory at least to some part states that timeliness in more significant for interim rather than annual reports since the annual reports mainly confirms markets' predictions based on the interim reports (Zeghal, 1984). However, this is not in line with the practice since the case

company has basically same standardized closing process for its quarterly and annual releases even though it admits that auditing is increasing the reporting lag for the annual reports. Of course the additional notes part in the annual report as well other parts not included in the quarterly releases increase the amount of work and time dedicated to the annual report. However, the case company does not see that timeliness would be in any sense more important for the quarterly than annual releases or vice versa.

Finally, the importance of timing to the managers is justified by the fact that the timing decisions give to the managers an opportunity to influence the shareholders' attitudes towards the company during a short period of time (Bowen et al., 1992). In a way, the theory and practice do have something in common when it comes to timeliness and conception of it as a tool for affecting markets or shareholders' attitudes. However, where the theory considers managers' decisions of financial releases' timing as somewhat opportunistic in the short term (Kothari et al., 2009), the case company highlights the best practice behavior and doing things right and better than its competitors. The case company sees timeliness as a tool for enhancing a good corporate image which creates trust towards its financial releases. Moreover, timeliness is seen in a case company as a characteristic which good companies have and that is why it wants to pursuit of it. Naturally, the case company also believes that reporting early has a positive effect on the share price. However, the theory and practice have different views of this. The theory states that the companies try to influence market perceptions and through them share prices (Kross, 1982) whereas the case company sees the share price effect as a result of good company and best practices images within the markets. Thus, the good company image and being leading company in the financial reporting seem more significant motivational factors for the case company and the positive share price effect is more like an end result of all this. The theory highlights more the managements' role as trying to influence the share prices more straightforwardly (Kross).

The previous empirical literature has presented various perspectives towards CEO and board's role in the reporting lag and financial statement quality. The board has eventually the responsibility of efficient communication and monitoring inside the board in order to execute more timely publishing of financial statements (Wu et al., 2008). Board

characteristics like presence of controlling shareholders in the board affect the reporting lag positively and significantly due to differing interests of controlling and outside owners because the controlling shareholders do not necessarily have incentives to the timeliness of reporting. Further, inclusion of independent directors to the board affects the reporting lag by increasing it. (Wu et al.) Moreover, the board characteristics like power of foreigners and families tend to reduce the financial reporting quality (Klai and Omri, 2000).

The theory and practice are slightly aligned if the quality aspect of financial statements is considered. The case company has experienced that its board of directors did have an effect on the quality improvements which the company went through in the past. A couple of years ago the company's reliability was questionable due to various additional correction releases announced after the actual financial releases. After the chairman of board of directors as well as the chairman of finance audit committee changed, the problems were acknowledged and the improvements were planned. The motivation of the new chairmen together with the unfavourable release history was the force which made the company to reconsider its reporting practices. Thus, the theory and practice do not totally agree here since theory highlights the significance of controlling shareholders and independent directors for the reporting lag while in the case company, the personal motivation of the board member and historical behavior were forces behind the quality improvements. However, the theory and practice do see the board as an important part affecting timelier reporting: the case company's fast closing proposal came specifically from its board of directors.

Perhaps one of the most important and consistent determinant is the history of the company. Gibbins et al. (1990) note that the disclosure behavior can be constructed by traditions and taken for granted practices to do the closing. In addition, the authors point out that the earlier disclosure experiences become a basis for disclosure beliefs. This is linked to their research findings indicating that the negative consequences of disclosures were more strongly perceived in the companies. This all can be basically applied to the case company: negative release experiences in the past were noticed after the new chairmen took the reins in the company and perhaps they gave a push awaking the company that this type of behavior cannot continue. On the other hand, the company's closing behavior, at least

from employees' side, can be interpreted to some point as taken for granted disclosure behavior: as the one of the interviewees stated: *"Somehow it is so that, if you are given two weeks, it will take those two weeks to do it."*

Consequently, the board characteristics do matter when it comes to the reporting behavior and quality of financial statements for both practice and theory. However, they have to some extent different approaches and content when considering what actually counts within the board. Nevertheless, history and past disclosure behavior have also relevance for both the case company and theory,

The theory has suggested two types of disclosure positions the companies might have: ritualistic dimension where the disclosure process is standardized and managers are passive and opportunistic dimension where managers seek actively ways to benefit from the disclosure (Gibbins et al., 1990). In a way, the case company could be seen as positioning to the ritualistic dimension since its closing and reporting process is standardized and this process has to be carefully gone along with. However, the theory and practice do differ to some extent since the company's managers cannot be described as passive but rather active developers of the disclosure process. Again, the opportunistic manner to manage the disclosure is not really a suitable option since the company's ways to influence the stakeholders comes more through the best practice behavior and good corporate image than through dubious managers' disclosure behavior. In conclusion, the practice in this content is closer to the theory's ritualistic disclosure behavior apart from the argument regarding the passive managers.

Moreover, the size of the company is often discovered to be one of the determinants for timeliness of financial statements. Haw and Ro (1990) for instance found that larger companies are faster reporters than smaller companies. They state that this might be due to various reasons: big companies have better data processing systems, the audit involvement is higher than in the smaller companies and the outside pressures and expectations towards timely and correct financial information from stakeholders are higher than for the smaller companies. Of course there are also contrary arguments indicating that size does not matter, for instance according to Khasharmeh and Aljiri (2010), but the main direction of the theory supports the role of size as a determinant of timeliness.

The case company sees that its size is not affecting its financial reporting, at least not to the extent that would be significant. However, the company size can be seen influencing the reporting time indirectly. The size effect can be observed in special and abnormal cases which always occur in the large companies and which cannot be totally prevented, no matter how well -prepared the company is for these issues. The theory supports this point of view since the larger companies might face longer reporting lags due to more complex accounting environments (Sengupta, 2004). The author argues that abnormal cases like undergoing acquisitions or some special items might affect larger companies since they have to dedicate more time to solve these cases. Thus, the theory and practice are in line when it comes to the size effect as more complex accounting practices.

To conclude, the case company does not consider its large size as a huge advantage or as a burden spoiling its reporting. The size is more like a neutral characteristic which has its effect on the company's financial reporting but this effect is something that is taken as given and the company has to do its best to work along with it and come up with solutions when problem arises from this size effect. Moreover, the size effect might have an effect on the company's reporting indirectly. Thus, the theory and practice are coherent when the outside pressures are considered: the case company sees that the investors and other stakeholders are highly demanding and that they appreciate faster reporting. This motivates the case company to announce its results earlier and the large size and timeliness have a connection in this context. However, in generally speaking, the case company's view of size and its effect on the financial reporting is different from the theory since the case company does not consider size as an important characteristic for its reporting lag, negative nor positive.

There is also evidence that company's international appearance is associated with its reporting lag. Lee et al. (2008) found that multinational companies do report their earnings faster than domestic companies. They state that this can be due to the fact that multinational companies are prone to higher asymmetry between management and shareholders indicating larger monitoring and external financing costs. The authors also point out that multinational companies have more complex financial reporting environment to deal with which supports the argument concerning the higher asymmetry as well.

In a way the theory and case company's view do align here. The case company does not feel that its multinationality would be a huge hindrance to the faster reporting. Of course some small issues are identified but those are not of that high significance that they would be categorized as significant determinants of reporting lag. However, the case company does not present its multinationality as an important characteristic which enables its fast reporting either. Naturally, pressures for the fast financial releases are experienced in the company, but its multinationality is not seen as a specific reason for better financial reporting.

Thus, some conclusions could probably be drawn that the multinationality does have a slight positive connection to the reporting lag in the form of outside pressures and better organizational resources in practice, but a strong similar consensus of multinationality between the case company and theory does not really exist. Some additional support for the positive role of multinationality set by the theory can be demonstrated since the company does not see that multinationality would be unfavourable for its financial reporting either.

The case company experiences that tax reporting in some countries has a negative effect on its financial reporting. For instance, the tax reporting requires a lot of time in Germany and also in other countries where the taxation affects significantly to the local statutory result and the taxation and financial statements are closely related to each other. The theory and practice do align when it comes to the taxation and its effect on the reporting lag. The case company sees that the taxation has an effect on its reporting time and the theory also argues that the long audit reporting lag might be caused by companies' tax issues (Knechel and Payne, 2001). Moreover, both theory and practice mention the connection between financial statements and taxation as one problematic area which possibly helps to contribute a longer reporting lag: Knechel and Pay state that because the tax issues affect directly companies' financial statements, they have to be solved before an audit opinion can be given. However, the theory presents the taxation as a larger factor affecting relevance and reliability of reporting than what the case company has experienced. It has been argued that the value relevance of financial releases is lower for companies which operate in the countries where accounting regulation and requirements are considerably affected by tax rules (Ali and Hwang, 2000). The authors justify this by noting that tax laws are usually

more influenced by social and political rather than shareholders' objectives. To conclude, there is some sort of common understanding of taxation as a factor affecting negatively to companies' reporting speed but the magnitude of its effects is perceived slightly differently, the theory having a wider concept of taxation's influence on timeliness.

A wide array of researchers has studied the information content and its effect on reporting lag. The major verdict of this research is that companies tend to release favourable news earlier than unfavourable news (e.g. Givoly and Palmon, 1982). However, the case company's view towards information content's effect on the reporting lag does not support the theory. The case company does not see that it has a chance to adjust its reporting time based on the characteristic of information. This is mainly due to the standardized closing and reporting process which is gone through with the same speed regardless of whether the results are positive or negative. The case company states that only possible way to handle this type of approach would be to run the same process but then weight up whether the news are good or bad and based on that it would publish the information immediately or wait next few weeks. However, it does not see any sense in this type of reporting practice. Moreover, the case company perceives that the content of information, whether good or bad, is not allowed to affect the reporting practices according to Nasdaq OMX Helsinki rules. The company says that what matters is how much the information affects the figures, that is, the materiality of news. For instance, the Nasdaq OMX Helsinki rules comprise following: *"Where information arises during preparation of a financial report, indicating that the information in the report will deviate significantly from an explicit forecast or reasonable assessment which can be made based on information previously provided by the company, the company shall disclose such information without undue delay."*

Thus, at least what comes to significance of the content of news, important and material information has to be always published immediately. In that content, the case company's point makes sense and this type of unnecessarily delaying with bad news is not adequate behavior according to Nasdaq OMX Helsinki rules. In addition, the case company points out that the financial information becomes outdated quite fast, so the later the financial information is published, the more the usefulness of that information suffers. And not only do the outside parties using this information suffer, but also the company itself since it is

working with the financial statements and utilizing the information in them too. To conclude, there are both regulations and rational reasons e.g. usefulness of information and standardized systems which prevent the company from using the behavior regarding publishing good news early, bad news late -theory.

The theory highlights the significance of auditing for companies' financial reporting lags. In fact, the total reporting lag is often partitioned into audit reporting lag and discretionary reporting lag in order to demonstrate the twofold character of reporting delay (e.g. Lee et al., 2008). The importance of audit reporting lag can be justified with the value of information since the longer the audit reporting lag, the smaller the value relevance of information is (Knechel and Payne, 2001). When relating this to the quality of financial statements, unexpected reporting delays might be in association with lower quality (Knechel and Payne).

Nevertheless, the case company's opinion on auditing and its relevance to the reporting lag differ quite a bit from the theory's view point. The case company acknowledges the importance of co-operation and communication with the auditors in order to achieve the desired financial reporting outcome. The auditing schedule is more a result of collaborative negotiations than a given timetable from the auditors. It is even so, that the company is the dominating side in the negotiations and its wishes and proposals are particularly considered. Eventually, it has to be remembered that the audited company is the client and the auditing firm is the service provider. However, the case company also emphasizes that the smoothly audit and financial reporting process is about collaboration between the auditors and the company. Hence, the case company's view and theory differ since the company sees that audit reporting lag can be shaped and decreased if the company wants to and ultimately it is just about the trade-off between audit costs and benefits of faster reporting. The audit firms have basically unlimited resources to be used for audit processes. Exaggeratedly thinking the significance of audit reporting lag highlighted by the theory can be really questioned based on the recent experience of the case company: while reducing the time spent on its own closing and reporting process, the company also negotiated a shorter audit process with its auditors. As a result, both were successfully executed without any major drawbacks. However, it should be noticed that the audit reporting lag played a

significant role in the company's reporting lag in the past before the changes in its reporting practices.

Lastly, the connection between reliability and relevance should be covered. It could be easily assumed that emphasizing timeliness too much might result in negative consequences in other characteristics of financial information and ultimately lead in a deduction in usefulness. The case company's example clearly presents that obtaining good quality of financial releases while reducing the reporting lag is definitely possible without abandoning any desired characteristics of financial statements. These double-barreled results of company's closing and reporting process development are also supported by the auditors who did not raise any major, materially significant concerns regarding the quality. Thus, it can be concluded that practice clearly shows adverse results of reliability-relevance dilemma to what the theory has earlier expressed.

6. Conclusion

This study has clearly presented the importance of timeliness and quality both from the academic perspective as well as from the practical side. Starting from the interest conflicts and information asymmetry between the managers and shareholders as fundamental reasons for requiring the financial disclosures (Wang and Song, 2002) and going through all relevant aspects of timeliness, quality and transparency as the reasoning of timeliness as of high significance to the companies and stakeholders due to its association with the market reaction to the financial releases for instance (Givoly and Palmon (1982).

As stated in the headline of this study, the goal was to understand timeliness and quality of reporting in a Finnish public company. We have seen that the previous literature regarding the topic has mainly been based on quantitative research offering numerous reasons behind timeliness and quality. However, the results of the empirical part of this study looked much deeper inside the company aiming to capture an essential understanding of reporting practices and reasons for this particular reporting behavior. The empirical part of this study aimed to understand the case company's perceptions and motivation behind faster and improved financial reporting. Among others people, both employees and top organizational

level of the case company, are seen as a significant factor contributing to the better reporting practices. Not only in the means of execution of faster reporting but also in the means of original reporting initiatives. The board and CFO's role have had a substantial effect on the company's disclosure behavior and the motivation for fast reporting derives from management's capability, best practice behavior and good company image. Moreover, past reporting behavior has had a significant impact on the case company's reporting actions as well as the importance of transparency and quality of information. The relevance and reliability of financial information are also seen as commonly achievable goals since faster reporting required improved accounting and reporting processes which eventually enhanced the quality of data. The size and internationality can be seen as affecting the reporting lag too whereas information content is not as crucial due to standardized reporting process and well-advanced set deadlines in the case company. However, none major factor can be presented as main reason affecting the reporting lag but the reporting time is more an outcome of different factors contributing together to speed.

Even though this study has suggested several factors contributing to timeliness and quality of reporting, it is somewhat more complicated to draw a connection from practice to theory. Although a wide consensus between theory and practice could not necessarily be demonstrated within each factor, there are definitely conjunctive elements concerning timeliness and quality of reporting in both theory and practice, for instance company image as a motivational factor behind a better reporting practice and good quality of financial reporting affecting positively the reputation of the company. On the other hand, for instance the information content is seen as having a totally different contribution in theory compared to practice. All in all, this study has shed light to the reporting phenomenon by offering insight to the case company and its specific reporting behavior. The study gives definitely ideas for additional research in the topic, e.g. further analyzing which parties within the company have the actual decision power for reporting decisions and how the decision power affects the reporting practices.

This research is also exposed to the certain limitations. First, the empirical analysis was conducted in a single company and the results indicate the opinions of this particular company and can not necessarily be generalized to concern a wider context of companies.

Moreover, it should be noted that the results are specific to a particular time and setting regarding this company. Second, the opinions of the interviewees are to be considered genuine but a certain amount of judgment should be directed towards the possible subjectivity. In addition, the empirical analysis concerns one publicly listed company and the results of the interviews might be different for private companies or for companies which are of different size.

7. Acknowledgements

I would like to thank all the interviewees for their contribution to this study. In addition, special thanks are assigned to the case company and Accounting Services department which offered this great opportunity for my master thesis project. Lastly, I would like to thank all those working with the project concerning automation of notes and contributing to this case.

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9. Appendixes

9.1. Appendix 1

Timeliness and quality of reporting

This interview will be recorded in order to better verify the trustworthiness of the interview and so that the interview is easier to analyze afterwards. The records will not be given to the third party and they will be used only for research purposes and destroyed after the research work is finished.

The interview will be executed as a theme interview based on the following questions.

Factors affecting reporting lag

What are those company-specific factors affecting the reporting lag in your opinion?

What are those factors outside the company affecting the reporting lag?

What is the importance of audit for the reporting lag?

Quality of reporting

How do you see the importance of quality?

Do you see that quality and faster reporting could conflict when company is fastening its reporting processes?

Which parties benefit from faster reporting and why?

What benefits faster reporting has brought to the company?

What factors affect the quality? Positively or negatively.