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The Impact of Financial Factors and Public Ownership on the Timeliness of Financial Reporting: Evidence from Indonesia

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Abstract: *The objective of this study has been to examine the combined effect of financial factors and public ownership on the timeliness of financial reporting. The paper used SPSS version 22 to examine the effect of public ownership and financial factors on financial reporting timeliness. A sample of 25 listed Indonesian firms (consumer goods industries) covering the period of 2014 to 2016 was used for the study. The findings of the study showed that public ownership had a negative relationship with the timeliness of financial reporting which is contrary to the result of most previous studies. The results of this study did not find any significant relationships between the financial factors (profitability and capital structure) and financial reporting timeliness. Furthermore, the results of this study provide beneficial information to investors in Indonesia to evaluate financial factors and public ownership on the timeliness of financial reporting.*

Keywords*: Financial Reporting Timeliness, Leverage, Profitability, Public Ownership*

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I. Introduction

An important characteristic of financial information is the timeliness of the financial reporting. Annual reports that are reported sequentially provide relevant information for users of financial statements. The timeliness of the financial statements can increase the relevance which is a qualitative characteristic of financial reporting regulated by the International Accounting Standards Board (FASB, 2009). Information asymmetry between management and shareholders can be minimised by timely financial reporting by providing information on company performance in Indonesia.

Growing capital markets and other factors, such as, reducing insider trading, leakage, and rumours of timely financial reporting are important issues (Owusu-Ansah, 2000). Companies in capital markets in developing countries, such as Indonesia, tend to provide late and less information when releasing their annual reports than companies in developed countries (Errunza & Losq, 1985). Because financial reporting has the aim of providing information to external users in making decisions, creditors and investors, when making predictions and decisions, use the financial information. Therefore, the company ensures the availability of current information and provides financial information to the public as quickly as possible.

The company makes financial reports to convey information to the users of the financial statements about the resources it has and the company's performance and shows the results of the accountability of the resources used by the management. The benefits of the information contained in the financial statements diminishes with time. Therefore, the timely delivery of the financial statement is very important. The faster it is delivered, the more the information contained therein is useful, and users of the financial statement can make better decisions, both in terms of quality and timeliness. The Indonesia Stock Exchange noted that there were 7 issuers who were late in delivering their 2011 financial statements and some of them were subject to sanctions. One of several companies whose shares were threatened in the IDX delisting because of late reporting of the financial statement was PT Truba Alam Manunggal Engineering Tbk (TRUB). TRUB conveyed an underperformance in 2011. The Company in the period of December 31, 2011 recorded a net loss of IDR 454.7 billion or a jump of 724.4% when compared to the net loss in the same period in 2010, amounting to IDR 55.15 billion. In TRUB's financial statements published throughout 2011, the Company recorded an increase in net loss per basic share from IDR 3 per share to IDR 29 per share. The total assets of the Company in 2011 fell to IDR 3.96 trillion compared to the same period in the previous year with IDR 6.41 trillion. From previous studies, it can be said that the variables that influence the timeliness of the delivery of financial statements differ. In this study, three variables were used, namely profitability, leverage, and public ownership, and the research was conducted with the title "The impact of financial factors and public ownership on the timeliness of financial statements".

II. Literature Review

2.1 Timeliness of Financial Reporting

The agency theory suggests that shareholders require protection because management may not always act in the best interests of the shareholders (Fama, 1980; Jensen & Meckling, 1976). The agency theory states that when a manager does not own all of the company's shares, there will definitely be a latent conflict between the manager and the shareholders. This results in agency problems, such as over-spending of suboptimal investment decisions, as a result of privileges and information asymmetry (Jensen & Meckling, 1976).

The application of good corporate governance practices is one solution to the agency problem. The Organization for economic cooperation and development (OECD, 2004) noted that transparency is one element of good corporate governance. In good corporate governance practices for reducing agency problems, one of the things that needs to be considered is reducing the reporting gap (Blanchet, 2002; Prickett, 2002; and Kulzick, 2004). This illustrates that the timeliness of reporting and disclosure of financial statements is an element of ensuring that there is no information asymmetry. When making decisions, creditors and investors use the latest information available.

Timeliness is an important qualitative aspect of financial reporting (Beest, Braam, & Boelens 2009). Chambers and Penman (1984) defined timeliness in two ways, namely first, timeliness is defined as a late reporting time from the date of the financial statements to the date of reporting. Second, timeliness is determined by the timeliness of the reporting relative to the expected reporting date. There are three criteria for delays to determine the stated timeliness as presented by Dyer and Mc Hugh (1975): First, preliminary lag, which is the interval of the number of days between the date of the financial statements until the receipt of the final preliminary report by the exchange. Second, auditors report lag as being the interval of the number of days between the date of the financial statements to the date the auditor's report is signed. Third, total lag, which is the interval of the number of days between the date of the financial statements to the date of receipt of the report published by the exchange. In Indonesia, regulations regarding timeliness are reported in Law No.8 of 1995 and Bapepam Regulation No. X.K.2 Bapepam Chairperson Decree No.80/PM/1996, concerning the obligation to submit periodic financial statements in every public company. They must submit an audited annual financial report no later than 120 days from the end date of the financial year.

2.2 Interaction between Leverage and Financial Reporting Timeliness

Companies with high leverage report financial statements faster than companies with less leverage. Based on the agency theory, this argues that agency costs are higher in companies with higher leverage. Companies with high leverage have incentives to invest suboptimally, usually including debt holders' clauses in their debt contracts that limit management activities (Jensen & Meckling, 1976). Rapid disclosure allows debt holders to reassess their long-term financial performance (Owusu-Ansah, 2000). On the contrary, Al-Ajmi (2008) found that companies with high leverage tended to postpone the publication of annual reports, and had longer audit report lag times. In other words, companies with high leverage report slower than companies with lower leverage. With a hight debt ratio will incur debts (Owusu-Ansah, 2000; Carslaw & Kaplan, 1991), especially when the economy is bad. A study in New Zealand (Carslaw and Kaplan, 1991) found a significant relationship between lag reporting time and leverage for one year. Obligation, thus, like liquidity, it is an indicator of a company's financial health. Previous studies have found an association between audit delay and leverage on total assets (Al-Ajmi, 2008; Boonlert-U-Thai, et al., 2002; Conover, et al., 2007; and Owusu-Ansah, 2000). High leverage means bankruptcy risk which results in increased time needed by auditors to complete their substantive tests of transactions and delays reporting. Therefore, the following hypothesis was developed:
H_1: Capital structure is associated with the timeliness of financial reporting.

2.3 Interaction between Profitability and Financial Reporting Timeliness

The high profitability of companies is expected to affect the timeliness of their financial reporting. Companies with good performance will have a signalling effect in the market for corporate securities (Watts & Zimmerman, 1990). An increase in market value due to positive performance will increase the market value of shares and, conversely, companies with negative performance will provide bad news. Therefore, company management will report good performance (good news) in a timely manner to the public (Mahajan & Chander, 2008). Previous researchers found that, companies with negative performances (loss) tended to be late in reporting information from the company (Al-Ajmi, 2008; Haw, et al., 2000; Ismail & Chandler, 2004; Owusu-Ansah, 2000; and Mahajan & Chander, 2008).

Some empirical evidence (Annaert, et al., 2002; Dyer and McHugh, 1975) found no relationship between profitability and total reporting and there was no significant relationship between profitability and financial reporting time lags. Davies and Whittred (1980) found that small and large companies were significantly timelier in financial reporting than medium-sized companies. On the contrary to Dyer and McHugh (1975) who found that profitability had no significant effect on late reporting. Research in New Zealand by

Carslaw and Kaplan (1991) found that total assets and profitability had a significant effect on the accuracy of financial reporting. This was supported also by Givoly and Palmon (1982) who found that the timeliness of reporting was associated with information from the annual report. Thus, this study tested:

H_2: Profitability is associated with the timeliness of financial reporting.

2. 4 Interaction between Public Ownership and Financial Reporting Timeliness

Public ownership of a public company is a company that publishes all the information about the company's financial statements to the public, so that the public or external parties of the company can easily obtain information about the financial statements of the public company. In a public company, there is a structure of corporate ownership; ownership structure is a proportion of the share ownership owned by the company manager (managerial ownership), institutional (institutional ownership), individual parties (individual ownership), public / community parties (public ownership), and government (government ownership) (Shinta & Ahmar, 2011). Public ownership is the ownership of the general public in the shares of public companies. Outside owners are considered different from managers because they are not very involved with the companies' daily business affairs. This variable is measured by looking at how much stock is owned by the public (Hilmi & Ali, 2008). Thus, this study tested:

H_3: Public ownership is associated with the timeliness of financial reporting.

III. Methodology

The sample of the study was comprised of 25 consumer goods industry listed companies in the Indonesian stock exchange for the period between 2014 and 2016. The timeliness of the delivery of financial statements was no later than 120 days from the end date of the fiscal year; if on time, then it was given a value of 1 and the value 0 otherwise. Capital structure was the proportion of total liabilities represented by total assets (Annaert, et al., 2002). Profitability was the proportion of earnings represented by total assets (Conover, et al., 2007). Public ownership was measured by the proportion of the general public ownership of the company's shares outstanding in the public (Hilmi & Ali, 2008).

IV. Analysis of the Results

Table 1 shows 75 company observations over the three-year period of 2014-2016. From 75 sample observations, 11 firm years or 14.7 per cent submitted their financial reports in not a timely manner.

Table 1. Descriptive Statistics of Dichotomous Variables

	Observations	No Timeliness (0)	Timeliness (1)	Total
Frequency	75	11	64	75
Per cent		14.70	85.30	100.00

From Table 2, it can be seen that, the average capital structure was 107.04 per cent and the average profitability was 13.50 per cent. As well, the average public ownership was 20.92%, which shows the amount of public ownership in the companies in the consumer goods industry sector.

Table 2. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Capital Structure	75	10.42	844.13	107.04	110.82
Profitability	75	.29	161.52	13.50	20.20
Public Ownership	75	.26	58.77	20.92	16.62
Valid N (listwise)	75				

Hypothesis testing was performed using logistics regression. In processing the data, the researchers used the Statistical Product and Service Solution version 22.0. The feasibility test of the regression model was performed using Hosmer and Lemeshow's goodness-of-fit Test> 0.05 and Chi Square> 0.05, and from the overall test, the model was tested with Log likelihood, which showed that this research model was declared fit (Ghozali, 2011). The logistics regression test showed:

Table 3. Multiple Regression Results

EQ = β_1 Capital Structure + β_2 Profitability + β_3 Public Ownership + e

	B	S.E.	Wald	df	Sig
Step 1*Capital Structure	-.003	.004	.631	1	.427
Profitability	.105	.069	2.290	1	.130
Public Ownership	-.044	.020	4.686	1	.030 **
Constant	2.335	.966	5.388	1	.016

Where: *, **, *** are p-value < .10, .05, and .01, respectively.

V. Discussion of Findings

The empirical evidence in Table 3. showed the coefficient of the capital structure with the timeliness of the financial statement ($p > 0.05$); in other words, capital structure was not significant with the timeliness of financial statements. The large the debt to equity ratio did not affect the company in the timeliness of its financial statements. This proves that companies still want to show that they are able to show good performance and are able to fund their own debts. This is consistent with research by Hilmi and Ali (2008) and Fagbemi and Uadiale (2011) who found that the capital structure had no significant effect on the timeliness of financial statements. Table 3. showed the relationship between profitability and timeliness of financial statements (with coefficient $p > 0.05$). The results of this study did not find a significant relationship between profitability and timeliness of financial statements. High profitability was not strong enough or encouraged the companies to submit their financial statements in a timely manner. This is also supported by researchers Dyer and McHugh (1975) and Annaert, et al. (2002) as they found that profitability had no significant effect on the timeliness of financial statement submission.

Table. 3 showed the coefficients of the interaction relationship between public ownership and the timeliness of financial statements ($p < 0.05$). This shows that there was a significant negative relationship between public ownership and the accuracy of financial reporting. In other words, a large proportion of public ownership tends to make companies postpone their financial reporting. And companies with a small proportion of public ownership tend to be timelier in their financial reporting. This is because, the greater the public ownership in a company, the more careful the company will be in presenting its financial information to the public. Companies will be more careful in submitting financial statements if their public ownership is large, so it requires more time. This is consistent with Hilmi and Ali's research (2008) which showed that public ownership had a significant effect on the timeliness of financial reporting.

VI. Conclusion and Recommendation

In conclusion, this study examined the effect of the financial conditions and public ownership on the accuracy of financial reporting. This study found that companies with public ownership tended to make financial reports on time. Where the greater the public ownership led to a tendency of companies to not be on time in their financial reporting, it illustrated that the companies would be more careful in reporting so it required a lot of time in preparing their financial reports, leading to the tendency of not being timely in their financial reporting.

This paper also examined the relationships of the financial conditions, including capital structure and profitability, with the accuracy of the financial reporting, and found that, both profitability and capital structure had no significant effect on the accuracy of the financial reporting. In other words, the results of this study stated that public ownership tends to be an effective tendency for financial reporting so as to increase the information relevant to the financial reporting for companies listed on the Indonesia Stock Exchange. Even so, financial conditions and public ownership are not enough to check the accuracy of the financial reporting of companies. Therefore, it is highly recommended that the Indonesian regulator (OJK) should put a lot of emphasis on issues relating to ensuring the effectiveness of the sustainable regulation of the good corporate governance of the companies listed on the IDX in ensuring the accuracy of financial reporting in producing relevant information for the users.

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