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Research Article

Examining the role of earnings, transparency, reporting timelines and accruals on firm performance: Evidence from listed companies of Pakistan

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Abstract

The main aim of the study is to examine the role of earnings, transparency, reporting timelines and accruals on firm performance. The current study is considered listed companies of Pakistan from 2010 to 2022 as a sample for analysis. Keeping in view the concept of agency theory information asymmetry framework, the current study investigates how key financial variables like, earnings, transparency, reporting timelines and accruals affect the firm performance. The firm performance is taken as a dependent variable and measured by return on investment (ROI) and Tobin's Q. The study is adopting a panel regression analysis. The findings predict positive and statistically significant association between earnings and return on investment. The study also found that accruals has a negative relationship with return on investment. Another predicating variables such as Transparency and timeliness also show positive relationship with respect to firm performances. The study concluded that accounting information is indispensable for investment decisions and overall firm performance.

Keywords: Earnings, transparency, reporting timelines, accruals and return on investment.

I. Introduction

Accounting information serves as a cornerstone for decision-making and taking within organizations. It is also considered critical for external users such as investors, creditors, and regulators. It also provides insights into a firm's financial health, condition and operating performance. Presently, there has been growing concern in understanding how the quality and features of accounting information impact firm performance. Firm performance, usually assessed through accounting-based measures like Return on investment (ROI) or market-based indicators like

Tobin's Q, reflects how effectively a company generates returns from its resources. Whereas, different factors measure firm performance, accounting information plays a dual role—as both a performance indicator and a driver of firm performance. The current study empirically examines the relationship between accounting information and firm performance by using panel data approach. Pakistani market is considered as an emerging economy, presents a unique setting due to evolving corporate governance practices and varying levels of enforcement of accounting standards.

Accounting data plays a significant role in the effective business management and decision-making generally and investment decisions particularly. Accounting is a systematic way to record, classify, and summarize business transactions, enabling firms to track performance and manage resources efficiently. Although financial statements such as income statement, balance sheet, and cash flow statement, accounting information offers insights into a firm's profitability, liquidity, and operational efficiency (Horngren et al., 2012). These summarized form information uses for strategic planning and daily operational decisions that affec firm performance.

The relationship between accounting information and firm performance has been extensively documented in academic literature. High-quality, timely, and relevant accounting information enhances decision-making by reducing uncertainty and enabling better resource allocation (Bushman & Smith, 2001). Empirical studies have shown that firms with strong accounting systems tend to perform better financially, as they are better equipped to monitor performance, identify inefficiencies, and respond to changes in the business environment (Ittner & Larcker, 2001). This recommends that accounting information is not used only for record-keeping, but a key driver of strategic competitive edge and organizational effectiveness.

Furthermore, accounting data also improves accountability and transparency, all of which are essential for auditing, preserving stakeholder confidence, and obtaining outside funding. In addition to helping businesses adhere to legal requirements, timely and accurate financial reporting conveys trust to creditors and investors (Ball, 2006). Therefore, businesses that place a high priority on the accuracy and dependability of their accounting procedures frequently see better financial results and longer-term viability. Accounting data therefore acts as a lever and a mirror, reflecting the company's financial situation while also facilitating performance enhancement.

Following are the research objectives:

To examine the examine the relationship of earnings and firm performance

1. To analyze the association between transparency and firm performance
2. To find the relationship between accruals and financial performance of the firm
3. To measure the effect of timeline on firm performance

II. **Review of literature and development of hypotheses**

No doubt earnings plays a critical role in the firm performance. It refers to the degree to which reported earnings reflect underlying economic performance and forecast the future incomes (Dechow & Schipper, 1991). High-quality earnings enhance credibility and reduce information asymmetry, leading to better resource allocation which ultimate improved firm financial performance. The survival of firm dependents upon sufficient amount of earnings. Through better earnings a firm can manage and control of the governance issue and improve the overall effectiveness of the firm.

Hypothesis 1 (H1): It is observed that there is a positive relationship between earnings and firm performance.

Accruals refers to match revenues with expenses of a firm, but discretionary accruals can be manipulated by managers to enhance earnings. Sloan (1996) finds that firms with high total accruals tend to underperform in the future because these accruals are less consistent than cash inflows. Since they modify cash flows to more accurately reflect a company's economic activity over a specific time period, accruals are important in connecting accounting information to business performance. The accrual method provides a more accurate assessment of financial performance than cash-based accounting because it records revenues as they are earned and expenses as they are incurred. Therefore, high levels of discretionary accruals might occasionally indicate earnings management that can deceive stakeholders and distort a company's actual fiscal situation (Dechow, Sloan, & Sweeney, 1995). In addition, better management of accruals result in more quality earnings, which improves the transparency and accurate financial information and makes it possible to evaluate performance more effectively. In a result accrual accounting enhances the timeliness and relevance of financial reporting leads to provide and facilitate for better decision-making and in this way resulting in improve business performance.

Hypothesis 2 (H2): Accruals and firm performance has a inverse relationship.

Transparency considers very important factor to rank the firm performance. It has been taken as key performance indicator especially for audit purpose. All stakeholders considers it a main tool for trust building and better decision making purposes. It also reduces information asymmetry, improves investor confidence, and lowers the cost of capital (Bushman & Smith, 2001). Dhaliwal et al. (2012) find that voluntary disclosures, such as segment reporting, are positively related to firm valuation. Transparency increases users trust and improves resources allocation efficiency, financial reporting transparency is a critical factor in determining a company's performance. Better monitoring and governance result from transparent accounting processes, which lessen information asymmetry between management and external stakeholders including creditors, investors, and regulators (Bushman, Piotroski, & Smith, 2004). A greater accountability businesses with high levels of transparency are more likely to draw in investment, have reduced capital expenses, and see improvements in operational efficiency and overall reputation in the market. Transparency can also promote long-term strategic planning and discourage managerial biasness, which boost long-term performance as a results. Consequently, open financial disclosures support a company's stability, sincerity, competitiveness, and reputation in the market.

Hypothesis 3 (H3) : There is a positive association between transparency and firm performance.

Reporting lag is a big problem especially for audit purpose. Audit is mandatory for public companies. Timeliness ensures that relevant information is available when needed for decision-making. Many factors affect the reporting lag like, audit committee effectiveness, board characteristics, financial distress, firm size, firm age and leverage. Basu (1997) argues that timely recognition of losses and gains increases the predictive power of earnings, contributing to better resource allocation and performance outcomes. Timely reporting enhance the trust of investor, increase the transparency for creditors and useful for regulator regarding to taxes and policy framework.

Hypothesis 4 (H4): Literature proposes that there is a positive relationship between timeliness and financial performance of the firm.

III. Research methodology

For purpose of required research objectives the study uses panel data regression model. 100 publically traded firms are taken as a sample over the period of 2012 rto 2022.

3.1 Data Source and Sample Selection

The sample consists of 100 publicly traded firms listed on the Pakistan Stock Exchange (PSE) over the period 2010–2022. Data were obtained from annual reports published by the firms. Firms with missing financial data were excluded from the sample.

3.2 Model Specification

The study uses to estimate two multiple regression models:

$$ROI_{it}=\beta_0+\beta_1 E_{it}+\beta_2 ACC_{it}+\beta_3 TRANS_{it}+\beta_4 TIME_{it}+\beta_5 SIZE_{it}+\beta_6 LEV_{it}+\epsilon_{it} \quad \text{(I)}$$

$$\text{Tobin's } Q_{it}=\beta_0+\beta_1 E_{it}+\beta_2 ACC_{it}+\beta_3 TRANS_{it}+\beta_4 TIME_{it}+\beta_5 SIZE_{it}+\beta_6 LEV_{it}+\epsilon_{it} \quad \text{(II)}$$

Where,

ROI : Return on investment

Tobin's Q : Market value of equity plus book value of debt divided by total assets

E : Earning (computed as the absolute value of abnormal accruals)

ACC : Total accruals scaled by total assets

TRANS : Proportion of mandatory and voluntary disclosures made by the firm

TIME : Timeliness index based on the number of days between year-end and financial statement release

Control variables

SIZE : Natural logarithm of total assets

LEV : Debt-to-equity ratio

3.3 Estimation Technique

The current study uses Panel Ordinary Least Squares (POLS) regression with robust standard errors clustered at the firm level. The study also conduct fixed effects and random effects estimations for the purpose of to select the appropriate research model. In this regard by using the Hausman test the study selected the model. In this regard the results recommends and rejected the random effect model and accept the fixed effect model.

IV. Results and Discussion

4.1 Descriptive Statistics

Variable	Mean	Median	Standard Deviation	Min	Max
ROI (%)	12.00%	10.00%	7.00%	-5.00%	28.00%
Earnings ($)	$2.4M	$2.1M	$1.3M	$0.5M	$6.0M
Accruals ($)	$1.8M	$1.6M	$0.9M	$0.3M	$4.0M
Timelines (Months)	18.2 months	16 months	6.5 months	6 months	36 months
Transparency Score (1–10)	7.5	7.5	1.1	4	10

The above descriptive explain the mean, minimum, standard error and maximum values of the used data. The main purpose of the descriptive was to identify the outlier in the data. Average time to return on investment is 1.5 years which shows longer timelines may imply higher risk or complexity. Average return on investment of 12.5%. Extreme variability indicates mixed investment output. Average spread; most projects generate consistent profits.

Fixed effect regression results

Variables	ROI	Tobin's Q
EQ	0.18***	0.31***
	(0.37)	(0.49)
ACC	-0.12**	-0.17***
	(0.79)	(0.39)
TRANS	0.09*	0.13**
	(2.9)	(0.89)
TIME	0.07	0.11*
	(5.80)	(1.56)
SIZE	0.03	0.05
	(9.80)	(6.79)
LEV	-0.02	-0.04
	-10.44	(7.99)
R-squared	0.48	0.42

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The above regression results show that earnings is predicted by positive and statistically significant with respect to both return on investment and Tobin's Q. Another independent variable i.e. accruals found statistically significant with negative sign. It means that consistent with prior findings that discretionary accruals reduce earnings persistence. Whereas, transparency and timeliness also found statistically significant with positive sign. These independent variables show positive relationship particularly with Tobin's Q, means the importance of disclosure in shaping market perceptions.

V. Conclusion

This study concludes and provides empirical justification and supporting the hypothesis that quality accounting information positively impacts firm performance. On the basis of said sample of Pakistani public firms all the independent variables such as earning, accrual, transparency and timelines are important predictors for both accounting based and market based performance metrics.

In a results, accruals are linked with weak performance, underscoring the need for conservative and transparent financial reporting. Keeping in view the above findings, the study proposes that firms should prioritize improving the quality of their accounting disclosures to improve performance, encourage and attract investor for safe and protect investment.

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