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Internal Determinants Affecting the Timeliness of Financial Reporting in IDX

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Abstract: Timeliness in financial reporting is crucial for investors and stakeholders in making informed decisions. However, variations in financial performance may impact reporting timeliness. This study examines the effect of profitability, leverage, and company size on the timeliness of financial reporting in companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. A quantitative approach with verificative methods was employed, utilizing secondary data from annual financial reports. The findings reveal that profitability positively affects the timeliness of financial reporting, while leverage and company size have no significant impact. These results indicate that financially successful companies tend to submit reports more promptly, whereas leverage and size do not play a determining role in reporting timeliness.

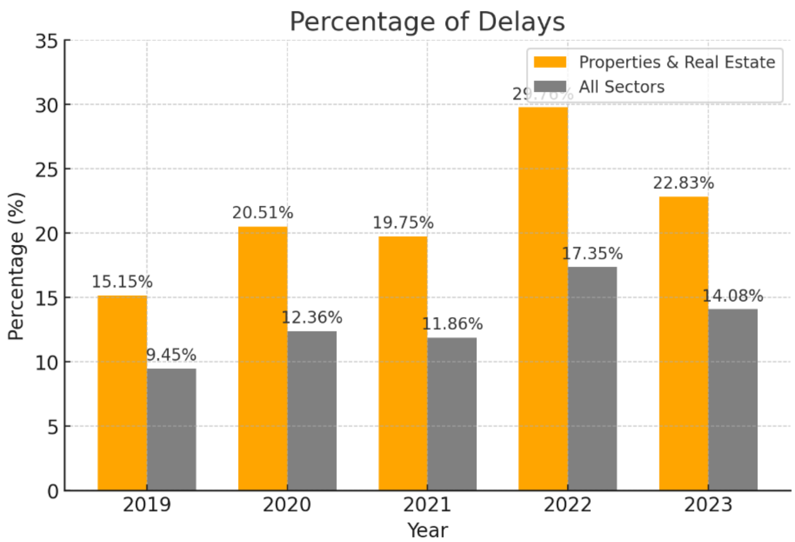
Keyword: Timeliness of Financial Reporting, Profitability, Leverage, Size

INTRODUCTION

A key aspect of a high-quality report is the relevance of its financial information. Financial reports aim to provide relevant information to management as an internal party within the company, supporting strategic decision-making and comprehensive performance evaluation. On the other hand, financial reports are also intended for external parties, such as investors, creditors, and authorities, who require this information to assess financial health, business performance, and future growth projections. Accurate and timely information is crucial for sound decision-making (Kusumawardani et al., 2022). The benefits of financial reports can only be realized if they are delivered accurately and on time to their users, serving as a basis for decision-making, both internally and externally. Therefore, the presence of timely financial reports is essential (Astuti, 2007). Despite the goal of providing timely information, many companies face difficulties in compiling reports within the established deadlines. This can reduce the confidence of stakeholders who expect up-to-date information. Companies should report on time to meet stakeholder expectations for accurate information.

Financial reports can be perceived as either good news or bad news by external parties. Good news implies that the information presented meets or exceeds expectations. The information therein indicates a favorable company condition and can be used as a basis for investment decisions or credit applications. Bad news, conversely, means that the information presented falls short of expectations, raising concerns about the company's condition. Timely submission of financial reports reduces information asymmetry. Financial reports serve as a means for companies to communicate their business performance, whether good or bad, on a quarterly or annual basis to their users. Company management, along with auditors, plays a crucial role in shaping the signals that will be reflected in the financial reports and determining whether their disclosure can be done within the stipulated time. Companies that exhibit positive signals generally strive to present their financial reports promptly, recognizing that the timing of financial report disclosure can impact their reputation in the eyes of financial report users. Conversely, companies with negative signals tend to delay the submission of their financial reports (Wardhani & Astuti, 2016).

It can be seen that the Properties & Real Estate sector has the highest number of companies that were late in submitting their audited annual financial reports to the Indonesia Stock Exchange (IDX) from 2019 to 2023. This indicates an increasing trend in the number of delayed financial report submissions within this sector. Below is a comparison of the number of listed companies experiencing delays relative to the total number of listed companies across all sectors and specifically in the Properties & Real Estate sector from 2019 to 2023.



Source: idx.co.id (data reprocessed on 24/04/2024)

Figure 1. Percentage of Late Submission of Audited Annual Financial Reports in the Properties & Real Estate Sector (2019-2023)

According to Ashton et al. (1987), various factors can cause delays in a company's financial reporting. These factors can originate from within the company itself or from external influences. Internal factors that affect timeliness include profitability, industry type, financial report complexity, leverage, electronic data complexity, profit/loss, operational complexity, and company size. Meanwhile, external factors influencing financial reporting delays include the auditor's opinion, auditor reputation, and auditor quality.

The phenomenon of delays in financial reporting can lead to a decline in investor confidence. Financial statements issued by companies serve as a source of information for the market. Through the disclosure of this information, the market can respond to it as either a positive or negative indication. Delays in financial reporting can cause information asymmetry and create instability in stock movements, leading investors to perceive such delays as uncertainty in information. (Chasanah & Sagoro, 2017).

The study conducted by Ovelina et al., (2024) and Ilyas et al., (2024) found that profitability has a positive effect on the timeliness of financial reporting. However, other studies have shown contrasting results, such as those by Meita & Permatasari, (2024) and Mentari & Utomo, (2024), which found no significant relationship between profitability and financial reporting timeliness.

The findings of Meita & Permatasari, (2024) and Handayani et al. (2021) indicate that leverage has a significant negative impact on financial reporting timeliness, suggesting that companies with higher debt levels are more likely to experience reporting delays. On the other hand, studies by Ovelina et al., (2024) and Mentari & Utomo, (2024) concluded that leverage does not affect financial reporting timeliness.

Research conducted by Ilyas et al., (2024) and Ahady et al. (2024) found that company size influences financial reporting timeliness, with larger companies tending to report more promptly. However, other studies, such as those by Ovelina et al., (2024) and Meita & Permatasari, (2024), suggest that company size does not have a significant effect on financial reporting timeliness.

When such a situation occurs, investors are likely to choose other companies with better prospects that can enhance their welfare. The loss of investor confidence will have a negative impact on the company's sustainability. This directly affects the company's reputation, an intangible yet highly influential factor in its operations. As a result, it may disrupt business activities and pose a threat to the company's long-term viability.

THEORITICAL REVIEW

Signalling Theory

Signaling theory, developed by Spence, (1973), explains how economic entities use signals to address information asymmetry. Initially applied to the labor market, this theory is now widely used in various economic and business contexts.

Delays in financial reporting are not just bad news for investors but also serve as a negative signal reflecting a company's condition and influencing market perception (Zebriyanti & Subardjo, 2016). Such negative signals can hinder timely financial reporting, emphasizing the importance of timing in delivering information to the capital market (Sari & Priyadi, 2016).

Financial reports function as a medium for companies to communicate signals to their users. Their preparation is influenced by management and auditors, determining whether disclosures are made on time. Companies with positive signals tend to report quickly to maintain their reputation, while those with negative signals are more likely to delay disclosure (Wardhani & Astuti, 2016).

H1: There is a positive effect of profitability on the timeliness of financial reporting on the Indonesia Stock Exchange (IDX).

Information regarding a company's profitability is crucial in financial reports, as it can be directly evaluated by financial statement users to determine whether the company has achieved profits or suffered losses due to the effectiveness of its operations. A company's success in generating profits provides a positive indication of its financial performance, which is reflected in its financial statements. In contrast, failure to achieve profits sends a negative signal to financial statement users, indicating an unsatisfactory financial condition (Adebayo & Adebiyi, 2016).

Kasin & Arfianti, (2018) state that companies with strong profitability tend to send positive signals by submitting their financial reports promptly. Beyond the accuracy of the information presented, companies recognize that timely financial reporting impacts their reputation. It helps build trust among the public, investors, and creditors while maintaining a positive corporate image. Conversely, companies with poor profitability tend to delay financial report submission. This action aims to obscure negative signals indicating financial difficulties.

Companies experiencing financial distress also tend to prolong the audit process of their financial statements (Nurfauziah, 2016).

H2: There is a negative effect of leverage on the timeliness of financial reporting on the Indonesia Stock Exchange (IDX).

Leverage or solvency reflects the extent to which a company relies on loans or debt to operate its business. A high level of leverage can impact a company's credit policy. Highly leveraged companies attract special attention from lenders, especially when applying for additional loans, as lenders may be concerned about the company's ability to repay its obligations. The higher a company's leverage, the greater its dependence on debt (Puspitawati et al., 2019).

Companies with low leverage demonstrate their ability to repay loans within the agreed timeframe. Low leverage serves as a positive signal, prompting companies to submit their financial reports on time (Kasin & Arfianti, 2018). This positively affects the company's reputation and facilitates loan applications by assuring creditors that the company can meet its debt obligations. Conversely, high leverage, which signals financial distress, often leads companies to delay financial report submissions.

H3: There is a positive effect of company size on the timeliness of financial reporting on the Indonesia Stock Exchange (IDX).

Company size has significant implications for its perceived credibility among the public and financial statement users. According to Saputra & Ramantha, (2017), large companies have greater access to resources that enable them to produce timely financial reports. These resources include assets, capital, high-quality human resources, and efficient internal control systems. Large companies also implement strict standards in recruiting and managing their workforce, ensuring employees possess the necessary qualifications and expertise. When these resources are utilized optimally, they create an effective and efficient internal control environment.

Although large companies face more complex challenges, as noted by Puspitawati et al., (2019), they are expected to submit financial reports on time due to their ample resources, competent employees, and extensive experience. They are also better equipped to meet public and financial statement users' expectations regarding timely reporting, as they are accustomed to working under pressure. Additionally, according to Nurfauziah, (2016), large companies are more likely to submit financial reports on time because they generally exhibit strong performance, reducing the time required for audits and minimizing delays in financial reporting.

Theoretical Framework

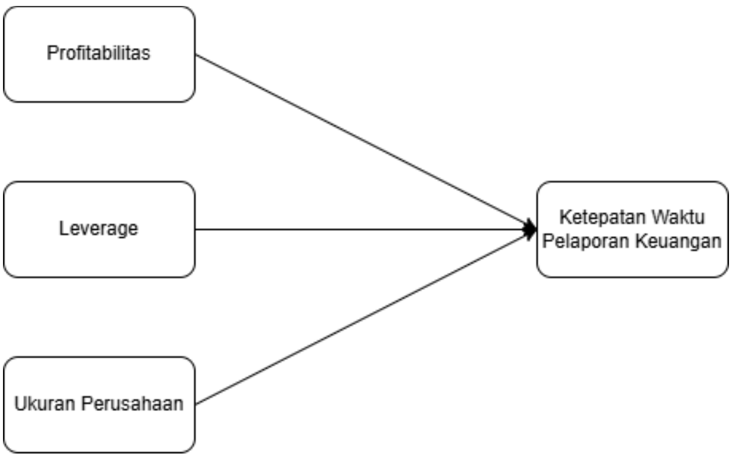


Figure 2. Theoretical Framework

METHOD

This study employs a verificative method with a quantitative approach. The data used consists of secondary data from the annual financial reports of Property & Real Estate sector companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. The sample was selected using purposive sampling, resulting in 57 companies with 285 observations over five years. The dependent variable is the timeliness of financial reporting, categorized as 1 if the financial report is submitted on time and 0 if delayed. The independent variables include profitability, measured by Net Profit Margin (NPM); leverage, measured by Debt to Assets Ratio (DAR); and company size, measured by the natural logarithm (Ln) of total assets.

Data analysis is conducted using logistic regression to examine the influence of independent variables on financial reporting timeliness. Model feasibility is tested through Overall Model Fit, Goodness of Fit Test (Hosmer and Lemeshow Test), and Wald Test to assess the significance of each variable.

RESULTS AND DISCUSSION

Overall Model Fit

The overall model test is conducted by comparing a regression model that includes independent variables with a model without dependent variables. This test is performed by comparing the initial -2 Log Likelihood value (block number = 0) with the final -2 Log Likelihood value (block number = 1). If there is a decrease in the -2 Log Likelihood value from the initial to the final stage, the regression model is considered a good fit for the data (Ghozali, 2018).

Table 1. -2 Log Likelihood value

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	219.511	1.509
	2	212.442	1.902
	3	212.314	1.965
	4	212.314	1.966
	5	212.314	1.966

Table 2. -2 Log Likelihood final

Iteration		-2 Log likelihood	Coefficients			
			Constant	NPM	DAR	Total Asset
Step 1	1	216.156	1.403	.025	-.667	.023
	2	206.215	1.867	.089	-1.153	.032
	3	203.936	2.344	.260	-1.216	.010
	4	203.876	2.491	.289	-1.251	.003
	5	203.876	2.494	.289	-1.252	.003
	6	203.876	2.494	.289	-1.252	.003

The initial -2 Log Likelihood value is 212.314, while the final -2 Log Likelihood value is 203.867. The decrease from 212.314 to 203.867 indicates that the hypothesized regression model better represents the data compared to the previous model, making this new model more suitable or a better fit for the data.

Goodness of Fit Test

The model feasibility assessment is conducted to determine whether the regression model is appropriate and can be used for the next stage of research. In logistic regression analysis, this assessment is performed using the Hosmer and Lemeshow Test. If the obtained significance value is greater than 0.05, the regression model is considered appropriate and can be used. Conversely, if the significance value is less than 0.05, the regression model is deemed inappropriate (Ghozali, 2018). The results of the model feasibility assessment are presented in the following table:

Table 3. Results of the Model Feasibility Test (Goodness of Fit Test)

Step	Chi-square	df	Sig.
1	8.648	8	.373

Based on the table above, the obtained significance value is 0.373. Since this value is greater than 0.05, the regression model is considered appropriate and feasible for the next stage of the research.

Hypothesis Testing Results (Wald Test)

Hypothesis testing in logistic regression analysis is conducted using the T significance test to assess the influence of each independent variable on the dependent variable. The results of this T significance test are displayed in the regression coefficient table or "Variables in the Equation." If the obtained significance value is greater than 0.05, the independent variable does not have a significant effect on the dependent variable. Conversely, if the significance value is less than 0.05, the independent variable has a significant effect on the dependent variable. The results of the T test are shown below:

Table 4. Wald Test

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	NPM	.289	.140	4.259	1	.039	1.335
	DAR	-1.252	.725	2.984	1	.084	.286
	Total Asset	.003	.120	.001	1	.981	1.003
	Constant	2.494	1.809	1.902	1	.168	12.109

a. Variable(s) entered on step 1: NPM, DAR, Total Asset.

Based on the hypothesis testing results, profitability has a positive effect on the timeliness of financial reporting, as indicated by a significance value of 0.039 and a B coefficient of 0.289, where sig < 0.05 and the coefficient is positive, leading to the rejection of H0. Meanwhile, leverage does not affect the timeliness of financial reporting, as shown by a significance value of 0.084 and a B coefficient of -1.252, where sig > 0.05 and the coefficient is negative, resulting in the acceptance of H0. Similarly, company size also does not influence the timeliness of financial reporting, as evidenced by a significance value of 0.981 and a B coefficient of 0.003, where sig > 0.05 and the coefficient is positive, leading to the acceptance of H0.

The Influence of Profitability on Timeliness of Financial Reporting

The first determinant affecting the timeliness of financial reporting is profitability. Companies that generate strong profits tend to send financial reports promptly as a positive signal to build trust among the public, investors, and creditors while maintaining their established good reputation. Conversely, companies with lower profitability may delay financial reporting to obscure negative signals indicating financial difficulties. Financially struggling firms also often extend the auditing process of their financial statements. This research supports the theory that profitability influences the timeliness of financial reporting. This finding aligns with Ovelina et al. (2024), explain that highly profitable companies tend to submit their annual financial reports on time due to the presence of good news in the reports. Companies with higher profitability are motivated to promptly audit and disclose their financial statements to the public to convey positive financial performance.

The Influence of Leverage on Timeliness of Financial Reporting

The second determinant affecting the timeliness of financial reporting is leverage. Companies with high leverage tend to delay financial reporting to obscure negative signals indicating financial distress, as creditors may worry about the company's ability to meet its obligations. Conversely, companies with low leverage demonstrate a strong ability to repay debts on time, which serves as a positive signal, encouraging timely financial reporting. This helps build trust among the public, investors, and creditors while maintaining a good reputation. However, the findings of this study indicate that leverage does not significantly affect the timeliness of financial reporting. This aligns with Ahady et al., (2024), explain that companies with high leverage may still submit financial reports on time due to the significant pressure from their debt obligations. This pressure, including the risk of penalties or consequences for non-compliance, compels companies to meet reporting deadlines. While high debt levels can add strain to financial report preparers, the need to avoid sanctions and maintain good relationships with creditors often ensures that financial reports are submitted on time.

The Influence of Size on Timeliness of Financial Reporting

The third determinant affecting the timeliness of financial reporting is company size. Larger companies, with greater access to resources such as assets, capital, and effective internal control systems, are expected to submit financial reports on time. They are perceived as being more capable of meeting public expectations and the needs of financial report users regarding timely submission. Thus, while signaling theory suggests that larger companies should report their financial statements on time, the findings of this study indicate that company size does not significantly affect financial reporting timeliness. This is consistent with the explanation from Putri & Nugroho (2023), found that company size does not influence the timeliness of financial reporting. Both large and small companies have management teams and skilled human resources capable of preparing financial statements according to the scheduled timeline. In other words, despite differences in company size, both large and small firms can effectively manage their financial reporting processes, making company size itself an insignificant factor in determining timeliness.

CONCLUSION

This study finds that profitability has a positive effect on the timeliness of financial reporting, while leverage and company size do not have a significant influence, indicating that companies in the Properties & Real Estate sector with higher profitability are more likely to submit their financial reports on time, whereas the level of debt and total assets do not necessarily determine reporting timeliness. Therefore, companies should focus on improving profitability to maintain stakeholder confidence, enhance their financial performance, and ensure compliance with reporting deadlines, while also strengthening internal reporting mechanisms, optimizing financial management strategies, and implementing more effective corporate governance practices to minimize potential delays. Additionally, future research should explore the role of external factors such as auditor reputation, audit opinion, and regulatory changes in influencing financial reporting timeliness, while expanding the study to other industries or incorporating a broader time frame to provide a more comprehensive and generalizable understanding of how financial and non-financial determinants impact the timeliness of corporate financial reporting.

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