

The Impact of Bad News and the Manipulation of Accounting Figures on the Delay in Financial Report Disclosure: The Case of Saudi Arabia

Hasan. A. Saud¹, and Mundher AL-hamood²

¹ PHD student of philosophy in accounting. University of Thi-Qar, PHD student at University of Basra College of Administration and Economics, Department of Accounting. Iraq, corresponding author, ✉: hassan.a.saud21@utq.edu.iq, Orcid: <https://orcid.org/0009-0003-8228-7585>

² Ph.d in accounting. University of Basrah, Iraq College of Administration and Economics, Department of Accounting. ✉: Mundher.alhamood@uobasrah.edu.iq Orcid: <https://orcid.org/0009-0006-1665-0616>

ARTICLE INFO

Received: 15 Dec 2024
Revised: 20 Feb 2025
Accepted: 28 Feb 2025

ABSTRACT

This study aims at examining whether the inclusion of bad news and manipulation of accounting figures impacts the delay of annual financial reports' disclosure. We found that firms whose disclosures included bad news did not delay the disclosure of their financial reports. There is no clear evidence as to whether firms that manipulate accounting figures delay their disclosure. However, there is strong evidence that firms that have bad news and manipulate accounting figures at the same time delay their disclosure of their annual financial reports. This study contributes to increasing our understanding of the effect of bad news and manipulation of accounting figures on the delay of disclosure in a developing market, such as the Saudi market as well as expanding the accounting literature related to disclosure.

Keywords: Bad news, good news, manipulation of accounting figures, delaying disclosure, annual financial reports, Saudi Stock Exchange.

1 INTRODUCTION

For an efficient stock market to operate, disclosure is essential. In a capital market economy, managerial incentives and information issues make it difficult to allocate resources efficiently. In order to mitigate these issues, disclosure and the organizations established to enable trustworthy disclosure between managers and investors are essential (Healy & Palepu, 2001). As a result of this importance, the role of firm disclosure has prompted many researchers to conduct extensive studies on disclosure and capital market response, particularly the disclosure of bad news and the resulting market reaction, whether by market participants or by listed firms. The value of earnings information compared to other sources of information is higher if the news is bad news due to its greater impact on capital markets compared to good news (Roychowdhury & Sletten, 2012). Recently, research on the delay of firm disclosure as a result of bad news has been highlighted. Although there are many studies on delaying disclosure (Baginski et al., 2018; Haw et al., 2000; Kim et al., 2021; Truong, 2023), the combination of the research variables has not been conducted in previous studies. The purpose of this study is, therefore, to: 1) Examine the effect of bad news on disclosure delay, and 2) Examine whether firms delay their disclosure in order to manipulate accounting figures as a result of bad news. The literature on disclosure delay was used to identify the factors that motivate firms to delay their disclosure. Specifically, this study assumes that firms with bad news often delay their disclosure of this news because the informational value of bad news is greater for investors and firms operating in the same industry. Additionally, the study makes the assumption that businesses with negative news have an incentive to falsify accounting data in order to postpone releasing their financial report.. Disclosure delay is measured by considering it as: 1) A dummy variable that takes a value of one if the firm falls

above the mean of the reporting gap for each industry in the sample and for each year, and zero otherwise, and 2) A dummy variable that takes the value of one if the firm falls above the arithmetic mean of the reporting gap for each industry in the sample and for each year, and zero otherwise. The reporting gap means the number of days following the end of the fiscal year to the date of the firm's announcement of financial reports. As a first step, the effect of bad news on disclosure delay is tested, and through the model provided by the researcher, it is possible to capture the extent to which disclosure delay is affected by bad news for the firm. In the second step, changes in disclosure delay are tested based on the manipulation of accounting numbers of the firm itself. Therefore, in order to complete this test, an independent variable is added, i.e. the manipulation of accounting figures, which will be measured through the Modified Jones (1995) model. In the third step, the effect of bad news and manipulation of figures are explored together in delaying the firm's disclosure. These three steps were enhanced by additional tests that the researchers conducted in order to reach reliable analysis results. The study sample consists of 2856 firm-year observations for the period from 2002-2022 for firms listed on the Saudi Stock Exchange. The Saudi Stock Exchange (Tadawul) official website was where the data were obtained from. The results that were achieved showed that bad news has an effect on the delay of disclosure of firms. In other words, firms that did not achieve a positive performance tend to delay the disclosure of accounting figures. However, our study did not reach a conclusive result on the effect of manipulation of accounting figures in delaying disclosure. The results showed that firms with bad news and that manipulate their accounting figures tend to delay the disclosure of their accounting figures. Although the studies presented in this paper provide evidence related to disclosure delay, there are several reasons that make our study distinct from previous studies, which leads to its lack of impact on our study predictions. First, "the idea"; these studies did not address the effect of bad news for a disclosing firm along with manipulation of accounting figures on disclosure delay. Second, "the design"; this study focused on emerging markets, specifically Saudi Arabia. This leads us to believe that it is the first study of its kind in this context.

2 LITERATURE REVIEW

Delaying Disclosure. The primary goal of managers is to enhance the value of the firm. If the manager receives specific information about the need to enhance the value of the firm by disclosing financial reports, the manager can make the disclosure decision. Menon (2020) studied the motives of managers to disclose financial reports immediately when managers have the option to delay disclosure. Conversely, a manager may decide to delay disclosure or withhold information to a later time, as an immediate release of financial reports removes the opportunity for future withholding. The study found that managers are likely to disclose immediately if the public news is favorable to the firm. Specifically, Li et al. (2020) mentioned the effect of disclosing information on "premiums rather than releasing it all at once". That is, the timing of disclosure must match when market participants are interested and attentive to what is disclosed, such as periodic disclosure.

One of the factors that affect the speed of disclosure of bad news is media coverage of companies. An et al. (2020) used stock price crash risk to investigate whether a company's increased media coverage is linked to a decreased inclination to withhold unfavorable news. They discovered that companies that receive more media attention are more likely to reveal negative information suddenly, which can lead to stock market meltdowns. However, the negative correlation between media coverage and the probability of a stock market fall is concentrated in companies with recent, negative press coverage as well as those with a high risk of lawsuit and reputational damage. Baginski et al. (2018) investigated whether regulating disclosure through government regulations mitigates the delay in disclosing bad news and considered the effectiveness of contractual mechanisms to achieve the same goal. They found that managers continue to delay disclosing bad news after government regulations are issued, and that if firms offer compensation contracts to reduce their managers' professional concerns, this asymmetric release of information will be eliminated. Ahmed & Al-Hamood, (2024) show that the subsidiaries strike a balance between their accrual quality and that of the top businesses. Following the implementation of International Financial Reporting Standards, this alignment indicates a minor shift.

Firms may choose to withhold bad news to avoid potentially costly stock return volatility. However, this strategy may not work when the disclosing firms are operating in the same sector, as when bad news is at the sector level, traders can infer a signal from the disclosure of any firm in the sector, which increases the pressure of the capital market to disclose. Based on this, Rogers & Schrand (2014) studied whether managers implicitly collude to suppress bad news at the sector level. They found that managers may collude to suppress bad news because: 1) Firms face a high probability of a negative shock, especially if firms in the sector are more homogeneous; 2) A large proportion of firms in the sector have equity incentives; and 3) The sector faces high litigation risk. To measure the disclosure delay variable, the researcher relies on the mean of the reporting gap days for firms operating in each industry and for each year. In addition, the arithmetic mean of the reporting gap days for firms operating in each industry and for each year is used. In detail, we measure disclosure delay as: 1) 2) A dummy variable that takes the value of (1) if the firm is above the median reporting gap for each sector in the sample and for each year, and (0) otherwise If the firm is below the median reporting gap for each sector in the sample and for each year, the dummy variable takes the value of 1. The amount of days that pass between the fiscal year's conclusion and the company's financial report announcement is known as the reporting gap.

Bad News. Many studies in accounting literature over the past decade have investigated the effects of management incentives on the speed of loss recognition. Wang & Song (2006) stated that delaying disclosure is related to corporate performance, as companies whose accounting figures contain bad news tend to delay disclosure beyond the scheduled time. In the same manner, Haw et al. (2000) found that companies whose earnings are considered good news for the financial market publish their financial reports faster than companies whose earnings are considered bad news for the financial market. These findings were also confirmed by the study of Kothari et al. (2009). Aubert (2009) examined why some French firm managers decide to disclose accounting figures late by checking whether the firm is facing losses, bad news, stock price volatility, market pressure, accounting complexity and profit management problems. The results showed that companies reporting bad news are more likely to disclose early compared to companies that disclose good news. Conversely, the strategic timing of disclosure can be chosen by managers in the context of good or bad news. Managers tend to believe that there is negligence on the part of investors, especially after the initial trading hours. So, managers disclose bad news, taking advantage of investors' lack of interest (Segal & Segal, 2016). Similarly, Soffer et al. (2000) mentioned that managers disclose all the bad news on the announcement date, while managers with good news disclose some of the news. Cohen et al. (2018) investigated how the way management forecasts are timed influences the market's varying reactions to positive and negative news. Their research revealed that managers handle the verification of bad news differently, often withholding a substantial portion of bad news during this process. This finding provides new insight into the asymmetrical market response to management earnings forecasts. Nonetheless, even when managers strategically limit the withholding of negative information, there is a point beyond which doing so becomes too costly or impractical. Therefore, managers delay the disclosure of bad news in the hope that good news will arrive. In the current study, the researchers measure bad news as negative accounting figures sent to the market. That is, it is a dummy variable that takes the value of (1) if the firm's net profit is less than zero (negative net profit), and (0) if otherwise.

Manipulation Of Accounting Figures. Stolowy & Breton (2004) defined accounting figures' manipulation as managers exercising discretion to select accounting methods or structure transactions in ways that influence the transfer of wealth between the firm and various stakeholders, including managers (compensation plans), society (political costs), and fund providers (cost of capital). The first and second scenarios show that the firm gains benefit from this transfer of wealth, whereas in the third scenario, managers act in their own interest at the firm's expense. Accounting manipulation encompasses both legally ambiguous earnings management and unlawful accounting fraud. Schuchter & Levi (2015) described fraud as a breach of trust in a business setting that, without physical coercion, results in a biased advantage economically. While there is no universally accepted definition of earnings management, it generally refers to managers intentionally using their judgment in transactions and

financial reporting to distort financial statements, misleading stakeholders about the firm's actual economic performance. This practice also extends to instances where managers exercise discretion in modifying financial information that could impact contractual consequences based on reported figures, such as debt agreements (Healy & Wahlen, 1999). In the context of developing countries, According to (Majed et al., 2023a) research, aggressive estimate provisions decreased with the implementation of International Financial Reporting Standards. According to the study's findings, businesses that are listed on the Saudi Stock Exchange (Tadawul), particularly since the implementation of International Financial Reporting Standards, frequently avoid presenting exaggerated financial figures that could influence consumers to make irrational choices. In a different study, they discovered that, except from asset turnover and losses, these corporate attributes generally had no discernible impact on accrual-based earnings management. In particular, businesses that were losing money were more likely to manipulate their earnings than those that were making money(Majed et al., 2023b). This suggests that management actions have a stronger influence on earnings management decisions than the company's inherent qualities. In order to measure accounting figure manipulation, we focused on measuring accrual manipulation because we assumed that the delay in financial reporting is conditional on bad news, and that bad news in the financial report will not be identified until the end of the year. For this reason, we did not focus on methods for measuring accounting figure manipulation during the year and focused on measuring year-end manipulation. Here, the intended measure is measuring manipulation through accrual manipulation.

gap refers to the number of days from the end of the fiscal year to the date the firm announces its financial reports.

3 HYPOTHESES DEVELOPMENT

Firms Tend To Delay Their Disclosure According To The Outcome Of This Disclosure.

Wang & Song (2006) showed that delaying disclosure is related to firms' performance, as firms whose accounting figures contain bad news tend to delay disclosure beyond its scheduled time. On the same note, Haw et al. (2000) found that firms whose profits are good news for the financial market publish their financial reports faster than firms whose profits are bad news for the financial market. This was confirmed in a study by Kothari et al. (2009). Aubert (2009) studied the reason why some French firm managers decide to disclose accounting figures late by checking whether the firm is facing losses, bad news, stock price volatility, market pressure, accounting complexity and profit management problems. The results showed that firms that report bad news are likely to disclose early compared to firms that disclose good news. On the other hand, managers may strategically choose the timing of disclosure of bad news versus good news. Managers tend to believe that investors are neglecting them, especially after the early trading hours, so they disclose bad news, taking advantage of investors' lack of interest (Segal & Segal, 2016). In the same manner, Soffer et al. (2000) mentioned that managers disclose all bad news on the announcement date, while managers with good news disclose some of this news. Cohen et al. (2018) explored the relationship between the timing of management's forecasts and the market's varying reactions to positive versus negative announcements. Their findings suggest that managers approach the verification of bad news in different ways, often withholding a substantial portion during this process. This behavior offers a new perspective on why the market reacts asymmetrically to earnings forecasts. However, even when managers strategically minimize the withholding of negative information, there comes a point where doing so becomes too costly or impractical. As a result, managers may delay disclosing bad news in the hope that favorable developments will offset it. Menon (2020) also studied the motivations of managers to disclose financial reports immediately when managers have the option to delay disclosure. Managers' primary goal is to enhance firm value, so if managers receive private information about the need to enhance firm value through disclosure of financial reports, managers may make the decision to disclose immediately. Alternatively, managers might opt to delay disclosure or withhold information to a later time, as the immediate release of financial reports removes the possibility of future withholding. The study found that managers are more likely to disclose immediately if public information is favorable

to the firm. Specifically, Li et al. (2020) studied the effect of information disclosure on “premiums rather than all at once,”; that is, the timing of disclosure should match when market participants are interested and attentive to what is being disclosed, such as periodic disclosure. Based on this, we hypothesize the following:

H1: Firms with bad news delay their annual financial reporting disclosures.

The effect of manipulating accounting figures and bad news on delaying disclosure.

Firms that manipulate their accounting figures tend to delay their disclosure. Early disclosure has a significant impact on the financial market's reaction. The response of market participants to early disclosure is strong, as the market's reaction to this disclosure is often an increase in actual profits over expected profits, i.e., a surprising increase in profit. This was confirmed by Cohen et al. (2007), where on average, firms with early disclosures have a high profit surprise (80% of disclosers), while firms that delay their disclosure have a negative profit surprise (i.e. actual profits are less than expected profits). The accounting literature found that firms that delay the disclosure of accounting figures often have bad news (Noh et al., 2019). In other words, delaying disclosure tends to present news in a way that is different from the reality of the firm's performance, whether by presenting bad news or good news.

On the other hand, firms that are late in submitting their financial reports may tend to manipulate accounting figures (Kim et al., 2021). This is because the process of manipulating accounting figures takes time, and therefore firms are forced to delay the financial report. Also, the delay in submitting the financial report by the firm allows the financial reports of the disclosing firms to be studied; thus, the management can determine the profit trend of firms operating in the same industry in the financial market. The results of Seo's study (2021) provided evidence that the disclosure made by a firm prompts other firms to imitate its disclosure. In particular, this imitation increases when the uncertainty surrounding the firm's work is high, which prompts the firm to provide information that imitates the firm's disclosed information. That is, the firm's disclosure works to reduce the uncertainty through the firm's interaction with the disclosing firm, and thus the accuracy of the disclosed information increases. The firm's disclosure will also be a reference point for the disclosure of other firms (Breuer et al., 2022). Truong (2023) stated that the presence of a pivotal firm in the financial market greatly affects the disclosure of other firms. Firms that disclose their financial reports early are followed by other firms in early disclosure. In the same context, Valentine & Warren (2022) found that pivotal firms issue optimistic expectations when firms operating in the same industry disclose good news but found no effect when such firms disclose bad news.

Firms that tend to manipulate their earnings need time, especially if this manipulation is based on the manipulation of accounting accruals, as the manipulation of real activities occurs during the year. Therefore, the firm does not need to delay disclosure according to this type of manipulation. The manipulation of accounting figures related to delaying disclosure is exclusively linked to the manipulation of accounting accruals. This is because delaying disclosure due to the manipulation of accounting figures requires time to plan the manipulation process and change and hide the evidence that proves this manipulation. Based on the above, the manipulation of earnings leads to delaying the disclosure of the financial report. However, this matter may be somewhat uncertain. Delaying the disclosure of the financial report may expose it to the risk of litigation due to not disclosing the accounting figures on time (Skinner, 1994). This is true in the case of delaying the disclosure of the financial report, let alone that this delay may expose the firm to great risks by proving this matter against the firm and accusing it of manipulating the accounting figures and not submitting the data on time. Therefore, delaying the disclosure that the firm may practice is in itself not easy, and does not guarantee the outcome. Therefore, firms may make more than one calculation before doing this. So, the second hypothesis is:

H2: Firms that provide bad news and practice manipulating accounting figures tend to delay disclosing accounting figures.

4 RESEARCH DESIGN

4.1 Research Methodology

As a first step, we tested the effect of bad news on delaying the financial report. Through the model presented (shown in equation 1), we captured the regression coefficient for this effect. The focus is on β_1 . If this variable is positive, this means that bad news affects the delaying of the disclosure of financial reports.

$$\text{Delay}_{it} = \beta_0 + \beta_1 \text{Bad}_{\text{news } it} + \beta_2 \text{Size}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{MTB}_{it} + \beta_6 \text{OCF}_{it} + \varepsilon \dots \dots \dots (1)$$

where: Delay_{it} For each industry in the sample and for each year, a dummy variable that takes the value of (1) if the firm is above the median reporting gap, and (0) otherwise. Furthermore, this variable is also assessed as a dummy variable, taking the value of (0) if the firm is below the arithmetic mean of the reporting gap for each year and for each industry in the sample, and (1) otherwise. The amount of days that pass after the fiscal year ends before the company releases its financial results is known as the reporting gap.

$\text{Bad}_{\text{news } it}$ If the firm's net profit is negative, a dummy variable is assigned a value of one (1); otherwise, it is set to zero (0). Size : Firm I's total assets in year t logarithm. ROA : Firm I's return on assets for year t. LEV : The proportion of firm I's total liabilities to its total assets for year t. MTB : The firm I's market value divided by its book value in year t. OCF : The division of the company's net operational cash flow for year t by its total assets.

In the second step, we tested the effect of manipulating accounting figures on delaying the firm's disclosure. Therefore, in order to complete this test, we repeated Equation (1) by replacing the independent variable "bad news" with another independent variable "manipulation of accounting figures" measured by employing a model to measure the manipulation of accounting accruals, which is the Modified Jones (1995) model. The other variables were defined when presenting Equation (1).

$$\text{Delay}_{it} = \beta_0 + \beta_1 \text{Manipulation}_{it} + \beta_2 \text{size}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{MTB}_{it} + \beta_6 \text{OCF}_{it} + \varepsilon \dots \dots \dots (2)$$

In the third step, we developed Equation (1) and Equation (2) by developing the study model by employing a difference-in difference to build the relationship between the independent variables and their effect on delaying disclosure, as shown in Equation (3).

$$\text{Delay}_{it} = \beta_0 + \beta_1 \text{Bad}_{\text{news } it} + \beta_2 \text{Manipulation}_{it} + \beta_3 \text{Bad}_{\text{news } it} * \text{Manipulation}_{it} + \beta_4 \text{Size}_{it} + \beta_5 \text{ROA}_{it} + \beta_6 \text{LEV}_{it} + \beta_7 \text{MTB}_{it} + \beta_8 \text{OCF}_{it} + \varepsilon \dots \dots \dots (3)$$

Where: Manipulation_{it} manipulation of accounting figures, measured by the modified Jones (1995) model. $\text{Bad}_{\text{news } it}$ A dummy variable assigned a value of one (1) if the firm's net profit is negative, and zero (0) if otherwise. $\text{Bad}_{\text{news } it} * \text{Manipulation}_{it}$ The interaction between bad news and manipulation of accounting figures.

4.1 Sample Description

The annual reports of 140 companies listed on the Saudi Stock Exchange during a 21-year period make up the study sample. Since investment and finance firms are by nature risk-oriented, as opposed to non-financial firms, their disclosure should be taken into consideration separately, which is why the four firms were excluded (Barakat & Hussainey, 2013; Linsley et al., 2006). As a result, the study's final sample consists of 136 Saudi market-listed companies, whose annual reports are reviewed. The chosen yearly reports span the years 2002–2022. Consequently, 2856 firm-year observations make up the final sample. Because annual reports are readily available and provide extensive coverage, we used them in this analysis. In addition to their growing use by investors, which suggests their significance to user groups, the study's focus is on annual reports, which are the primary source of financial

information (Barakat & Hussainey, 2013).

5 RESEARCH RESULTS AND DISCUSSION

5.1 Descriptive Statistics

Table (1) provides descriptive statistics for the study sample variables, which are delayed disclosure, bad news, and manipulation of accounting figures, in addition to control variables. Table (1) indicates that the average accounting disclosure delay is 0.57323 measured by the median of firms for each industry and each year, and 0.460233 measured by the arithmetic mean of firms for each industry and each year. This indicates that approximately 50% of firms delay their disclosure. Also, the average of firms that disclose bad news was 15%, which indicates the presence of firms that disclose bad news sent to the financial market. The average of firms that manipulate earnings was -0.01479 and -0.02191, respectively.

Table (2) shows the Siberman correlation coefficients (above the diagonal) and Pearson correlation coefficients (below the diagonal). Table (2) shows a weak positive correlation between delaying disclosure and bad news, and conversely, a weak negative correlation was found between delaying the disclosure of the financial report and manipulating accounting figures. Therefore, adding control variables is important to explain the relationship between the independent variables and the dependent variable. The correlation between the independent variables is weak, thus indicating the absence of an autocorrelation problem between the study variables.

Table 1. Statistical description of study variables.

Variable	N	Mean	Std. Dev.	Min	Max
Delay	1774	0.57323	0.494728	0	1
Delay_mean	1774	0.460233	0.498537	0	1
Manipulation	1774	-0.01479	0.184772	-3.19555	1.214317
Good_news	1774	0.86033	0.346729	0	1
Size	1774	14.42772	1.636675	6.214608	21.12481
ROA	1774	0.060673	0.169753	-5.816	0.477
LEV	1774	0.375967	0.248722	0	5.564
MTB	1774	0.728015	70.29018	-3068.28	133.967
OCF	1774	0.086908	0.166709	-5.27187	0.564747
Bad_news	1774	0.152764	0.359847	0	1

Table 2. Analysis of the correlation among study variables.

Variable	Delay	Delay_mean	Manipulation (Jones_1995)	Good_news	Size	ROA	LEV	MTB	OCF	Bad_news
Delay	1	0.7967	-0.0415	-0.0959	0.0252	-0.1161	0.1052	0.0176	-0.0781	0.0911

Delay_m ean	0.76 79	1	-0.0327	-0.0827	- 0.07 02	- 0.10 12	0.08 79	0.01 35	- 0.07 09	0.0758
Manipula tion (Jones_1 995)	- 0.04 15	-0.0327	1	0.2095	0.07 79	0.32 31	- 0.00 53	- 0.00 52	0.17 46	- 0.2222
Good_ne ws	- 0.14 52	-0.1536	0.2095	1	0.08 15	0.37 61	- 0.12 57	0.04 65	0.17 48	- 0.9217
Size	0.06 1	-0.0331	0.0779	0.0885	1	0.07 02	0.25 94	- 0.00 76	0.08 2	- 0.0838
ROA	-0.13	-0.1214	0.3231	0.374	0.08 13	1	0.12 17	0.00 28	0.29 88	- 0.3883
LEV	0.111 5	0.0974	-0.0053	-0.1416	0.27 44	- 0.13 2	1	0.04 93	0.40 86	0.1187
MTB	0.01 81	0.0142	-0.0052	0.0483	- 0.00 86	- 0.00 27	- 0.05 09	1	0.02 05	- 0.0435
OCF	- 0.08 54	-0.08	0.1746	0.1821	0.09 26	0.30 34	- 0.44 31	0.02 16	1	- 0.1861
Bad_new s	0.14 65	0.1533	-0.2222	-0.9243	- 0.09 36	- 0.38 43	0.13 64	- 0.04 52	- 0.19 56	1

5.2 Empirical Analysis

5.2.1 The Effect Of Bad News On Delaying Financial Report Disclosure

Table (3) presents the testing H1 results, suggesting that firms reporting bad news tend to delay their financial report disclosure. The coefficient of interest in this equation is β_1 , which measures the effect of bad news on delaying disclosure. Specifically, the regression coefficient β_1 is 0.234 (measuring the delay with the sample median) and 0.261. It is found that firms with bad news do not show a strong effect of bad news on delaying the disclosure of annual financial reports. In other words, firms whose disclosure does not include bad news delay the disclosure of their annual financial reports. As for the effect of control variables on delaying disclosure, a negative statistically significant effect was indicated for both firm size and return on assets. For financial leverage, its effect on delaying disclosure was positive and statistically significant, which is the same effect as the disclosure of bad news. The MTB and OCF variables did not have a significant effect on the delay in disclosure of accounting figures. These results are not consistent with H1, which states that firms with bad news tend to delay disclosure of financial reports. These results are also not consistent with studies on delaying disclosure of financial reports, which indicate that bad news about firms pushes the firm to delay submitting financial reports (Haw et al., 2000; Kothari et al., 2009; Wang & Song, 2006).

Table 3. Impact of bad news on delaying the disclosure of financial reports.

Variables	Model 1		Model 2	
	Coefficient	t- statistic	Coefficient	t- statistic
Bad_news	0.234	1.45	0.261	1.68
Size	0.01	0.33	-0.120***	(-3.82)
ROA	-2.728***	(-3.74)	-1.694*	(-2.43)
LEV	0.716**	3.06	0.881***	3.76
MTB	0.000788	0.98	0.00065	0.8
OCF	-0.0108	(-0.02)	0.0121	0.02
Constant	-0.103	(-0.24)	1.136**	2.59
N	1917		1917	
Pseudo R2	0.0267		0.0267	

Note: *** p<0.01, ** p<0.05, * p<0.1.

5.2.2 The Effect Of Manipulating Accounting Figures On Delaying Disclosure

In order to measure the effect of manipulating accounting figures on delaying disclosure of annual financial reports, the modified Jones model was employed to estimate the manipulation of accounting accruals. Then, the values extracted from the Jones model were used in our research model No. (2). The coefficient of interest is (β_1), which depicts the interaction between manipulating accounting figures measured according to the modified Jones model and delaying disclosure. The results in Table (4) indicate that there is no clear effect of manipulating accounting figures according to the modified Jones model and delaying disclosure. The reason for this is that firms manage their earnings early before the date of preparing financial reports. As for the control variables, their effect was as follows: The effect of size differed according to the delay measure. When the delay measure was the mean of the reporting gap, the effect of size was positively significant at a significance level of 10%. When the measure was the mean of the reporting gap, its effect was negatively significant at a significance level of 10%. The effect of financial leverage was also positively significant while a return on assets negatively affects disclosure deferral. However, there was no significant effect of the other control variables.

Table 4. Impact of accounting manipulation on delaying of disclosure of financial reports.

Variables	Model 1		Model 2	
	Coefficient	t- statistic	Coefficient	t- statistic
Manipulation	0.32	1.06	0.394	1.21
SIZE _{it}	0.0631	1.93	-0.0693*	(-2.08)
ROA _{it}	-4.325***	(-6.45)	-3.607***	(-5.37)
LEV _{it}	0.522*	2.19	0.742**	3.06
MTB _{it}	0.00076	0.87	0.000628	0.7
OCF _{it}	0.151	0.34	0.271	0.58
Constant	-0.805	(-1.79)	0.427	0.93
N	1774		1774	
Pseudo R2	0.0242		0.0347	

5.2.3 The Effect Of Manipulating Accounting Figures On Delaying Disclosure

Table (5) shows the results of testing the effect of bad news and manipulation of accounting figures measured according to the modified Jones model on delaying the disclosure of annual financial reports. Accordingly, the coefficient of interest in this equation is β_3 , i.e., the interaction between the Bad news and Manipulation variables. The results indicate that there is a significant effect of bad news and manipulation of accounting figures on delaying disclosure. In other words, firms whose disclosure includes bad news and at the same time manipulate accounting figures delay their disclosure of their annual financial statements. As for the control variables, their effect did not differ significantly from the results shown in Tables (4).

Table 5. Impact of bad news and accounting manipulation on delayment of disclosure of financial reports.

	Model 1		Model 2	
	Coefficient	t- statistic	Coefficient	t- statistic
Bad_news	0.444*	2.46	0.529**	3.05
Manipulation	-0.00796	(-0.02)	0.0223	0.07
Bad_news*Manipulation	1.613*	2.03	1.892*	2.12
SIZE _{it}	0.0696*	2.12	-0.0625	(-1.86)
ROA _{it}	-3.497***	(-4.55)	-2.656***	(-3.50)
LEV _{it}	0.490*	2.05	0.700**	2.88
MTB _{it}	0.000857	0.98	0.00075	0.82
OCF _{it}	0.0873	0.19	0.231	0.5
Constant	-0.984*	(-2.14)	0.224	0.48
N	1774		1774	
Pseudo R2	0.0274		0.0325	

6 EMPIRICAL ANALYSIS

Table 6. The impact of delaying disclosure (means of the reporting gap) and good news on manipulating accounting figures.

	Model 1		Model 2	
	Coefficient	t-statistic	Coefficient	t-statistic
Delay	0.0512*	2.27	0.0496*	2.18
Goodnews	0.0392	1.16	0.0364	1.07
Goodnews*Delay	-0.0560*	(-2.30)	-0.0565*	(-2.31)
SIZE	0.00154	0.56	0.00219	0.8
ROA	0.272***	10.26	-0.0262	(-0.98)
LEV	0.0646**	3.3	0.0684***	3.47
MTB	-2.9E-05	(-0.51)	-2.9E-05	(-0.51)

OCF	0.126***	4.21	0.117***	3.9
LOSS	-0.054	(-1.87)	-0.0573*	(-1.97)
Constant	-0.116*	(-2.30)	-0.112*	(-2.20)
N	1774		1774	
R2	0.1309		0.0314	

Additional analyses in the current study are based on the study of Kim et al. (2021), where we examined the effect of delaying disclosure and good news on the manipulation of accounting figures, as delay is measured by the mean of the reporting gap. The coefficient of interest in this equation is β_3 (Goodnews*Delay), which captures that firms delaying the announcement of their financial report may increase earnings management practices for firms that provide good news. The results show a negative significant effect at a 10% significance level of delaying disclosure and good news on the manipulation of accounting figures. That is, firms that do not delay their disclosure and have good news have less manipulation of accounting figures. This result differs from the study of Kim et al. (2021), which concluded that firms with high earnings management delay the disclosure of good news. Regarding the control variables, there was no significant effect of size, while the effect of return on assets, financial leverage, and operating cash flow was positive and significant. In Table (7), the delay was measured by the average reporting gap, and the same results were reached as shown in Table (6). This confirms the result that was reached. As for the control variables, the same results were also reached.

Table 7. The effect of delaying disclosure (by the average reporting gap) and good news on manipulating accounting figures.

	Model 3		Model 4	
	Coefficient	t-statistic	Coefficient	t-statistic
Delay_mean	0.0541*	2.55	0.0530*	2.49
Goodnews	0.0336	1.04	0.0308	0.95
Good_news*Delay_mean	-0.0568*	(-2.46)	-0.0575*	(-2.47)
SIZE	0.00158	0.58	0.00217	0.79
ROA	0.274***	10.35	-0.0241	(-0.91)
LEV	0.0639**	3.26	0.0677***	3.43
MTB	-2.8E-05	(-0.49)	-2.8E-05	(-0.49)
OCF	0.126***	4.2	0.117***	3.89
LOSS	-0.053	(-1.83)	-0.0564	(-1.94)
Constant	-0.112*	(-2.27)	-0.108*	(-2.16)
N	1774		1774	
R2	0.1315		0.032	

7 CONCLUSION

This study explored the Saudi environment and considered the importance of bad news and

manipulation of accounting figures that lead to different timings for firms to disclose their financial reports. The research questions on which the experimental tests were based are: (1) Is the disclosure date of firms' financial reports affected by the type of news that they may disclose? (2) Does the manipulation of disclosure in addition to the type of news disclosed affect the disclosure date of financial reports?

Previous studies have found that firms with bad news tend to delay disclosure. The result of our study were contrary to these studies after we examined whether firms with bad news delay the disclosure of their annual financial reports compared to other firms in the same industry. This study reached a result contrary to the results of previous studies, which is that firms with bad news do not delay the disclosure of their annual financial reports. We also examined whether firms that manipulate their accounting figures delay their annual financial disclosure, but we did not find evidence indicating this. In contrast, there was strong evidence that firms with bad news and at the same time practice manipulating their accounting figures delay their annual disclosures compared to other firms in the same industry.

Our study contributes to the accounting literature in several ways: First, studies that have addressed disclosure delays have mostly addressed data from firms listed on the stock markets of countries with significant economic development. In contrast to previous studies, our study focuses on one of the most important emerging markets in the world, the Saudi Stock Exchange (Tadawul). Second, our study provides evidence that bad news has an impact on delaying firms' disclosures, even exceeding the effect of manipulating accounting figures.

REFERENCES

- [1] Ahmed, A. A., & Al-Hamood, M. (2024). FOLLOW THE LEADER: THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON ACCRUAL QUALITY. *International Journal of eBusiness and eGovernment Studies*, 16(1), 354-370.
- [2] An, Z., Chen, C., Naiker, V., & Wang, J. (2020). Does media coverage deter firms from withholding bad news? Evidence from stock price crash risk. *Journal of Corporate Finance*, 64, 101664.
- [3] Aubert, F. (2009). Determinants of Corporate Financial Disclosure Timing: The French Empirical Evidence. *SSRN Electronic Journal*, 1(3), 53–60. <https://doi.org/10.2139/ssrn.1414398>
- [4] Baginski, S. P., Campbell, J. L., Hinson, L. A., & Koo, D. S. (2018). Do career concerns affect the delay of bad news disclosure? *Accounting Review*, 93(2), 61–95. <https://doi.org/10.2308/accr-51848>
- [5] Barakat, A., & Hussainey, K. (2013). Bank governance, regulation, supervision, and risk reporting: Evidence from operational risk disclosures in European banks. *International Review of Financial Analysis*, 30, 254–273. <https://doi.org/10.1016/j.irfa.2013.07.002>
- [6] Billings, M. B., Cedergren, M. C., & Dube, S. (2021). Does litigation change managers' beliefs about the value of voluntarily disclosing bad news? *Review of Accounting Studies*, 26(4), 1456–1491. <https://doi.org/10.1007/s11142-021-09582-z>
- [7] Breuer, M., Hombach, K., & Müller, M. A. (2022). When You Talk, I Remain Silent: Spillover Effects of Peers' Mandatory Disclosures on Firms' Voluntary Disclosures. *The Accounting Review*, 97(4), 155–186. <https://doi.org/10.2308/tar-2019-0433>
- [8] Chai, M. L., & Tung, S. (2002). The effect of earnings–announcement timing on earnings management. *Journal of Business Finance & Accounting*, 29(9-10), 1337–1354.
- [9] Chen, S., Miao, B., & Valentine, K. (2022). Corporate Control Contests and the Asymmetric Disclosure of Bad News: Evidence from Peer Firm Disclosure Response to Takeover Threat. *Accounting Review*, 97(1), 123–146. <https://doi.org/10.2308/TAR-2018-0619>
- [10] Cohen, D. A., Dey, A., Lys, T. Z., & Sunder, S. V. (2007). Earnings announcement premia and the limits to arbitrage. *Journal of Accounting and Economics*, 43(2–3), 153–180.
- [11] Cohen, L. J., Marcus, A. J., Rezaee, Z., & Tehranian, H. (2018). Waiting for guidance: Disclosure noise, verification delay, and the value-relevance of good-news versus bad-news management earnings forecasts. *Global Finance Journal*, 37(2017), 79–99. <https://doi.org/10.1016/j.gfj.2018.03.001>
- [12] Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. *Accounting*

- Review, 193–225.
- [13] Haw, I.-M., Qi, D., & Wu, W. (2000). Timeliness of Annual Report Releases and Market Reaction to Earnings Announcements in an Emerging Capital Market: The Case of China. *Journal of International Financial Management and Accounting*, 11(2), 108–131.
- [14] Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1–3), 405–440. [https://doi.org/10.1016/S0165-4101\(01\)00018-0](https://doi.org/10.1016/S0165-4101(01)00018-0)
- [15] Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, 13(4), 365–383.
- [16] Kim, M. P., Pierce, S. R., & Yeung, I. (2021). Why Firms Announce Good News Late: Earnings Management and Financial Reporting Timeliness*. *Contemporary Accounting Research*, 38(4), 2691–2722. <https://doi.org/10.1111/1911-3846.12695>
- [17] Kothari, S. P., Shu, S., & Wysocki, P. D. (2009). Do managers withhold bad news. *Journal of Accounting Research*, 47(1), 241–276. <https://doi.org/10.1111/j.1475-679X.2008.00318.x>
- [18] Li, Y., Nekrasov, A., & Teoh, S. H. (2020). Opportunity knocks but once: delayed disclosure of financial items in earnings announcements and neglect of earnings news. *Review of Accounting Studies*, 25, 159–200.
- [19] Linsley, P. M., Shrives, P. J., & Crumpton, M. (2006). Risk disclosure: An exploratory study of UK and Canadian banks. *Journal of Banking Regulation*, 7(3–4), 268–282. <https://doi.org/10.1057/palgrave.jbr.2350032>
- [20] Majed, A., Al-Hamood, M., & Ali, H. (2023a). The Impact of International Financial Reporting Standards on Aggressive Accrual: Evidence from Saudi Security Exchange. *International Journal of Professional Business Review: Int. J. Prof. Bus. Rev.*, 8(5), 64.
- [21] Majed, A., Al-Hamood, M., & Ali, H. (2023b). The Impact of the Companys Characteristics on Earnings Management Based on Accrual: A Case of the United Arab Emirates. *International Academic Journal of Accounting and Financial Management: Int.*, 10(1), 119.
- [22] Menon, R. (2020). Voluntary disclosures when there is an option to delay disclosure. *Contemporary Accounting Research*, 37(2), 829–856.
- [23] Noh, S., So, E. C., & Weber, J. P. (2019). Voluntary and mandatory disclosures: Do managers view them as substitutes? *Journal of Accounting and Economics*, 68(1), 101243. <https://doi.org/10.1016/j.jacceco.2019.101243>
- [24] Rogers, J. L., & Schrand, C. (2014). Do managers tacitly collude to withhold industry-wide bad news? Jonathan. Chicago Booth Research Paper, 13(12).
- [25] Roychowdhury, S., & Sletten, E. (2012). Voluntary disclosure incentives and earnings informativeness. *Accounting Review*, 87(5), 1679–1708. <https://doi.org/10.2308/accr-50189>
- [26] Schuchter, A., & Levi, M. (2015). Beyond the fraud triangle: Swiss and Austrian elite fraudsters. *Accounting Forum*, 39(3), 176–187.
- [27] Segal, B., & Segal, D. (2016). Are managers strategic in reporting non-earnings news? Evidence on timing and news bundling. In *Review of Accounting Studies* (Vol. 21, Issue 4). Springer US. <https://doi.org/10.1007/s11142-016-9366-y>
- [28] Seo, H. (2021). Peer effects in corporate disclosure decisions. *Journal of Accounting and Economics*, 71(1), 101364. <https://doi.org/10.1016/j.jacceco.2020.101364>
- [29] Skinner, D. J. (1994). Why firms voluntarily disclose bad news. *Journal of Accounting Research*, 32(1), 38–60.
- [30] Soffer, L. C., Ramuthiagarajan, S., & Walther, B. R. (2000). Earnings preannouncement strategies. *Review of Accounting Studies*, 5(1), 5–26. <https://doi.org/10.1023/A:1009643517840>
- [31] Stolowy, H., & Breton, G. (2004). Accounts manipulation: A literature review and proposed conceptual framework. *Review of Accounting and Finance*, 3(1), 5–92.
- [32] Truong, P. (2023a). Peer Effects and Disclosure Timing: Evidence from Earnings Announcements. *Accounting Review*, 98(3), 427–458. <https://doi.org/10.2308/TAR-2020-0311>

- [33] Truong, P. (2023b). Peer Effects and Disclosure Timing: Evidence from Earnings Announcements. *Accounting Review*, 98(3), 427–458. <https://doi.org/10.2308/TAR-2020-0311>
- [34] Valentine, K., & Warren, J. (2022). Keeping up with the Joneses: Peer Pressure Effects in Voluntary Disclosure Choices.
- [35] Wang, J., & Song, L. (2006). Timeliness of Annual Reports of Chinese Listed Firms. *Journal of Chinese Economic and Business Studies*, 4(3), 241–257. <https://doi.org/10.1080/14765280600995538>