International Journal of Business, Law, and Education
E-ISSN : 2747-1934X
Publisher: IJBLE Scientific Publications Community Inc.
Volume 5, Number 1, 2024
https://ijble.com/index.php/journal/index

Analysis of Factors That Influence the Quality of Company Financial Reports

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ABSTRACT
This research examines the influence of company scale, ownership composition, and level of market concentration on the quality of financial reports of manufacturing companies listed on the Indonesia Stock Exchange (BEI). The data comes from the annual financial reports of 120 companies during the 2015-2017 period. The purposive sampling method was used for sample selection. The data analysis results show a significant correlation between independent variables and the quality of financial reports. The regression test results show that company scale, ownership composition, and level of market concentration significantly influence the quality of financial reports. These findings indicate that companies with large sizes, consolidative ownership structures, and market dominance tend to produce higher-quality financial reports. The implications of this research highlight the importance of good information management in a business context and the need for transparency and accountability in corporate financial reporting.

Keywords:
Quality of Financial Reports,
Company size,
ownership structure,
Market Concentration

INTRODUCTION

The most vital thing in a business context is information. The availability of quality and complete information is quite essential for running business operations. This is because information directly impacts a business's efficiency, effectiveness, and economic welfare. However, procuring information often causes additional expenses, so it is not surprising that there is sometimes a tendency to keep data secret from other parties, also known as information inequality (Rachmawati & Fardinal, 2017). Usually, situations where there is a difference in information between the seller and the buyer occur when the seller has access to broader information than the buyer. Agency theory implies the existence of an information imbalance between managers (agents) and owners (principals) (Jensen & MECKLING, 2014).

In the context of company financial reports, profitability (profit) is one thing that is considered significant and essential and is often considered an important indicator that reflects the company's value for stakeholders (Setiany & Wulandari, 2015). However, information regarding profits in a company's financial statements cannot always be completely reliable because it is often the target of manipulation by opportunistic management to maximize their interests. Moreover, it may result in losses for shareholders and investors. (Budyastuti & Khoirurosida, 2019). This opportunistic practice often involves selecting specific accounting policies determined by implementing Financial Accounting Standards (SAK), which enable companies to manage profits according to their wishes.(Lehdiara & Nengzih, 2020). SA theory and study of profit smoothing has become a popular topic of discussion, and almost all companies still apply it (Setiyawati et al., 2018). In financial reporting, profit management actions were exposed in scandalous incidents involving companies in Indonesia, such as PT. Kimia Farma Tbk and also PT. Indofarma Tbk, as well as in events in the banking sector that have occurred, such as Lippo Bank. In the first semester of 2002, PT. Kimia Farma Tbk, a pharmaceutical company, is suspected of overstating profits in its financial reports. Based on an audit conducted by Bapepam in 2002, in the disclosure, errors were found in the financial statements showing that net income at the end of 2001 reached 32.7 billion, which is equivalent to 2.3% originating from total sales and 2.4 % of net earned by PT Kimia Farma Tbk. Revenue is one of the main factors in assessing company performance and is often the basis for decision-making. Management can manipulate financial reports deliberately by choosing accounting policies, known as earnings management practices or earnings manipulation, for specific interests (Samosir & Setiyawati, 2019).

Previous studies on the quality of financial reports involve studies conducted by Fanani et al.(2009), which investigate aspects that influence the quality of financial reporting and investor confidence. These factors include operational period, sales fluctuations, company scale, length of existence, loss ratio, debt level, liquidity, industry classification, institutional ownership, management ownership, market share, auditor reputation, and investment growth. These factors have been proven to influence the quality of financial reports. Other research by Setyawati(2013) investigates the elements that influence the quality of financial reporting and their impact on investment efficiency. The research findings conclude that the company's size, the length of time the company has been established, the loss ratio, and the level of debt play a significant, crucial role in determining the quality standards of financial reports. Meanwhile, Rodrigo S. Verdi (Biddle et al., 2009) based on his research entitled "Financial Reporting Quality and Investment Efficiency".

In his research, Verdi investigated underinvestment as a related factor. This study examines underinvestment and overinvestment using calculations of accrual quality, company size, and cash flow. Findings from the research show a negative correlation between the quality of financial reporting and the level of underinvestment and overinvestment. Another research belongs to Fanani (2009) entitled "Financial Reporting Quality: Various Factors and Determinants of Economic Consequences". In this research, the independent variables include internal aspects of the company that are connected to the inherent characteristics of the company, totaling eight factors. The evaluation of eight variables that influence the quality of financial reports found that three have an essential impact on setting financial report quality standards. Meanwhile, research by Budianto and Payamta (2014) entitled "Study of the Influence of Auditor Quality, Independence and Audit Opinion on the Quality of Company Financial Reports" researched manufacturing companies under the Jakarta Stock Exchange (BEJ). The findings from this research indicate that the auditor's opinion influences the quality of the company's financial reports.

METHODE

1. Types of research

This research is a causal investigation that aims not only to find correlations between independent and dependent variables but also to evaluate the strength of the relationship. This research examines how company scale, ownership composition, and market competition intensity affect financial reports' reliability.

2. Population, Sample, Sampling Technique

This study focuses on research on a group of manufacturing companies listed on the Indonesia Stock Exchange (BEI). The sampling approach is called purposive sampling, where the researcher selects samples based on predetermined criteria. These criteria include the company's consistency in being listed on the IDX from 2015 to 2017, publication of annual financial reports in Rupiah, audits by a Public Accounting Firm, and data availability for the 2015-2017 period. With this method, 120 companies that met these criteria were identified as samples for research. It is hoped that this research will provide in-depth insight into the financial performance and factors that influence manufacturing companies under the IDX during the period studied. A method called purposive sampling ensures the selection of a representative sample so that the research results are reliable and relevant for stakeholders in the Indonesian manufacturing industry.

3. Research Variables, Operational Definitions, and Measurements

Variables in this research, following the proposed hypothesis, include:

a) a) The quality of financial reports or the meaningfulness of information can be assessed using ratio metrics. Evaluation of the quality of financial reports or the meaningfulness of information can be calculated using the formula:

$$\text{Earnings per share} = \frac{\text{Net profit}}{\text{Number of shares outstanding}}$$

b) Company dimensions can be assessed using ratio parameters. Company scale can be calculated using a predetermined formula:

$$\text{Company size} = \sum Log\ TA$$

c)Ownership structure variables can be assessed using ratio parameters. The composition of company ownership can be calculated using a predetermined formula:

$$\text{Ownership structure} = \frac{\text{Number of shares of management}}{\text{Total saham}}$$

d) The market concentration variable can be assessed using the ratio parameter. The level of market concentration can be calculated using the formula below:

$$\text{Market concentration} = \frac{\text{Sales}}{\text{Total industry sales}}$$

4. Data analysis technique

In the context of data analysis, it involves several steps, including checking basic assumptions such as normality, autocorrelation, multicollinearity, and heteroscedasticity. In addition, a regression analysis is carried out using the specified equation:

$$Y_{KLK} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Information:
YKLK means Financial Report Quality
α means Constant
β1-β3 means Regression Coefficient
X1 means Information Asymmetry
X2 means Ownership Structure
X3 means Market Concentration
ε means Error term, namely the level of error in research

RESULTS AND DISCUSSION

1. Classic assumption test

Residual normality checks are carried out to evaluate whether the disturbances in the regression model follow a normal distribution. The test results show that information asymmetry, company scale, and earnings management practices have distributions that correspond to normal. Although the multicollinearity test results showed high VIF for several variables, the regression model had no significant multicollinearity trend. The scatter graph between SRESID and ZPRED shows an even point distribution, indicating the model's absence of heteroscedasticity.

2. Autocorrelation Test

Autocorrelation testing is carried out to evaluate whether there is a correlation pattern between sequential values in the data. In this case, the calculated DW value obtained is 2.121. After that, a comparison of the DWcount value with the DWtable value is carried out. For this calculation, the parameters N=120 (number of observations), k=3 (number of independent variables), and the significance level α=0.05 are used. The calculation results show that the DWtable value has a lower limit (dL) of 1.6513 and an upper limit (dU) of 1.7536. From this comparison, it was found that the calculated DW value (d) is between the lower and upper limits in the table (dU < d < 4 - dU). So, it can be concluded that there is no evidence of autocorrelation in the data analyzed in the study.

3. Correlation Coefficient (R) and Determination Coefficient of Determination (R2)

Table: I Goodness of Fit Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,493[a]	,243	,223	,81688

a. Predictors: (Constant), Company Size, Ownership Structure, Market Concentration
b. Dependent variable: Lap Quality. Keu
Source: Data Processing Results, (2009)

The research results show a correlation between Company Size, Ownership Structure, Market Concentration, and Financial Report Quality, with a coefficient of 0.493. This figure indicates a moderate and positive relationship, considering that the R value ranges from 0.40 to 0.60. From the calculated coefficient of determination, namely Adjusted R Square of 0.223, it can be concluded that around 22.3% of the variation in the Quality of Financial Reports can be explained by the three variables selected in this research. However, around 77.7% of other variations cannot be explained by the factors that have been studied.

4. Multiple Regression Analysis

A general description of the results of the regression test of the research variables can be found in table 2.

Table: II Coefficient Regression Test

Model		Not standardized		Not standardized	t	Sig.
		B	Std. Error	Beta		
1	Constant	-2,418	1,533		-1,577	0,118
	Company Size	-,016	,007	-,213	-2,447	0,16
	Ownership Structure	,384	,121	,278	3,170	,021
	Market Concentration	,532	.180	,240	2,953	,008

a.Infinite Variable: Quality of Financial Reports
Source: Data Processing Results, (2019)

5. **T test Information regarding the test results is shown clearly in the table 3.**

Table: III Individual Test (Partial)

Variabel 1	^{t}Calculate	ρ-value	Decision
X_1	-2,447	0,016	H1 Accepted
X_2	3,170	0,021	H2 Accepted
X_3	2,953	0,008	H3 Accepted

Sumber: Hasil Olah Data, (2019)

6. F test

The results of the testing from this research are shown in table 4.

Table: IV Test F/Anova

Anova^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	28,840	3	8,280	12,408	0,000^a
	Residual	77,405	116	,667		
	Total	102,245	119			

a. Predictors: (Constant), Company Size, Ownership Structure, Market Concentration
b.Limited Variable: Lap Quality. Keu
Source: Data Processing Results, (2019)

Analysis was carried out simultaneously on the influence of the variables Company Scale, Ownership Composition, and Level of Market Concentration on the Quality of Financial Reporting. The results of data analysis are presented in Table 5.

Table: V Simultaneous Test

F_{hitung}	ρ-value	Decision
12,408	0,000	H4 Accepted

Sumber: Hasil Olah Data, (2019)

After carrying out a series of tests, the conclusion was drawn that Company Size, Ownership Structure, and Market Concentration have an important impact on the Quality of Financial Reports. This illustrates how relevant these variables are in determining financial report quality standards.

7. Company Size Influences the Quality of Financial Reports

This research measures company size based on its total assets. In this perspective, the greater the company's total assets, the better its financial statements. Large companies tend to be more stable and predictable in their operations, reducing the risk of errors in forecasts. They can also diversify more effectively, reducing the impact of mistakes through varying portfolios and business activities. However, large companies also have sensitive political risks and high political costs compared to small companies (Gu, Z., Lee, C. W. J., & Rosett, 2002).

Separate test results show that the variable Company Size (X1) on the Quality of Financial Reports (YKLK) has relevant significance. This is indicated by the t value of -2.447 with a significance level of 0.016, illustrating an important negative relationship between company size and the quality of financial reports, in accordance with the assumptions in hypothesis H1. This indicates that the larger the company size, the better its operations are predicted, reducing errors in financial reporting, which ultimately improves the quality of reports. This finding is in line with previous research, confirming that company size influences the quality of financial reports, as stated by Zaenal, Ningsih, & Hamidah in (Fanani et al., 2009).

8. Ownership Structure Influences the Quality of Financial Reports

An ownership structure reflects how much control of company management is owned by shareholders. Outside parties who inject their capital into the company are considered to have the position of owner of the company who has certain authority within it. The shareholder then appoints a company manager who is tasked with running the company's operations every day.

Detailed analysis shows that Ownership Structure (X2) has a fairly large impact on the Quality of Financial Reports (YKLK), with a t value of 3.170 and a significance of 0.021, indicating a significance below 0.05. In conclusion, ownership structure influences the quality of financial reports in a positive and important way, in line with hypothesis H2. Companies with dominant management tend to produce better financial reports because managers are less influenced by external pressures. This reduces the possibility of unethical managerial behavior to serve the interests of external or institutional shareholders. Thus, management's dominance in share ownership requires managers to be responsible for the good and bad consequences of shareholder decisions, which ultimately has a particular impact on the quality of the company's financial reports produced.

9. Market concentration influences the quality of financial reports

A market concentration refers to the dissimilarity in the number and ratio of suppliers and consumers in a market. This level of dominance highlights how a small number of economic actors control the vast majority of resources. Market dominance can also be measured by analyzing the number of companies in the same industry. The test results using a detailed method show that the relationship between market dominance (X3) and financial report quality (YKLK) produces a statistical value of 2.953 with a significance level of 0.008. The findings show that the significance level is below the value of 0.05. This implies that market dominance has a positive and meaningful impact on the quality of financial reports, in accordance with hypothesis H3 proposed in the study.

The findings from this research confirm that when a company's market concentration is higher, the stronger its position in the industry. Companies that have a high level of market concentration generally have the desire to maintain this position because this reputation is considered profitable by stakeholders, especially investors and other external parties. To maintain a good image, the company will try to provide a complete report about the condition of the company to shareholders, in accordance with findings that are contrary to the Nuswantara theory (2004), which revealed that companies that focus on rapidly growing industries have a tendency to implement more conservative accounting policies in the future, a result that is also confirmed by previous research (Fanani et al., 2009).

Discussion

The findings of this research can be analyzed using the concept of agency theory, which explains the relationship between shareholders and managers within a company. In this context, ownership structure has significant implications for the quality of financial reporting, as mentioned in the study by Gu, Z., Lee, C. W. J., & Rosett (2002). Managers with dominant shareholdings tend to have greater incentives to produce high-quality financial reports because they are directly involved in decision-making and have interests aligned with shareholders.

Furthermore, the results of this research can also be understood through the lens of efficient market theory, which assumes that stock prices reflect all publicly available information fairly. In this context, high market concentration can be interpreted as an indicator that a company holds strong market power, which may provide incentives for the company to provide more comprehensive and accurate financial reports to shareholders, consistent with agency theory cited from Fanani et al. (2009).

CONCLUSION

Statistical analysis data shows that factors such as company size, ownership structure, and market focus have a significant and favorable impact on the Quality of Financial Reports. This indicates that each of these variables individually has a significant influence on the quality of the company's financial reports. On the other hand, the F test results show that these factors collectively have an important impact on the Quality of Financial Reports. Of course, this confirms that not only these variables individually, but also collectively have a crucial role in determining the quality of a company's financial reports.

Suggestions for further research include expanding the scope of research time to provide a more comprehensive picture of the influence of the economic situation on the quality of financial reports. It is also recommended that research expand the sample group to include companies from various sectors, as well as consider adding additional variables such as company performance, time to delay financial reports, and company age. The hope is that this will increase overall understanding of the factors that influence the integrity and reliability of financial reports from various perspectives.

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