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Corporate Governance Characteristics of Private SMEs' Annual Report Submission Violations

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Abstract: Managers are, by law, responsible for the timely disclosure of financial information through annual reports, but despite that, it is usual that they are engaged in the unethical behaviour of not meeting the submission deadlines set in law. This paper sheds light on the afore-given issue by aiming to find out how corporate governance characteristics are associated with annual report deadline violations in private micro-, small- and medium-sized enterprises (SMEs). We use the population of SMEs from Estonia, in total 77,212 unique firms, in logistic regression analysis with the delay of presenting an annual report over the legal deadline as the dependent and relevant corporate governance characteristics as the independent variables. Our results indicate that the presence of woman on the board, higher manager's age, longer tenure and a larger proportion of stock owned by board members lead to less likely violation of the annual report submission deadline, but in turn, the presence of more business ties and existence of a majority owner behave in the opposite way. The likelihood of violation does not depend on board size. We also check the robustness of the obtained results with respect to the severity of delay, firm age and size, which all indicate a varying importance of the explanatory corporate governance characteristics.

Keywords: corporate governance; information disclosure; timeliness of financial reporting; law violation; private firms

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1. Introduction

The aim of this paper is to analyse the interconnection between corporate governance characteristics and the violation of the annual report submission deadline in private micro-, small- and medium-sized enterprises (SMEs). According to the theory of upper echelons, managers' experiences, values and responsibilities condition firms' decisions, strategy and even their performance (Hambrick and Mason 1984). One responsibility of the board of directors is the timely submission of firms' compulsory accounting information in order to make it public and accessible for the decision-making of firms' stakeholders. It has been established that board composition is associated with the transparency, correctness and timeliness of financial reporting (Beasley 1996; Abdelsalam and Street 2007; Hermalin and Weisbach 2012).

Prior studies suggest that high levels of corporate governance may reduce managers' earnings manipulations and the tendency to commit fraud, and help to achieve higher levels of information transparency or even condition credit ratings (Ashbaugh-Skaife et al. 2006; Prior et al. 2008; Scholtens and Kang 2013; Liu et al. 2017). However, most of the literature is focused on corporate governance and financial reporting disclosure practices in public and large firms (Carslaw and Kaplan 1991; Abernathy et al. 2014; Lim et al. 2014; Efobi and Okougbo 2014; Spiers 2018; Bae et al. 2018), which could be conditioned by agency problems and disagreeing objectives

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among shareholders in such firms. Still, reporting disclosure is also relevant for private SMEs (Clatworthy and Peel 2016). Much of this concern stems from the recognition that small firms serve as an engine of economic growth and innovation around the world (Cowling et al. 2015).

Corporate governance and accounting information disclosure violation, but also their interconnections, are different between public and private firms. In SMEs, board and owners often overlap, and thus, different functions of these two corporate governance levels are consolidated (Gabrielsson and Huse 2005; Brunninge et al. 2007). The incentives to disclose information vary across stakeholders (Berglöf and Pajuste 2005), and even across shareholders. Consequently, the concept of corporate governance of SMEs differs from listed firms (Uhlaner et al. 2007; Voordeckers et al. 2014). Large companies are more concerned about market behaviour than private ones, which in turn are more tax-oriented (Brunninge et al. 2007) and have lower scrutiny as many of them are not audited (Höglund and Sundvik 2019). In this sense, Östberg (2006) posits that disclosure is a form of minority protection that decreases the scope of extracting private benefits by controlling shareholders. Non-audited private SMEs also need to have the information ready for creditors (Collis 2008; Peek et al. 2010). Indeed, small firms may face difficulties in accessing formal financing due to their informational opacity (Ortiz-Molina and Penas 2008). Managers of SMEs can choose, which information to divulge and which to contain, whether to present it timely or not and if it is accurate or biased information (Hoskisson et al. 1994). Thus, opportunistic information disclosure behaviours could appear more likely in SMEs.

The context of this research is Estonia, which is considered to be one of the most advanced digital societies in the world, and consequently, permits full access to SMEs' information. The Estonian legislative system and institutions are harmonized with EU regulations, which increases the comparability of Estonian SMEs with firms with similar sizes from other EU countries. Our dataset is composed of 77,212 Estonian private SMEs, using data procured from the Estonian Business Register (EBR), which contains firms' annual reports (compulsory once per year) and up to date information about firms' boards and owners. With logistic regression analysis, we show which corporate governance characteristics, representing three distinct corporate governance dimensions, increase or decrease the likelihood of violating the legal deadline set for annual report submission.

The paper contributes to the literature by presenting an original conceptual framework for the corporate governance dimensions affecting SMEs' risk behaviour, specifically timely annual report submission violation. Only a few previous studies explore corporate governance variables in the SME context (Spiers 2017). In addition, violation of annual report submission deadlines is a rarely studied topic in the case of SMEs (Lukason and Camacho-Miñano 2019).

We show that corporate governance can be used to explain annual report submission deadline violations in the SME context. Thus, this paper fills the major gap in prior research with respect to how corporate governance can affect firms' behaviour in the SME context (Li et al. 2020). For private SMEs, earlier studies have used a limited number of corporate governance factors (e.g., the number of board members), partly due to the difficulty of accessing such data. In this study, the factual corporate governance information was obtained directly from the business register, not from questionnaires as in most of the studies. Concerning annual reports, the bulk of the literature concentrates on the time of disclosure, not on the violation (Luypaert et al. 2016; Lukason and Camacho-Miñano 2019), which is the approach of this study. In addition, the institutional context has been suggested as an important issue due to the necessity of cross-cultural governance research (Uhlaner et al. 2007). According to La Porta et al. (1999), governance issues differ from one context to another, and Estonia's context is different from the Anglo-Saxon countries, based on which most of the studies have been composed so far.

The paper is structured as follows. First, the literature review section outlines corporate governance dimensions being potentially associated with timely annual report submission violation and outlines the literature-based expectations concerning the interconnections between the latter and specific corporate governance variables. Then, the study's sample, variables and method sections are presented.

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This is followed by empirical results, robustness tests, and discussion. Finally, the study concludes this research arguing its main implications and limitations, while suggestions for future research are also provided.

2. Corporate Governance Characteristics and Timely Accounting Information Disclosure Violations in Private SMEs: Development of Research Propositions and Hypotheses

2.1. Conceptual Framework of the Study

The violations of law occur in a firm when its managers do not comply with the legal requirements for either content, forms or time. Information on time is essential to align all firm stakeholders' interests (Singhvi and Desai 1971); generally, the older the information, the less useful it is. In addition, the timely disclosure of information is a way to reduce the information asymmetry between firms' stakeholders (Owusu-Ansah and Leventis 2006; Donnelly and Mulcahy 2008). The latter is possible through transparency, one of the important qualities of governance according to Hermalin and Weisbach (2007).

According to the upper echelons theory, the organization is a reflection of its top managers (Hiebl 2014). Based on the seminal paper by Hambrick and Mason (1984), the characteristics of firm's top managers and their strategic choices help to explain the organization's performance. Consequently, organizational outcomes such as firms' disclosure practices are influenced by the board's characteristics due to the monitoring role of corporate governance. Broadly, corporate governance is the setup of direction and control in companies (Huse 2007), given the separation of these two functions. The regulation of corporate governance originates from the time when ownership and management of businesses first became separated in accordance with the agency theory (Fama and Jensen 1983). Thousands of papers have been published about corporate governance related to multiple aspects of firms from that seminal paper. However, the extant evidence does not provide a clear answer if better corporate governance has a positive influence on information disclosures (Beekes et al. 2016).

As provided in the introduction, most of the studies about corporate governance are focused on large and listed firms but not on SMEs and private companies (Abor and Adjasi 2007; Spiers 2018). For instance, Durst and Henschel (2014, p. 18) even propose a different definition of corporate governance in small companies, where the focus is set on the interplay with relevant stakeholders to achieve a strategic change, rather than focusing only on the routine control function. Corporate governance in privately held firms includes many factors and variables that condition decision-making as to violate or not the disclosure of compulsory information, such as different organizational and/or institutional contexts (Uhlaner et al. 2007).

Clarke and Klettner (2009) and Uhlaner et al. (2007) suggest that directors of small firms are more worried about survival than planning and control as corporate governance imperatives. In this line, Crossan et al. (2015) emphasize that the lack of governance within small companies is a conditioning factor for business failure, while similar opinions are shared by Saxena and Jagota (2015) and Spiers (2017). Thus, an organic interconnection exists between corporate governance and risk behaviour of managers, one example of which is the timely accounting information disclosure violation (later also referred to as TADV).

We posit a theoretical concept in which corporate governance characteristics could condition risk behaviour in firms (see Figure 1). Our central standpoint states that based on the upper echelons' theory, firms' risk behaviour is conditioned by their management. In detail, we rely on three main theoretical streams of corporate governance (see Nicholson and Kiel 2007), that is, agency, stewardship and resource dependence theories, to outline the dimensions relevant to study the interconnection between corporate governance and risk behaviour. First, we rely on agency theory, the central question of which are the nonaligned interests of managers and owners in corporate governance (e.g., Jensen and Meckling 1976). Thus, our first dimension of interest considers the convergence of decision-making in a firm, which we name in the further text as "power concentration". Second, we rely on the resource dependence theory, which postulates that corporate governance channels firms' internal and external resources into performance (e.g., Pfeffer and Salancik 2003). In light of this theory, we focus on a specific type of

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internal resource, that is, the managers' "experience" dimension. Third, we rely on the stewardship theory, which considers managers having aligned interests with owners, and thus, behaviour differences of firms are subject to inherent characteristics of managers (e.g., Donaldson and Davis 1991). The third dimension is named the "demographic diversity" of managers. These three dimensions are discussed further as follows, coming to the postulation of research propositions for each of the dimensions. Under each research proposition, specific testable hypotheses are developed. The same approach of using research propositions and specific testable hypotheses has been frequently used in management research (see e.g., Zajac and Westphal 1996). The postulated hypotheses rely on the (most) usual corporate governance characteristics applied to depict these dimensions in the literature.

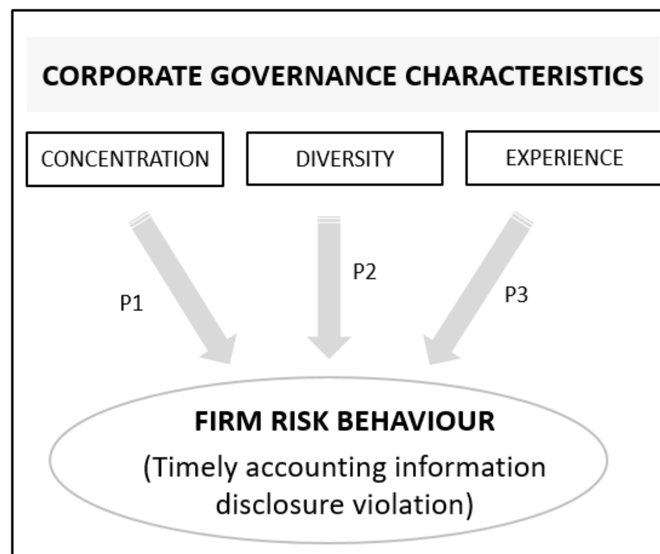

Figure 1. Conceptual framework of the study. Source: Own elaboration.

2.2. *Power Concentration and TADV*

Although much attention has been paid to the role of boards (Daily et al. 2003), many small firms do not have formal boards but only a unique manager who concentrates on all the functions of the board, while managers and owners are often overlapping. Occasionally, in addition to the founder or owner-manager, there may also be one or two family members on the board, with a unique way of making decisions (Gabrielsson 2007). The varying power concentration among private firms grounds the first dimension that could condition SMEs' decisions concerning timely information disclosure violations. This dimension is relevant, as the agency theory posits that adequate monitoring or control mechanisms need to be established to protect stakeholders from conflicts of interests (Kiel and Nicholson 2003; Parsa et al. 2007), therefore avoiding information asymmetry. In general, more power concentration in a firm's board suggests less pressure for disclosing information as there is less demand for transparency (Carney 2005; Beuselinck and Manigart 2007). Thus, the first proposition (P1) about corporate governance dimensions states that:

P1: Larger power concentration will increase the likelihood of TADV.

In relation to the need for concrete information disclosure policy by firms' decision-makers, there are two corporate governance characteristics that measure the power concentration of decision-making, namely ownership concentration and managerial ownership. The former means whether firms have a high concentration of ownership in one or a few large shareholders that own the majority of shares in the firm. High levels of ownership concentration foster risk-taking (Nguyen 2011). The concentration of ownership and the unification of ownership and control may lead to managers being subjected to less pressure from outside investors who demand accountability and transparency (Carney 2005). In private firms, concentrated ownership means that large shareholders tend to have less interest in

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disclosing information because they are well informed of what is happening in the firm. In the same line, Beuselinck and Manigart (2007) argue that private equity firms with majority shareholders are likely to have lower-quality financial reporting systems compared to those with minority shareholders only. Additionally, if decision-making is concentrated, firm risk behaviour can be assimilated with that of the owner. Taking the prior reasoning into account, the first hypothesis (H1a) related to the power concentration proposition is as follows:

Hypothesis 1a. *Ownership concentration will increase the likelihood of TADV.*

The second corporate governance variable to capture power concentration is managerial ownership, focused on the shares owned by their own managers, that is, the involvement of owners in running a firm. Most SMEs are closely held, and owner-managed (Brunninge et al. 2007), and consequently, they do not disclose much information, because they do not need to make it public. Moreover, managers of those firms have much information "in the head" (Uhlaner et al. 2007). Accordingly, we posit the second hypothesis (H1b) concerning the power concentration proposition:

Hypothesis 1b. *Managerial ownership will increase the likelihood of TADV.*

2.3. Demographic Diversity and TADV

As boards of directors monitor the disclosure of business information, their characteristics may condition the policy of business information disclosure (Hambrick 2007; Hiebl 2014). As outlined earlier, the theory of upper echelons is based on the idea that managerial characteristics could affect their choices and that the choices of managers are influenced by their cognitive base and values (Hambrick and Mason 1984). However, psychological factors of managers are very difficult to measure, and thus, demographic variables are considered as good proxies (Hambrick and Mason 1984; Nielsen 2010). In this sense, "managers' unique disclosure styles are associated with observable demographic characteristics of their personal backgrounds" (Bamber et al. 2010, p. 1131). Bamber et al. (2010) note that managers must comply with legal deadlines for submission, in addition to deciding what type of voluntary information may be disclosed.

One of the corporate governance characteristics considered by prior literature to affect the quality of the corporate board's monitoring, and thus, firm's financial performance, is the board's demographic diversity (Campbell and Minguez-Vera 2008; Carter et al. 2010; Shehata et al. 2017) as a way to portray the influence of personal and psychological characteristics of managers. In this sense, greater diversity is beneficial because that variety may influence what information is brought into decision-making processes (Post and Byron 2015), although there is a trade-off between the benefits and costs of diversity on board effectiveness (Bennouri et al. 2018). We argue that certain demographic profiles reduce risk-taking, and thus, are more likely to lead to law-abiding actions. In this line, the second proposition (P2) in relation to the board's demographic diversity is posited as:

P2: Certain demographic characteristics will reduce the likelihood of TADV.

One specific characteristic of demographic diversity in the board is the age of a manager, which reflects well the attitude towards risk and actual risk-taking behaviour (Plöckinger et al. 2016). Thus, the manager's age is related to risk aversion (Jianakoplos and Bernasek 1998) and even to the acceptance of financial fraud (Troy et al. 2011). Younger managers are more inclined towards risky strategies such as law violations. On the contrary, more mature managers are more risk-averse (MacCrimmon and Wehrung 1990). Older CEOs are less involved in dishonest actions (Troy et al. 2011) because maturity has also been associated with higher levels of moral development and stricter interpretations of firm's ethical standards of conduct (Serwinek 1992), therefore resulting in a lower likelihood of engaging in or facilitating unethical behaviours (Ortiz-de-Mandojana et al. 2018). Consequently, for the demographic diversity proposition, the first hypothesis (H2a) is stated as follows:

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Hypothesis 2a. *Managerial age will reduce the likelihood of TADV.*

A common measure of demographic diversity is gender. According to prior literature, risk aversion also differs by gender (e.g., Jianakoplos and Bernasek 1998; Ho et al. 2015). The specific corporate governance variable usually applied is the existence of women on the board. From an informational perspective, female directors may contribute to decision-making processes because of their different knowledge, experience, and values (Kanadli et al. 2018). In addition, even in majority male boards, women isolation and minorities have the potential to influence the board's decision-making (Kanadli et al. 2018). Some authors argue that female directors are more likely to be objective and independent (Fondas 2000), and thus, they could follow legal requirements better than male directors because women directors reduce the level of conflicts (Nielsen and Huse 2010). Indeed, their presence enhances board information, perspectives, debate and decision-making (Burke 2000). For example, an equilibrated board tends to mitigate earnings management practices, reinforcing obedience to the law (Saona et al. 2018). Other studies in this line support the idea that women are more ethical than men (Glover et al. 2002; Larkin 2000; Wahn 2003). In this way, earnings quality and voluntary disclosure levels increase when gender diversity exists in boards (Krishnan and Parsons 2008; Liao et al. 2015). Some authors argue that having women in boards influences not only what information is used in decision-making but also how, because females do have different organizational skills than males (Adams and Funk 2012; Post and Byron 2015). Additionally, Ho et al. (2015) found that companies with female CEOs report information more conservatively when companies face high litigation or risks. Relying on the afore-given argumentation, we posit the following hypothesis (H2b) for the demographic diversity proposition:

Hypothesis 2b. *The presence of women on the board will reduce the likelihood of TADV.*

2.4. Experience and TADV

One of the most usual attributes of executives in the risk-taking literature is their experience (May 1995; Hoskisson et al. 2017), as experienced managers are reluctant to make changes and consequently take fewer risks (Hambrick and Fukutomi 1991; Miller and Shamsie 2001). Thus, experienced managers are more risk-averse and violate laws less. They have life and business experiences and perhaps past violation consequences such as prior penalties, which make them not to violate laws. The more experience managers have, the more business problems and more solutions they have had to deal with. Accordingly, the third proposition (P3) can be posited as follows:

P3: More entrepreneurial experience will reduce the likelihood of TADV.

The experience dimension could be measured as the combination of tenure (the board's inside experience) and business ties (the board's outside experience). Board tenure is the time spent on the board of a specific firm and it is expected to increase the director's knowledge of the firm and its business environment (Vafeas 2003) as well as commitment towards the company (Buchanan 1974). The tenure of directors on the same board captures the knowledge of the company's strategy and functioning (Harris and Shimizu 2004). As the boards of SMEs have fewer members, each board member should be fairly well informed on all aspects of the firm. Longer serving CEOs have greater temporal depth, as greater exposure to various events in the past helps to design more effective decisions impacting future outcomes (Ortiz-de-Mandojana et al. 2018). Related to the timely information disclosure violation, a longer board tenure could reduce the occurrence of it, because the longer CEOs have been in the firm, the more experienced they can be on the consequences of a law violation. Concerning other legal requirements, Baatwah et al. (2015) found that longer-tenured CEOs are linked with a timelier completion of the audit report. Similarly, Schrand and Zechman (2012) posit that managers of misreporting and fraudulent firms generally have shorter tenures. Thus, the first hypothesis (H3a) for the experience proposition states as follows:

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Hypothesis 3a. *Board tenure will reduce the likelihood of TADV.*

Another proxy of managers' experience is multiple directorships or ties, a corporate governance variable that measures whether board members hold director positions in several firms at the same time. Managers with multiple directorships may be perceived positively since they facilitate the exchange of vital information for firms (Connelly and Slyke 2012) and because they are more likely to understand the business environment of the company (Hillman et al. 2007). Additionally, working in several firms may be conditioned by board members having uncommon skills and strong abilities in both monitoring and advising subordinates (Falato et al. 2014). In addition, the past penalties because of violating the law the board members with many ties have experienced in other firms could also reduce the risk of a new law violation. Thus, relying on the afore-given motivation, we posit the following hypothesis (H3b) for the proposition about experience:

Hypothesis 3b. *Multiple directorships will reduce the likelihood of TADV.*

2.5. Board Size and TADV

Finally, as one of the main characteristics frequently used in the literature of corporate governance from large and/or listed firms is board size (Huse 2000), we assume that it is also relevant in SMEs, although less than in large and/or listed firms. Normally, the board size of SMEs is small, but still, there could be difficulties or conflicts in what information disclosure policy the company should have due to opposite opinions. According to the literature of public firms, the presence of a large number of directors implies a reduction of the board's effectiveness in management control (Yermack 1996; Eisenberg et al. 1998; De Andres et al. 2005; Cheng 2008) and an effective board can also be engaged in better disclosure practices (Willekens et al. 2005).

From another angle, a larger board will bring together a greater depth of intellectual knowledge, and therefore, could improve the quality of strategic decisions. An additional director could bring more human capital to the company, therefore increasing the board's information and specific knowledge about the business and its environment. The latter will increase the firm's efficiency (Adams and Ferreira 2007; De Andres and Vallelado 2008; Linck et al. 2008); and as mentioned before, efficiency in boards conditions its disclosure practices. Consequently, there could be a link between board size and information disclosure, while there are contradictory explanations with respect to whether it will increase or decrease the likelihood of TADV. Thus, we include board size in the analysis as a control variable to shed light on the controversy about its role in association with TADV.

3. Data, Variables and Method

3.1. Study's Data

In this study, we apply firm-level data from Estonia and the population includes 77,212 unique private SMEs, accounting for roughly 50% of all Estonian private SMEs registered at the end of 2014. While we did not include large and/or listed firms in the analysis, some additional contractions were made to the whole population of firms. Namely, we do not include firms having (at least some) corporate owners or foreign individuals as managers/owners, as in case of them we are not able to calculate (all) the variables documented in Section 3.3. In addition, we are not including firms lacking an annual report because of not being obliged to submit it for different reasons (e.g., a firm is too young or in the liquidation procedure). All information obtained is factual and originates from the Estonian Business Register (see also Sections 3.2 and 3.3). The median firm in the analysis is 7.3 years old and a micro firm by size (i.e., total assets 22 thousand euros). Thus, the median firm in the population refers to an older micro firm, which dominates the firms' population in other countries as well. In the case of all firms, we consider the annual report submission delay for the fiscal year of 2014 and corporate governance variables are calculated from the last day firms had to present the annual report (for the

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vast majority of cases that date is 30 June 2015). The boards and owners of SMEs change infrequently, thus the usage of a single year is justified. Despite the latter, the TADV behaviour can vary through reporting years, and thus, in order to guarantee the robustness of the results with respect to the year chosen for the analysis (i.e., 2014), we check the results for another fiscal year (i.e., 2015) as well.

3.2. Dependent Variable

The dependent variable is TADV as our aim is to analyse what specific corporate governance factors are associated with this behaviour. For portraying TADV, we code a binary dependent variable (BINARYDELAY), which equals 1 if the company does not present the annual report on time (i.e., exceeding the legal deadline at least by one day) and 0 otherwise.

All Estonian SMEs have to disclose their financial statements (i.e., balance sheet, income statements and explanatory notes) once per year and online. This presentation of the annual report has a legal deadline of six months from the fiscal year end. For the vast majority of firms, the fiscal year end is also the calendar year end, that is, the 31st of December every year. Thus, in the latter circumstance, the deadline for uploading the annual report is the 30th of June the following year.

In order to enhance the context of the violation further, we distinguish between mild and severe delayers in further analysis. Namely, as a mild delay, we consider a delay of up to 365 days (i.e., one year) and a severe delay is over 365 days. Such coding is based on the Estonian legal considerations. Namely, according to the Estonian Commercial Code, this is the minimal date after which the Estonian Business Register can start the deletion procedure of a firm because of not submitting the annual report. We base the severity of the submission delay on this legal consideration to avoid a subjective selection of the relevant break-even time. The usage of two types of violators enables us to study, how non-violators differ from either modest or severe violators, but also, how modest and severe violators differ from each other. It is not rational to distinguish between different types of non-violators, as firms can freely choose when to submit their annual report during the legally allowed half-year period after the end of the fiscal year, and usually, they do it in June.

3.3. Independent Variables

Based on the motivation in the literature review section, we use three dimensions, further splitting them into six independent variables portraying corporate governance characteristics of a firm (see Table 1). The independent variables were calculated mostly based on their formulas in previous studies.

For capturing the ownership concentration, variable MAJORITY is used, which indicates in a binary form, whether there is a majority owner (i.e., having more than 50% of the shares) present. According to the Estonian regulation, an owner having more than 50% has the power to decide upon most of the actions in a firm, thus the usage of that threshold is well-motivated with legislation. Another variable for the concentration dimension is managerial ownership. To portray managerial ownership, the variable BOARDOWNER is used, which is a ratio of shares owned by the board members to the total shares. Thus, this variable directly portrays the overlap between the two levels of corporate governance (i.e., owners and board members). It must be emphasized, that the Estonian SMEs are subject to a two-level corporate governance system, in which the board is subordinate to owners directly, while the board members are legally responsible for all firm's activities.

For the demographic diversity dimension, the manager's age is portrayed with MANAGERAGE, which is calculated as the biological age of the oldest board member. Although in previous studies the mean age of board members has been used as well, it does not suit herewith, as we intend to capture the life experience available on the board, not the average experience. Furthermore, as a large proportion of firms have single-person boards, the usage of mean age would not be a suitable option. The context of gender is captured with the presence of a woman on the board (reflected with a binary variable WOMAN obtaining 1 on that occasion and 0 otherwise). In studies focusing on larger firms,

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a gender proportion has been used, but that option is not suitable in the case of SMEs, of which the overwhelming majority have only one or two individuals on the board.

Table 1. Variables in the analysis.

Dimension	Variable Coding	Variable Content	Expected Sign
		Dependent variable	
TADV dependent variable	BINARYDELAY	Whether a firm violated the annual report submission date at least by 1 day (coded as 1) or not (coded as 0)	
		Independent variables	
Concentration dimension's independent variables	MAJORITY (for H1a)	Whether there is a single majority owner (i.e., >50%) in the firm (coded as 1) or not (coded as 0)	+
	BOARDOWNER (for H1b)	Share of the stock the board members hold divided by total stock	+
Diversity dimension's independent variables	MANAGERAGE (for H2a)	Biological age of the oldest board member	-
	WOMAN (for H2b)	Whether there is a woman on the board (coded as 1) or not (coded as 0)	-
Experience dimension's independent variables	TENURE (for H3a)	Tenure length of the longest serving board member in years	-
	TIES (for H3b)	Number of other board memberships the board members hold	-
Control variable	BOARDSIZE	Number of board members	

Source: own elaboration. Note: for robustness tests, BINARYDELAY is recoded to account for mild and severe violators (see also Sections 3.2 and 3.4).

For the experience dimension, business ties are portrayed with the variable TIES, which reflects the number of board memberships in other firms the board members of the firms under question hold. Thus, this variable reflects the scope of ongoing business experience outside the firm under question. Managerial tenure is captured with the variable TENURE, which reflects the time in years the longest-serving board member has been on their position. TENURE could also be used as a ratio of the time the longest-serving board member has been on their position to the firm's age. Still, such a ratio would easily lead to overestimating firm-specific experience in the case of (very) young firms. Finally, the control variable reflecting board size is captured by BOARDSIZE, which reflects the number of board members in the firm.

3.4. Statistical Method

In the case of the base model, binary logistic regression (BLR) will be used with BINARYDELAY as the dependent variable and seven corporate governance variables listed in Table 1 as independent or control variables. The model tested with BLR is as follows:

$$\text{BINARYDELAY} = \beta_0 + \beta_1\text{MAJORITY} + \beta_2\text{BOARDOWNER} + \beta_3\text{MANAGERAGE} + \beta_4\text{WOMAN} + \beta_5\text{TENURE} + \beta_6\text{TIES} + \beta_7\text{BOARDSIZE}$$

We will also run three additional BLRs to check how: (a) non-violators differ from mild violators, (b) non-violators differ from severe violators, (c) mild violators differ from severe violators. The latter BLRs help to disclose, how the results vary when the severity of the violation is incorporated into the analysis.

Moreover, in further analysis, we divide the firm population into two subpopulations based on either the median size or median age, in order to check the robustness of the base results with respect to firm size and age differences. Additional BLRs are run in the subpopulations, which enable us to outline how smaller/larger or younger/older firms differ from the base results. The usage of more categories (e.g., breaking the firm population based on size or age quartiles) is not reasoned, as the ranges of size and age variables are not wide enough to justify the usage of a large number of subpopulations. We do

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not apply size and/or age as control variables due to (serious) multicollinearity issues, which can emerge from applying them with the chosen independent variables (e.g., with variables MANAGERAGE or TENURE).

It is not rational to use different types of logistic regressions (e.g., multinomial or ordered) herewith, as by keeping BLR as the only method, we can exactly compare the coefficients in different models, and by doing that, outline whether the independent variables behave differently when various contexts (i.e., the severity of delay, firm size or age) are altered. Finally, we run bootstrapping with 100 subsamples in order to study, how the coefficients of independent variables vary in the subpopulations of the whole population.

4. Results and Discussion

In the case of using BINARYDELAY as a factor, Welch robust ANOVA indicates (see the descriptive statistics in Table 2) that the means are different for all six independent variables at $p < 0.001$. Thus, all independent variables could potentially exhibit significance in discriminating between (non-)violators in BLR.

The conducted BLR analysis (see Table 3) testing the model specified in Section 3.4 indicates that at $p < 0.05$ level all six independent variables discriminate between (non-)violators, while the control variable BOARDSIZE is significant only at the $p < 0.1$ level. When the presence of a majority owner (MAJORITY) and board memberships in other firms (TIES) lead to a higher likelihood of violation, then in turn older managers (MANAGERAGE), women on the board (WOMAN), longer tenure (TENURE) and a larger amount of shares owned by the board members (BOARDOWNER) all reduce the likelihood of violation. Thus, H1a, H2a, H2b and H3a are supported in BLR, while H1b and H3b are rejected. Although larger boards could to a certain extent exhibit a lower likelihood of delay, the significance level of that variable does not enable to draw any ultimate conclusions, especially when considering the population size used in this study.

Table 2. Descriptive statistics of corporate governance variables.

Firm Type	Statistic	MAJORITY	BOARDOWNER	MANAGERAGE	WOMAN	TENURE	TIES	BOARDSIZE
Non-violators	N	54,081	54,081	54,081	54,081	54,081	54,081	54,081
	Mean	0.81	0.88	47.30	0.38	8.01	1.41	1.31
	Std. Dev.	0.39	0.28	11.84	0.48	5.22	2.10	0.57
	Median	1.00	1.00	46.44	0.00	6.79	1.00	1.00
	Min.	0.00	0.00	18.73	0.00	0.50	0.00	1.00
	Max.	1.00	1.00	92.56	1.00	20.28	10.00	7.00
Violators	N	23,131	23,131	23,131	23,131	23,131	23,131	23,131
	Mean	0.84	0.87	44.25	0.35	6.88	1.67	1.28
	Std. Dev.	0.37	0.30	11.29	0.48	4.74	2.36	0.54
	Median	1.00	1.00	42.94	0.00	5.59	1.00	1.00
	Min.	0.00	0.00	19.32	0.00	0.50	0.00	1.00
	Max.	1.00	1.00	93.60	1.00	20.24	10.00	7.00
Total	N	77,212	77,212	77,212	77,212	77,212	77,212	77,212
	Mean	0.82	0.88	46.39	0.37	7.67	1.49	1.30
	Std. Dev.	0.39	0.28	11.76	0.48	5.11	2.18	0.56
	Median	1.00	1.00	45.38	0.00	6.34	1.00	1.00
	Min.	0.00	0.00	18.73	0.00	0.50	0.00	1.00
	Max.	1.00	1.00	93.60	1.00	20.28	10.00	7.00

Source: Own elaboration.

According to our expectation, P1 assumes a positive relationship between both variables of the board's power concentration dimension and TADV. However, our results are inconclusive. The ownership concentration variable enables the support of P1, as high levels of ownership concentration can foster risk-taking, in line with Nguyen (2011). Moreover, minority shareholders might not make much pressure as outside investors who demand more transparency (Carney 2005). Conversely, when managers hold a larger proportion of the shares, they are less likely to be engaged in TADV. As the manager-owners of the firm, they are more engaged/committed to decision-making processes, and in this case, they also have a direct responsibility to face law violations. It can be assumed, that although manager-owners have much information "in the head" (Uhlaner et al. 2007),

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and thus, are not in need to publish annual reports quickly, they are still more worried about the personal reputation loss and legal consequences of violations.

Table 3. Logistic regression model for BINARYDELAY (0—non-violator, 1—violator).

Variable	B	S.E.	Wald	Sig.	Exp(B)	VIF
MAJORITY	0.222	0.025	77.912	0.000	1.249	1.45
BOARDOWNER	−0.160	0.029	31.356	0.000	0.852	1.09
MANAGERAGE	−0.018	0.001	490.339	0.000	0.982	1.36
WOMAN	−0.079	0.017	20.514	0.000	0.924	1.10
TENURE	−0.028	0.002	224.590	0.000	0.973	1.33
TIES	0.064	0.004	295.859	0.000	1.066	1.13
BOARDSIZE	0.035	0.018	3.551	0.060	1.035	1.63
Constant	0.009	0.050	0.033	0.855	1.009	

Source: Own elaboration. Notes: Average variance inflation factor (VIF) 1.30. See the model's general form in Section 3.4.

Related to the proposition P2, certain demographic characteristics should have a negative relationship with TADV, which found proof with the two variables employed. When members of the board are less risk-prone as women, have more life-experience measured as being biologically older, then the probability of TADV is lower. According to prior studies, age and gender are two relevant conditions against risk, that is, older managers and women are more risk-averse than young ones and men (Jianakoplos and Bernasek 1998; Troy et al. 2011; Ho et al. 2015). In addition, female directors are more likely to be objective and independent (Fondas 2000), therefore decreasing risk-taking (Elsaid and Ursel 2011), and thus, also following rules and official requirements to disclose financial information on time. Older managers with experience are less involved in dishonest and unethical behaviours than young ones (Troy et al. 2011; Ortiz-de-Mandojana et al. 2018). This could be due to the fact that old managers have experienced other law violations in their business life, which could have had negative consequences, for instance in the form of fees, penalties, reputation reduction, or decreases of credit ratings. Thus, they do not want to conduct more misbehaviours.

Regarding the third proposition P3 reflecting board experience, firms are supposedly less risk-taking when their managers have more experience, but proof for this was found only by using the TENURE variable. Being engaged in a firm for a longer period makes the managers more capable of consolidating financial information quicker, but also, they might have witnessed the negative consequences of TADV already before. In turn, being a board member in other firms acts in the opposite way. While multiple directorships are related to uncommon skills and strong abilities in both monitoring and advising (Falato et al. 2014; Harris and Shimizu 2004), such individuals could be busy directors who may lack the time needed to execute their monitoring well (Johnson et al. 2013; Jiraporn et al. 2009). However, some empirical research has concluded that "criticisms levelled against these directors may be unfounded" (Harris and Shimizu 2004, p. 791), and perhaps, there are other potential explanations related to this variable.

Our results show that board size is not associated with TADV. This might be because the board size in private firms is very small and many times is made up of the unique owner who is also the unique manager. In addition, when there are more members in private firms' boards, they could also be from the same family, therefore making the same decisions as they are defending the same interests (Zona 2015).

Table 4 extends the base BLR analysis by introducing different types of violators. When violators are broken into two types, that is, mild violators (up to 365 days delay) and severe violators (more than 365 days delay), an interesting feature is that the significances and effect directions of independent variables are not altered, although the magnitude of the effect of specific variables can (largely) vary. It is possible to generalize that when comparing non-violators with a specific type of violator (either mild or severe), in case of all independent variables, the effect is always stronger in the case of severe violators. Many independent variables are not significant when distinguishing between mild and severe violators,

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namely only two variables (i.e., MANAGERAGE and TENURE) are significant at $p < 0.01$. Thus, violators differ more from non-violators than different violators differ between themselves.

As the effects in the case of mild violators are not as strong, we can suggest that perhaps the decision to follow or not the disclosure regulation in the case of mild violators could be the case of "carelessness". Such managers do not really want to violate the regulation, but for instance, when the composition of the annual report is left "to the last minute", it cannot be prepared on time and perhaps not all board members can accept and sign the report enough quickly. The latter "carelessness" logic is corroborated by prior studies such as Cheng (2008) or Arosa et al. (2013).

Table 4. Additional logistic regression models for the subpopulations of BINARYDELAY in comparison with the base model.

	All Firms (0 Non-Violator; 1 Violator)		Subpopulation 1 (0 Non-Violator; 1 Mild Violator)		Subpopulation 2 (0 Non-Violator; 1 Severe Violator)		Subpopulation 3 (0 Mild Violator; 1 Severe Violator)	
Variable	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**
MAJORITY	0.222	0.000	0.214	0.000	0.232	0.000	0.053	0.254
BOARDOWNER	−0.160	0.000	−0.121	0.000	−0.223	0.000	−0.114	0.020
MANAGERAGE	−0.018	0.000	−0.017	0.000	−0.020	0.000	−0.004	0.002
WOMAN	−0.079	0.000	−0.063	0.002	−0.111	0.000	−0.059	0.063
TENURE	−0.028	0.000	−0.010	0.000	−0.072	0.000	−0.064	0.000
TIES	0.064	0.000	0.064	0.000	0.066	0.000	0.005	0.456
BOARDSIZE	0.035	0.060	0.053	0.011	−0.025	0.425	−0.068	0.048
Constant	0.009	0.855	−0.593	0.000	−0.636	0.000	−0.023	0.795

Source: Own elaboration. Note: All firms, 54,081 non-violators and 23,131 violators, SP1 54,081 non-violators and 15,917 mild violators, SP2 54,081 non-violators and 7214 severe violators, SP3 15,917 mild violators and 7214 severe violators. See the model's general form in Section 3.4.

Table 5 provides additional BLR models in case the applied population of firms is broken in two based on either median size or age of firms. Likewise, with the violation context, the BLRs focusing on different size or age groups indicate that the variables are significant and the effects are in the same direction, but the magnitudes of the effects vary. Still, unlike with the violation context, there is more variation with respect to whether smaller/larger size or younger/older age of firms leads to the independent variable having a weaker/stronger effect in distinguishing between (non-)violators.

Table 5. Additional logistic regression models of BINARYDELAY for smaller/larger and younger/older firms in comparison with the base model.

Variable	All Firms		Smaller Firms		Larger Firms		Younger Firms		Older Firms	
	B	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**	**B**	**Sig.**
MAJORITY	0.222	0.000	0.209	0.000	0.250	0.000	0.115	0.001	0.338	0.000
BOARDOWNER	−0.160	0.000	−0.196	0.000	−0.154	0.000	−0.238	0.000	−0.121	0.004
MANAGERAGE	−0.018	0.000	−0.017	0.000	−0.018	0.000	−0.015	0.000	−0.020	0.000
WOMAN	−0.079	0.000	−0.122	0.000	−0.070	0.010	−0.058	0.013	−0.110	0.000
TENURE	−0.028	0.000	−0.027	0.000	−0.021	0.000	−0.028	0.000	−0.016	0.000
TIES	0.064	0.000	0.057	0.000	0.078	0.000	0.055	0.000	0.071	0.000
BOARDSIZE	0.035	0.060	0.113	0.000	−0.021	0.406	0.019	0.481	0.049	0.051
Constant	0.009	0.855	0.026	0.712	−0.114	0.113	0.109	0.130	−0.196	0.009

Source: Own elaboration. Note: For the distinction of smaller/larger and younger/older firms, the population is broken in two based on median size (natural logarithm of total assets) 9.98 or median age (firm age in years at 30 June 2015) 7.34. See the model's general form in Section 3.4.

When the BLR is run with another fiscal year (i.e., 2015), the results are not altered (see Table A1). Namely, the only variable clearly not significant, likewise with the base model calculated by using the fiscal year 2014, is the control variable BOARDSIZE. In turn, in the case of independent variables, the signs of the coefficients remain the same and absolute values of the coefficients are very similar, like for the base model documented in Table 3. Thus, the results are robust with respect to the year chosen for analysis. Table A1 also shows the bootstrapping results for the year 2014. In a 100-sample

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bootstrapping, the signs of independent variables' coefficients do not change for the lower and upper 95% confidence intervals, thus the subpopulations of firms are quite similar to the findings obtained with the base regression model on the whole population documented in Table 3. The bootstrapping result is an expected scenario based on the age and size contexts in Table 5, which also do not indicate the change in variables' signs.

The results of the study are consolidated into Table 6, which in future research can be used as a benchmark for the association of timely accounting disclosure violation and corporate governance attributes in SMEs. As a contribution to the literature, we found that certain demographic attributes in the board make them less likely to be violators of the accounting regulation, while the power concentration and experience on the board can lead to varying violation behaviour, depending on what variable of the specific dimension is considered. In addition, corporate governance characteristics have more pronounced effects on the violation probability when the violation becomes more severe.

Table 6. Summary of the associations found in this study.

Corporate Governance Dimension	Variable	Base Effect on Violation	Context of Size	Context of Age	Context of Violation Length
Power Concentration (Proposition 1 inconclusive)	MAJORITY (H1a accepted)	Increases	Effect stronger in larger firms	Effect stronger in older firms	Effect stronger for severe violators
	BOARDOWNER (H1b rejected)	Decreases	Effect stronger in smaller firms	Effect stronger in younger firms	Effect stronger for severe violators
Demographic Diversity (Proposition 2 true)	MANAGERAGE (H2a accepted)	Decreases	Effect stronger in larger firms	Effect stronger in older firms	Effect stronger for severe violators
	WOMAN (H2b accepted)	Decreases	Effect stronger in smaller firms	Effect stronger in older firms	Effect stronger for severe violators
Entrepreneurial Experience (Proposition 3 inconclusive)	TENURE (H3a accepted)	Decreases	Effect stronger in smaller firms	Effect stronger in younger firms	Effect stronger for severe violators
	TIES (H3b rejected)	Increases	Effect stronger in larger firms	Effect stronger in older firms	Effect stronger for severe violators

Source: Own elaboration. Note: The first column includes the result for the three research propositions (either true, inconclusive or false; inconclusive means one true and one false evidence), while the second column includes the result for the acceptance/rejection of postulated six hypotheses.

5. Conclusions and Future Research

The objective of this research was to analyse the association between corporate governance characteristics and timely accounting information disclosure violations in private SMEs. Relying on an SME population in a developed European economy, namely Estonia, a set of theoretically motivated corporate governance (independent) variables was studied with annual report submission delays (as the dependent variable) in different logistic regression analyses. Evidence was found that certain demographic diversity in the board (as portrayed by women on the board and managers' older age) reduces the likelihood of violation, while variables portraying power concentration (managerial ownership and ownership concentration) and board experience (tenure length and business ties) provided mixed results.

Varying stakeholders can benefit from the results of this study. First, as non-timely disclosure has been proven to be associated with either financial distress or bankruptcy (Altman et al. 2010; Lukason 2013; Luypaert et al. 2016; Lukason and Camacho-Miñano 2019), creditors can account specific corporate governance characteristics in case of lengthy delays. In the latter circumstance, financial information from the past can already be obsolete, and thus, non-financial variables could be of remarkable value to predict distress or bankruptcy. Second, based on the results, state institutions monitoring timely submission have a better understanding, which corporate governance characteristics in association with firm size and age can lead to a law violation with a higher likelihood. The latter enables, for instance, the targeting of likely lengthy violators earlier to guarantee better transparency in the business environment. Last but not least, as the general foundation of this study was risk behaviour

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more broadly, the findings can provide valuable hints, which corporate governance characteristics could potentially be triggers for other risk behaviour types.

Finally, this paper is not free from limitations, being fully related to future research proposals. First, our paper is focused on one country, Estonia, and thus, our findings could be altered by the peculiarities of this country, for example, the accounting disclosure (violation) legal framework and its implementation. Future research could be conducted in other countries in order to check whether cultural or legal settings have an impact on how corporate governance is linked to accounting disclosure violations. Second, our approach to corporate governance is limited to a certain set of dimensions and variables portraying them, and thus, future research could be enhanced to account more for psychological or personal characteristics such as ethical level, past violation behaviour or past training/education of managers. Third, although the results were validated with another fiscal year, the violations could be studied in a longer time frame, to either detect certain disclosure pattern changes or even consider corporate governance changes, should these occur.

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Appendix A

Table A1. Model composed with another fiscal year 2015 and bootstrapping results for the year 2014.

Variable	B-2014	Sig.-2014	B-2015	Sig.-2015	BS 95% CI Lower	BS 95% CI Higher
MAJORITY	0.222	0.000	0.189	0.000	0.165	0.277
BOARDOWNER	−0.160	0.000	−0.169	0.000	−0.219	−0.089
MANAGERAGE	−0.018	0.000	−0.014	0.000	−0.019	−0.016
WOMAN	−0.079	0.000	−0.066	0.000	−0.124	−0.049
TENURE	−0.028	0.000	−0.014	0.000	−0.032	−0.024
TIES	0.064	0.000	0.053	0.000	0.057	0.074
BOARDSIZE	0.035	0.060	0.010	0.593	−0.001	0.066
Constant	0.009	0.855	−0.337	0.000	−0.069	0.095

Source: Own elaboration. Notes: BS—bootstrapping, CI—confidence interval. BS results were obtained with 100 bootstrap samples for the year 2014 population. B and Sig.—coefficient and *p*-value either for the whole populations from 2014 or 2015.

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