Timeliness of Financial Reporting Factors in Indonesian Manufacturing Companies (A Case Study of the Period 2017–2021)

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Abstract. This research examines the factors influencing the timeliness of financial reporting in Indonesian companies. The research uses a sample of manufacturing companies in Indonesia during the observation years of 2017–2021. The sample used to process the data consists of 166 observations. The analytical tool used is SPSS 25 with a multiple regression model. This research indicates that profitability and company size are independent of the timeliness of financial reporting. However, leverage and managerial ownership significantly adversely affect the timeliness of financial reporting.

Keywords: Profitability · Leverage · Company Size · Managerial Ownership · Timeliness of Financial Reporting

1 Introduction

Business activities in the capital market have high competition and are very complex, making information availability crucial for decision-making. Agung (2015) stated that the relevant characteristics of information - reliable, complete, timely, understandable, verifiable, and usable for decision-making in investing in the capital market - are located in financial statements. The obligation to submit financial statements for public companies is regulated in the Jakarta Stock Exchange Director's Decision Number: Kep-306/BEJ/07-2004 on Regulation Number I-E on the Obligation to Submit Annual Report Information, which must be submitted in the form of audited financial statements no later than the end of the third month after the Annual Financial Report date.

Leventis and Weetman (2004) explain that the timeliness of financial reporting must be timely so that the information contained therein retains its capacity to influence decision-making. A company's financial statements will be helpful if they are accurately and timely presented to their users for decision-making. This issue shows how important the timeliness of financial statement presentation to the public (Sawitri et al., 2019). The usefulness of financial statements will be maintained if they are available to financial

H. Maulana et al. (Eds.): ICOEBS 2022, AEBMR 247, pp. 1088–1097, 2024.
https://doi.org/10.2991/978-94-6463-204-0_89

statement users within a reasonable period after the reporting. Therefore, companies must be able to issue financial statements on time (Fujianti and Satria, 2020).

Profitability is a financial ratio measuring a company's ability to earn profits with all its resources, such as company assets, sales, and capital (Aigienohuwa and Ezejiofor, 2021a). The timely submission of financial statements to the public can influence the decision-making process of financial statement users, including investors, creditors, government, and other parties who need profitability ratios to determine the entity's ability to generate profits.

Leverage indicates how much debt is used to finance the company and increase the wealth of company owners (Aigienohuwa and Ezejiofor, 2021b). Management tends to delay the submission of financial statements to the public that contain bad news about the company. Thus leverage affects the timeliness of financial reporting.

Company size can be expressed in total assets, total sales, net income, tax expenses, and others (Muniroh and Sasongko, 2023). The larger the total assets, market capitalization, and sales, the larger the company's size. The more sales, the more money turnover. Similarly, the larger the assets, the more capital invested, and the larger the market capitalization, the more well-known it will be in society. Companies can be classified as large companies that will increasingly attract government attention and tend to report financial statements on time.

Managerial ownership is the percentage of shares held by management involved in company decision-making, including commissioners and directors. The ownership structure of a public company can be ownership of shares in the public company. Ownership must consider ownership by insiders or company management (inside ownership) and outsiders (outsider ownership). Thus, managerial ownership affects the timeliness of financial reporting.

This study aims to test the profitability, leverage, company size, and managerial ownership in influencing the timeliness of financial reporting in manufacturing companies in Indonesia in the observation period from 2017 to 2021.

2 Theoretical Basis

2.1 Agency Theory

The agency theory explains the existence of information asymmetry between the manager as an agent and the owner (shareholder) as the principal. As the owner, the principal needs more information about the agent's performance and decision-making, thus not knowing how the agent contributes to the company's results (Jensen and Meckling, 1976). Therefore, the company's management must be supervised and controlled to ensure that it is carried out by applicable regulations and with full compliance to reduce information asymmetry. Timely and accurate financial reporting can reduce such information asymmetry.

2.2 Signaling Theory

Companies are incentivized to voluntarily report their financial statements to the capital market, even though they are not obliged to do so. Voluntary disclosure is necessary to compete in the market and with other companies to minimize risks (Lys et al., 2015). The signaling theory in accounting is used to assess the existence of private information. For example, private information sometimes indicates that the company's value exceeds the current stock price. To transfer information, managers can disclose it directly.

2.3 Framework

The timeliness of financial reporting is influenced by profitability. A high level of profitability is believed to make companies report their financial statements on time because it can generate good news signals for the issuers. The higher the company's profitability, the more likely it is to report its financial statements on time. This situation means that profitability affects the timeliness of financial reporting (Fig. 1).

The results of research conducted by Savitri et al., (2019), Diliasmara and Nadirsyah (2019) and Erliza et al., (2019) provide empirical evidence that profitability affects the timeliness of financial reporting. Therefore, based on theory and research findings, the following hypothesis is proposed:

H1: Profitability affects the timeliness of financial reporting.

Leverage can also affect the timeliness of financial reporting. With a low level of leverage, a company shows low financial risk because it has little debt to external parties. It means that the company is considered safe and does not have financial difficulties, so it tends to report its financial statements on time. It means that leverage affects the timeliness of financial reporting.

The results of research conducted by Sutomo et al., (2020) and Erliza et al., (2019) provide empirical evidence that leverage affects the timeliness of financial reporting. Therefore, based on theory and research findings, the following hypothesis is proposed:

H2: Leverage affects the timeliness of financial reporting.

One of the factors that affect timeliness is company size. The size of a company is also influenced by transaction intensity, variability, and operational complexity. The larger a company is, the more management tends to be timely in financial reporting

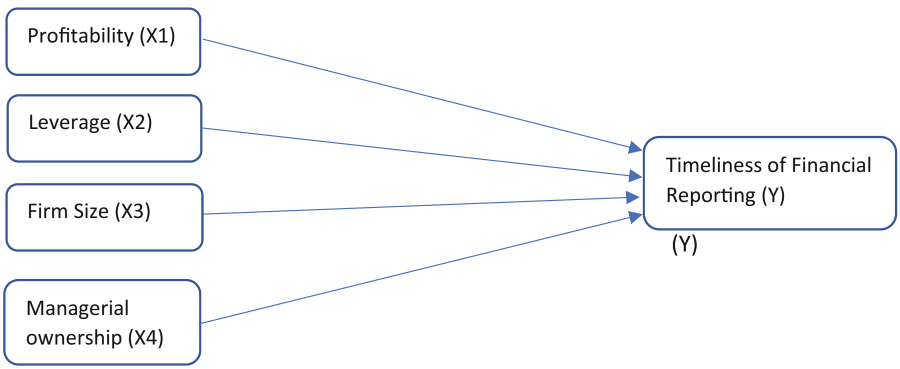

Fig. 1. Conceptual Framework

to maintain the company's image in the eyes of the public. Therefore, company size influences the timeliness of financial reporting.

Empirical evidence from research conducted by Kasin and Arfianti (2018) and Utami and Yennisa (2017) supports the hypothesis that company size affects the timeliness of financial reporting. Therefore, based on theoretical explanations and research findings, the following hypothesis is proposed:

H3: Company size influences the timeliness of financial reporting.

The ownership structure is essential in determining a company's value. Two aspects must be considered are the concentration of ownership by external parties and managers, often referred to as managerial ownership. Therefore, managerial ownership affects the timeliness of financial reporting.

The proportion of managerial ownership can affect a company's performance, directly impacting the timeliness of financial reporting. The larger the proportion of managerial ownership in a company, the more motivated and willing managers are to work better and increase company performance, resulting in timely financial reporting. Therefore, managerial ownership influences the timeliness of financial reporting.

Empirical evidence from research conducted by Arthasari and Dwiati, (2022); Pradnyawati et al., (2022); Dufrisella and Utami, 2020) supports the hypothesis that managerial ownership influences the timeliness of financial reporting.

Based on theoretical explanations and research findings, the following hypothesis is proposed:

H4: Managerial ownership influences the timeliness of financial reporting.

3 Research Methods

This research uses a quantitative approach with secondary data. The study uses regression equations with SPSS 25 analysis tool. The research data were obtained directly from financial statement reports of companies listed on the Indonesia Stock Exchange from 2017 through 2021. The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021. The criteria used in the sampling process are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021.
2. Companies that wholly and consistently publish annual reports in Indonesian Rupiah currency between 2017 and 2021.
3. Companies that have continuously generated positive profits from 2017 to 2021.
4. The company's fiscal year ends on December 31.

3.1 Dependent Variable

The dependent variable in this study is the timeliness of financial reporting. The date of financial report submission is taken from the auditor's report date. Companies are categorized as timely if their financial report is submitted before March 31 or within 90 days, while companies that submit their financial report after March 31 are categorized as late. The timeliness of financial reporting is measured by the number of days between the report date and the audited publication date.

3.2 Variable Independent

3.2.1 Profitability

Kusumawati et al. (2018: 40) define profitability as a measure of a company's ability to generate profits during a specific period and also to reflect the level of management effectiveness in operating its activities. This study measures profitability using return on total assets (ROA). The proxy for measuring profitability uses the formula by Kusumawati and Rosady, (2018) as follows:

$$\text{ROA} = \frac{\textit{Net Income After Tax}}{\text{Total Assets}}$$

3.3 Leverage

Leverage shows the company's ability to meet its debt or obligations using its assets. Companies with much debt are considered unhealthy because they can reduce profits. Researchers choose the debt-to-equity ratio (DER) as an indicator for calculating leverage by dividing total liabilities by total equity, that is:

$$\text{DER} = \frac{\text{Total Debts}}{\text{Total Equity}}$$

3.4 Company Size

The size of a company can be seen from the size of the company, which can be measured using total assets, the number of employees working, the stock market value, and others. In measuring company size, the research uses total assets in the audited financial statements at the end of the period. Therefore, company size uses the total asset approach. The logarithmic value of total assets can measure this variable.

$$\text{Company Size} = \text{LN (Total Assets)}$$

3.5 Managerial Ownership

Managerial ownership is measured using the percentage of shares owned by management from the total number of shares outstanding. Managerial ownership is essential because it is related to the operational control of the company, which will participate in decision-making and policies regarding the accounting methods applied to the companies they manage (Hapsoro and Shufia, 2018). The measure of managerial ownership used in this study is as follows:

$$\text{Managerial Ownership} = \frac{\text{Total Managerial Shares}}{\text{Total Shares}}$$

Table 1. Descriptive statistics table

	Timeliness of Reporting	Profitability	Leverage	Company Size	Managerial Ownership
N	166	166	166	166	166
Means	80.32530	0.07174	0.90001	29.06978	0.09473
std. Deviation	23.73930	0.52755	0.667193	1.603921	0.130752

Source: Data processed

4 Result and Discussions

4.1 Sample Determination

Based on the sample criteria used in this research, a total of 166 observations were obtained from manufacturing companies in Indonesia from 2017 through 2021. The number of samples used exceeds the minimum sample size (n = 30) in research conducted in correlational and causal-comparative studies.

4.2 Descriptive Statistics

In descriptive statistical analysis, the researcher will describe the results of calculating each variable's mean and standard deviation. The table of descriptive statistical analysis is presented as follows:

The result of the statistical output in Table 1 shows that the N value or the number of research data is 166 observations. The average value of timeliness of financial reporting is 80.32530, with a standard deviation of 23.73930. The average profitability value is 0.07174, with a standard deviation of 0.52755. The average leverage value is 0.90001, with a standard deviation of 0.52755. The average value of company size is 29.06978 with a standard deviation of 1.603921. Finally, the average value of managerial ownership is 0.009473, with a standard deviation of 0.130752.

4.3 Normality Test

The normality test used in this study is the central limit theorem (CLT), where data with a large sample size of more than 30 observations is assumed to have a normal distribution. The observation data in this study consists of 166 samples, which already fulfills the standard distribution assumption.

4.4 Multicollinearity Test

Table 2 shows that the tolerance values are above 0.1, and the VIF values are below 10. Based on these results, it can be concluded that there is no multicollinearity, which means there is no high correlation between each variable.

Table 2. Multicollinearity Test

Model		Collinearity Statistics	
		tolerance	VIF
1	(Constant)		
	Profitability	0.793	1,260
	Leverage	0.626	1,598
	Company Size	0.733	1.365
	Managerial Ownership	0.783	1,278

Source: Data Processed

Table 3. Autocorrelation Test

	Unstandardized Residual
Test Value [a]	0.78782
Cases < Test Value	83
Cases >= Test Values	83
Total Cases	166
Number of Runs	91
Z	1,090
Asymp. Sig. (2-tailed)	0.275

Source: Data Processed

4.5 Autocorrelation Test

Table 3 shows the output results of the autocorrelation test using the run test, with an Asymp Sig (2-tailed) value of 0.275, which is greater than 0.05. Therefore, it is concluded that there is no autocorrelation in the regression model in this study.

4.6 Heteroscedasticity Test

The heteroscedasticity test was performed using the Glejser test. Table 4 shows that the significance level is above 0.05, indicating no heteroscedasticity.

4.7 Immediate Effect Test

Table 5 shows the output results of direct testing. The research model test has an F Sig value of $0.048 < 0.05$, indicating that the model in this study is FIT. The coefficient of determination (R2) of the study is 6.7%. The t-test hypothesis shows that hypothesis 1, the effect of profitability on the timeliness of financial reporting, is rejected because the sig value is $0.288 > 0.05$. Hypothesis 2, the effect of leverage on the timeliness

Table 4. Heteroscedasticity Test

Model		t	Sig
1	(Constant)	0.571	0.569
	Profitability	1,273	0.205
	leverage	0.466	0.642
	Company Size	−0.111	0.912
	Managerial Ownership	0.169	0.866

Source: Data Processed

Table 5. Direct influence test results

	Coeff	**Std Error**	**t**	**Sig**
Constant	154,839	39,266	3,943	0.000
Profitability	−41,141	38,581	−1,066	0.288
Leverage	−7,643	3,435	−2,225	0.027*
Company Size	−2,059	1,320	−1,560	0.121
Managerial Ownership	−39,522	15,671	−2,522	0.013*
R Square	0.067			
F Statistics	2,296			
F Sig	0.048			
Var Dependent: precision time reporting				

Source: Data processed

of financial reporting, is accepted because the sig value is 0.027 < 0.05. Hypothesis 3, which is the effect of firm size on the timeliness of financial reporting, is rejected because the sig value is 0.121 > 0.05. Hypothesis 4, the effect of managerial ownership on the timeliness of financial reporting, is accepted because the sig value is 0.013 < 0.05.

4.8 Discussion

The study reveals that hypotheses 1 and 3 are rejected due to their sig values > 0.05, while hypotheses 2 and 4 are accepted as their sig values are < 0.05. Profitability does not have a significant effect on the timeliness of financial reporting. Companies with profit may need better financial reporting timeliness. The size of the company has little effect on financial reporting timeliness either. Companies with large or small assets do not guarantee good financial reporting timeliness.

Leverage has a significant negative effect on financial reporting timeliness. Companies with low leverage tend to have high timeliness of financial reporting, while companies with high leverage tend to have low timeliness. Managerial ownership also has a significant negative effect on financial reporting timeliness. Managers with high ownership tend to have low timeliness in financial reporting, while managers with low ownership tend to have high timeliness.

5 Conclusion

This research adds value by identifying the factors that affect the timeliness of financial reporting in manufacturing companies in Indonesia. First, a company's total debt harms the timeliness of financial reporting. Whether high or low, the level of debt impacts the performance of a company's financial reporting. Management ownership harms the timeliness of financial reporting. High management share ownership impacts the delay of financial reporting, resulting in delayed reporting to financial statement users.

However, this research has limitations, such as the exclusion of companies from other industry sectors and the need to examine other variables or proxies related to the timeliness of financial reporting. Future research can add other variables related to company financial reporting.

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