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The Role of Return on Asset, Audit Opinion, Company Size, and Debt to Equity Ratio on the Timeliness of Financial Reporting in Companies

Hajering

Departemen Akuntansi Universitas Muslim Indonesia

ABSTRACT: This study aims to examine the influence of Return on Assets, Audit Opinion, Company Size, and Debt-to-Equity Ratio on the timeliness of financial reporting in companies. This research is quantitative, using secondary data obtained from the Indonesia Stock Exchange (IDX). The population in this study consisted of 45 companies listed on the IDX from 2017 to 2019. Out of these, 20 companies met the criteria for sampling. The analysis technique used was multiple linear regression. The results indicate that the Return on Assets and Debt-to-Equity Ratio variables have a significant influence on the timeliness of financial reporting, while the Company Size variable does not significantly affect the timeliness of financial reporting.

KEYWORDS: Return on Asset, Audit Opinion, Company Size, Debt to Equity Ratio, Timeliness of Financial Reporting.

INTRODUCTION

The increasing complexity of investment activities in the capital market has led to tighter competition among publicly traded companies. One crucial source of information in this market is the financial reports provided by each publicly traded company. High-quality financial reports offer valuable information for both internal and external stakeholders, such as investors, creditors, and suppliers, to make informed decisions. Research by Sulaiman Al-Tahat (n.d.) suggests that annual financial reports are among the most important sources of information due to the diversity of content they provide. Relevant financial reports must possess several characteristics, with timeliness being one of the most crucial.

Data obtained from the official website of the Indonesia Stock Exchange (IDX) regarding the financial reports of banking companies reveals that, from 2017 to 2019, two companies did not publish their annual financial reports: PT Bank Central Asia Tbk and PT Bank Mayapada Internasional Tbk. In addition, as of June 29, 2018, the IDX recorded 10 issuers who had not submitted audited financial reports for the period ending December 31, 2017, and had not paid fines for the delayed submission. Consequently, the IDX temporarily suspended trading in securities on the Regular Market and Cash Market from the 1st Trading Session of July 2, 2018, for two listed companies: PT Apexindo Pratama Duta Tbk (APEX) and PT Sunson Textile Manufacturer Tbk (SSTM).

The Indonesian Stock Exchange reported that as of June 29, 2019, ten companies had not submitted their annual financial reports for the period ending December 31, 2018, nor had they paid fines for the late submission of these reports. As a result, the Indonesian Stock Exchange temporarily suspended trading of securities on the Regular Market and Cash Market from the first trading session on July 1, 2019, for four listed companies: PT Apexindo Pratama Duta Tbk. (APEX), PT Bakrieland Development Tbk. (ELTY), PT Sugih Energy Tbk. (SUGI), and PT Nipress Tbk. (NIPS). As of June 30, 2020, 42 listed companies had not submitted their audited financial statements for the period ending December 31, 2019. The IDX issued a written warning II to these 42 companies for failing to meet their obligation to submit audited financial statements. The reasons for the delays included transitional constraints from old management to new management, changes in the public accounting firm (KAP) of one of the subsidiaries, revenue loss, and ongoing audit investigations. From this data, it is evident that many public companies are late in submitting their annual financial reports, despite the urgent need for timely reports due to the dynamic nature of the capital market.

Several factors affect the timely submission of financial reports to the Financial Services Authority - Capital Market Supervisory Agency (OJK). For instance, Return on Assets (ROA) is a ratio that indicates how much net profit is generated from assets. A higher ROA signifies that more net profit is generated from each unit of total assets, while a lower ROA indicates less net profit from the same assets (Būmane, 2018). According to Kusuma (2021a), ROA reflects a company's ability to generate net profit from its assets.

Therefore, a higher ROA value generally indicates better financial performance and a higher likelihood that the company will submit its financial reports on time.

LITERATURE REVIEW

Definition of Financial Statements

According to AMENDEMEN PSAK 22 KoMbiNASi BiSNiS (2018), financial statements depict the financial impact of transactions and other events, categorized into several major groups based on their economic characteristics. The aim of financial statements is to provide information on a company's financial position, performance, and changes in financial position, which is valuable for a wide range of users in making economic decisions. Shakespeare (2020) adds that financial statements are beneficial if the information is presented timely and accurately, allowing users to make informed decisions before the information loses its relevance. Therefore, timely presentation of financial statements is crucial for the public. The purpose of financial statements is to offer information about a company's financial position, performance, and changes in financial position, which helps a broad audience make economic decisions. SZYDEŁKO & BIADACZ (2016) state that financial statements provide essential data about a company's condition in monetary terms to those who need it. The information required by users of financial statements varies significantly depending on the type of decision to be made.

Financial Reporting

The Conceptual Framework for Financial Reporting (CONCEPTUAL_FRAMEWORK_FOR_FINANCIAL_REPORTING_INTEG, n.d.), adopted from The Conceptual Framework for Financial Reporting as of January 1, 2016, states: "The general objective of financial reporting is to provide financial information about the reporting entity that is useful to current and potential investors, lenders, equity and debt holders, as well as providers or creditors of loans and other forms of credit." According to Kusumawardani et al. (2021), financial reporting is expected to offer insights into a company's financial performance over a period and how management fulfills its stewardship responsibilities to the owners. While financial reporting is not designed to directly measure the value of a business entity, the information it provides may be useful for those estimating its value.

Agency Theory

Agency theory explains the relationship between management and owners, who are interdependent. Owners authorize management to make decisions, and it is expected that this arrangement will align with achieving the company's goals (U et al., 2021). However, this agency relationship can also lead to information asymmetry, where management has more information about the actual financial position than the owners (Bergh et al., 2019). Financial reporting provided by agents to principals and other external parties is intended to reduce information asymmetry and minimize potential conflicts. Timely publication of financial statements enhances oversight and control by principals over agents (Syofyan et al., 2021). Regarding risk-sharing, principals who have entrusted agents to manage the company expect agents to demonstrate their accountability through financial reports. Agency theory addresses issues such as agency problems that arise when the expectations or goals of principals and agents conflict and when principals face challenges in supervising whether agents are performing correctly (Acton, 2021).

Compliance Theory

Compliance means willingly obeying orders, adhering to rules, and being disciplined (Mustapha et al., 2020). Compliance means being obedient, compliant, submissive, obedient to teachings and rules (Meyer, 2021). According to (Lunenburg, 2012), (Étienne & Wendeln, 2012), compliance theory is an approach to organizational structure that integrates ideas from classical models and management participation.

Timeliness

Companies listed on the IDX that report their financial statements late will be considered a violation of the principle of information disclosure in the capital market. Timely financial reporting by companies also supports efficient and fast market performance and can reduce leaks and rumors in the Indonesian capital market, which is considered crucial (Nurmiati, 2016). If financial statements are published on time, it can enhance competitive competitiveness and support the success of a company. The company's image in the public eye will increase, and the public will trust the quality of the information (Oparaugo, 2021).

The timeliness of financial reporting ensures that the information presented is up to date. If financial information is not provided on time, it will result in the information being outdated, reducing its value-added for users, and the information will lose its relevance. Financial statements will be more beneficial to users if the information is presented timely and relevant. This information is crucial for investors in making investment decisions (Almansour et al., 2023).

Return on Assets

(Puspitasari et al., 2021) defines Return On Assets (ROA) as a ratio indicating the return on assets used in the company. A positive Return On Assets (ROA) indicates that the total assets used for company operations are capable of generating profits for the company, whereas a negative Return On Assets (ROA) indicates that the company will incur losses from the total assets used. ROA is used to measure the company's ability to generate profits from assets controlled by management. The higher the ROA value, the better the company's management performance, and vice versa.

Audit Opinion

Audit opinion is a statement of opinion given by auditors in assessing the fairness of the financial statements of the company they audit. The purpose of auditing financial statements by independent auditors is to express an opinion on the fairness of all material matters, financial position, results of operations, changes in equity, and cash flows in accordance with generally accepted accounting principles (Avi, 2022).

Company Size

Company size categorizes companies into several groups, including large, medium, and small companies. The size of a company can be based on total assets, total sales, market capitalization, number of employees, and so on (Yadav et al., 2022). The larger the value of these items, the larger the size of the company. Larger companies are more consistent in timely informing their financial statements than smaller companies because they are more scrutinized by the public. Larger companies have more knowledge about existing regulations; therefore, larger companies comply more with regulations regarding timeliness compared to smaller companies.

Debt to Equity Ratio

Debt to Equity Ratio is a ratio used to assess debt with equity. According to (Hantono, 2018)This ratio is calculated by comparing total liabilities, including current liabilities, with total equity. The Debt to Equity Ratio (DER) is used to determine the extent to which a company can meet its obligations using its equity. From the measurement results, for banks, if the ratio is high, it means that funding with debt is increasing, making it more difficult for the company to obtain additional loans. In this case, investors or creditors are reluctant to provide additional capital because the company has many debts and some of the company's funding is financed by debt, causing concerns for investors or creditors (Legesse et al., 2021).

RESEARCH METHODOLOGY

The population of this research is all banking companies listed on the Indonesia Stock Exchange during the period 2017-2019, totaling 45 companies, and not all of this population will be the object of research, hence further sampling is necessary. The analysis technique used in this research is multiple linear regression.

Determination of sample criteria is necessary to avoid errors in determining research samples, which will subsequently affect the analysis results. The selected criteria in determining the sample are:

1. Banking companies listed on the Indonesia Stock Exchange (IDX) during the research period of 2017-2019.
2. Banking companies listed on the IDX continuously for the period 2017-2019.
3. These companies have published annual financial reports for the period 2017-2019.
4. Banking companies that have completeness of data and information used to analyze factors affecting the timeliness of financial reporting for the period 2017-2019.

RESULTS AND DISCUSSION

Description of Research Variables

Descriptive analysis is used to describe the data of research variables including minimum, maximum, mean, and standard deviation. The data used in this research is obtained from the Indonesia Stock Exchange in the form of financial report data with 3 (three) years of observation starting from 2017 to 2019. Therefore, the total number of observations is 60. The research variables include the dependent variable, which is the timeliness of financial reporting, and the independent variables include: ROA (Return on Assets), Audit Opinion, Company Size, and DER (Debt to Equity Ratio). The results of descriptive statistical data processing can be seen in the following table:

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y	60	14,00	96,00	53,2333	26,63079
X1	60	,02	2,58	1,2092	,76563
X2	60	1,00	1,00	1,0000	,00000
X3	60	14,95	30,19	20,1236	3,87628
X4	60	159,37	1474,84	546,5950	250,61867
Valid N (listwise)	60				

Source: SPSS Data Processing Results

Based on the table above, it is known that the overall timeliness of financial reporting (Y) has a minimum value of 14.00 and a maximum value of 96.00. The average timeliness of financial reporting is 53.2333 with a standard deviation of 26.63079. Furthermore, Return On Assets (X1) has a minimum value of 0.02 and a maximum value of 2.58. The average Return On Assets is 1.2092 with a standard deviation of 0.76563. Additionally, the audit opinion (X2) has a minimum value of 1.00 and a maximum value of 1.00. The average audit opinion is 1.0000 with a standard deviation of 0.00000. Furthermore, the analysis results of company size (X3) show a minimum value of 14.95 and a maximum value of 30.19. The average company size is 20.1236 with a standard deviation of 3.87628. Additionally, the analysis results of the Debt to Equity Ratio (X4) show that the lowest Debt to Equity Ratio is 159.37 and the highest is 1474.84. The average Debt to Equity Ratio is 546.5950 with a standard deviation of 250.61867.

Normality Test

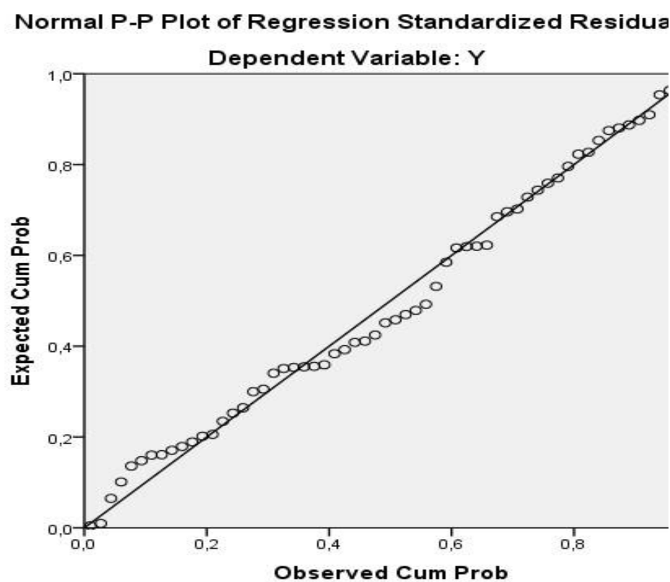

Figure 1. Normality Test

Source: SPSS Data Processing Results

From Figure 1, the P-P Plot graph above, it can be observed that the data points are scattered around the diagonal line and follow the direction of the diagonal line. Therefore, based on the P-P Plot graph above, it can be concluded that the regression model used in this study meets the assumption of normality.

Table 2: Multiple Linear Regression

Coefficients[a]

			Coefficients[a]				
	Unstandardized Coefficients		Standardized Coefficients			Collinierity Statistics	
Model	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	64,210	17,103		3,754	,000		
X1	-22,867	3,881	-,657	-5,891	,000	,872	1,147
X3	1,501	,756	,218	1,984	,052	,896	1,116
X4	-,025	,011	-,233	-2,160	,035	,934	1,070

Source: SPSS Data Analysis Results

From the multiple linear regression testing, the equation obtained is as follows:

$$\mathbf{Y = a + \beta_1 ROA + \beta_2 OA + \beta_3 SIZE + \beta_4 DER + e}$$

$$= 64{,}210\ \mathbf{a} - 22{,}867\ \mathbf{ROA} + 1{,}501\ \mathbf{SIZE} - 0{,}025\ \mathbf{DER}$$

Based on the multiple linear regression equation above, the explanations are as follows:

a. Constant (a)
From the multiple linear regression test, it is observed that the constant value is 64.210. This means that if the variables Return On Asset (X1), company size (X3), and Debt to Equity Ratio (X4) are all equal to zero, then the financial reporting timeliness is 64.210 or 64 days.

b. Regression Coefficient Constant (β1) ROA
The coefficient value of Return On Asset (X1) is negative, specifically -22.867. A negative value indicates an inverse relationship. This means that if Return On Asset (X1) increases by one unit, it will decrease financial reporting timeliness (Y) by 22.867 days, and conversely, if Return On Asset (X1) decreases by one unit, it will increase financial reporting timeliness (Y) by 22.867 days, assuming the independent variables company size (X3) and Debt to Equity Ratio (X4) remain constant.

c. Regression Coefficient Constant (β2) AUDIT OPINION
From the regression coefficient test results, it is observed that the audit opinion variable does not have a regression coefficient result. This is because the data is homogeneous, meaning all data are the same, which causes the data not to appear and cannot be processed by SPSS.

d. Regression Coefficient Constant (β3) SIZE
The coefficient value of company size (X3) is positive, specifically 1.501. A positive value indicates a direct relationship. This means that if company size (X3) increases by one unit, it will increase financial reporting timeliness (Y) by 1.501 days, and conversely, if company size (X3) decreases by one unit, it will decrease financial reporting timeliness (Y) by 1.501 days, assuming the independent variables Return On Asset (X1) and Debt to Equity Ratio (X4) remain constant.

e. Regression Coefficient Constant (β4) DER
The coefficient value of Debt to Equity Ratio (X4) is negative, specifically -0.025. A negative value indicates an opposite direction of change. This means that if Debt to Equity Ratio (X4) increases by one unit, it will decrease financial reporting timeliness (Y) by 0.025 days, and conversely, if Debt to Equity Ratio (X4) decreases by one unit, it will increase financial reporting timeliness (Y) by 0.025 days, assuming the independent variables Return On Asset (X1) and company size (X3) remain constant.

Coefficient of Multiple Determination (R2)
Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,626[a]	,392	,359	21,31685

Source: SPSS Data Analysis Results

From the table above, it can be seen that the coefficient of determination (R^2) or R square value is 0.626 (62.6%). This research result indicates that the percentage of influence of Return on Asset (X1), except for Audit Opinion (X2) which does not have a result.

T Test

Table 4 T Test Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients			Collinierity Statistics	
	Error	Std. B	Beta	T	Sig.	Tolerance	VIF
(Constant)	64,210	17,103		3,754	,000		
X1	-22,867	3,881	-,657	-5,891	,000	,872	1,147
X3	1,501	,756	,218	1,984	,052	,896	1,116
X4	-,025	,011	-,233	-2,160	,035	,934	1,070

Source: SPSS Data Analysis Results

Based on the table of T-test results, several observations can be made:

1. Return On Asset has a significant level of 0.000. This indicates a significance level smaller than the 0.05 threshold, suggesting a negative and significant influence on the timeliness of financial reporting.
2. Audit Opinion does not exhibit a significant level, indicating homogeneity in the data which cannot be processed by SPSS.
3. Company Size shows a significant level of 0.052, indicating a positive but not significant influence on the timeliness of financial reporting.
4. Debt to Equity Ratio demonstrates a significant level of 0.035, implying a negative and significant impact on the timeliness of financial reporting.

DISCUSSION

The effect of Return On Asset on the timeliness of financial reporting:

Hypothesis 1 aims to test the influence of the Return on Asset variable on the timeliness of financial reporting. Return on Asset is measured by comparing Net Income with the total Assets. Regression analysis shows a negative coefficient of -22.867, indicating a negative influence between Return on Asset and the timeliness of financial reporting. The T-test reveals that Return on Asset significantly affects the timeliness of financial reporting with a significance level of 0.000, smaller than the 5% threshold. Thus, it can be concluded that Return on Asset influences the timeliness of financial reporting. The first hypothesis, stating that "Return on Asset affects the timeliness of financial reporting," is accepted.

The results indicate that Return on Asset significantly affects the timeliness of financial reporting, with a negative impact. This suggests that a negative Return on Asset in this study indicates a reduction in the number of days or time required to publish financial

reports. Consequently, it can be inferred that companies with high Return on Asset may not necessarily be timely in submitting their financial reports, and vice versa for companies with low Return on Asset.

This study is consistent with the findings of (Kusuma, 2021b) and (Putra & Nurhayati, 2023), which discovered a significant influence of Profitability proxied by Return on Asset, as well as (Joo, 2017), who found a significant impact of Return on Asset on the timeliness of financial reporting. However, it contradicts the findings of (Mahdi Sahi et al., 2022) who found no significant influence of Return on Asset on the timeliness of financial reporting.

The Influence of Audit Opinion on the Timeliness of Financial Reporting:

Hypothesis 2 aims to examine the impact of the Audit Opinion variable on the timeliness of financial reporting. In this study, the Audit Opinion variable is measured using a dummy variable, where companies receiving an Unqualified Opinion are assigned a value of 1, and companies receiving opinions other than unqualified are assigned a value of 0. Based on the conducted tests, the Audit Opinion variable did not yield results. This is because the data is homogeneous, meaning all data points are the same or lack variation. Specifically, all sampled companies received an Unqualified Audit Opinion in their annual financial reports. Consequently, this data cannot be processed by SPSS.

The Influence of Company Size on the Timeliness of Financial Reporting:

Hypothesis 3 aims to test the influence of the Company Size variable on the timeliness of financial reporting. Asset size is used to measure company size, with asset size measured as the logarithm of total assets. Multiple linear regression analysis shows that the Company Size variable has a positive coefficient of 1.501, indicating a positive influence between Company Size and the timeliness of financial reporting. However, based on the T-test results, the Company Size variable has a significance level of 0.052, which is higher than the 5% threshold. Thus, it can be concluded that Company Size (X3) does not significantly influence the timeliness of financial reporting (Y). Therefore, the third hypothesis, stating that "Company Size affects the timeliness of financial reporting," is rejected.

The results show no evidence that Company Size, measured by the natural logarithm of total assets, significantly influences the timeliness of financial reporting. This finding aligns with previous research by Probokusumo and Wahyuni, Nuraina, Nasution, Melia, Pujiatmi, and Ismawati, Indrayenti, and Ie, which found that company size does not significantly affect the timeliness of financial reporting. However, it contradicts the findings of Sukoco and Kananto, who found that company size significantly affects the timeliness of financial reporting. Company size is obtained from the total asset value. A higher total asset value does not guarantee timely financial reporting. Conversely, companies with lower total assets are not necessarily late in their financial reporting. This is because the timeliness of financial reporting is not solely determined by the size of the company. Both large and small companies strive to submit financial reports on time. Investors' behavior is inappropriate if they only pressure large companies. Large companies tend to receive greater scrutiny from investors, regulators, and the public, making them more cautious in reporting their finances. This caution may result in large companies not always reporting their finances on time. Additionally, large companies face more complex issues than small companies, leading to more analysis during the audit process.

The Influence of Debt to Equity Ratio on the Timeliness of Financial Reporting:

Hypothesis 4 aims to test the influence of the Debt to Equity Ratio variable on the timeliness of financial reporting. Debt to Equity Ratio is measured by comparing total debt, including current liabilities, to total equity. Multiple linear regression analysis shows that the Debt to Equity Ratio variable has a negative coefficient of -0.025, indicating a negative influence between Debt to Equity Ratio and the timeliness of financial reporting. Based on the test results, the Debt to Equity Ratio variable has a significance level of 0.035, which is smaller than the 5% threshold. Thus, it can be concluded that Debt to Equity Ratio (X4) significantly influences the timeliness of financial reporting (Y). Therefore, the fourth hypothesis, stating that "Debt to Equity Ratio affects the timeliness of financial reporting," is accepted.

The results indicate that the Debt to Equity Ratio significantly negatively influences the timeliness of financial reporting. This means that as the Debt to Equity Ratio of a company increases, the time required to submit financial reports also increases, and vice versa. This finding aligns with the research by (Sukma et al., 2022), which demonstrated that the Debt to Equity Ratio significantly negatively influences the timeliness of financial reporting. According to (Sukma et al., 2022), a high Debt to Equity Ratio reflects a high financial risk for the company. High financial risk indicates the possibility that the company may not be able to meet its obligations or debts, both principal and interest. High risk indicates financial difficulties for the company. This suggests that companies with high or low financial leverage both strive to report their financial statements on time because the more investors or creditors there are, the tighter the company's performance oversight becomes. Therefore, companies strive to report relevant information on time for decision-making purposes.

CONCLUSION

Based on the overall results of the research, the following conclusions can be drawn regarding the influence of Return On Asset, audit opinion, Company Size, and Debt to Equity Ratio:

1. Return On Asset significantly influences the timeliness of financial reporting with a significance level of 0.000. This indicates that companies with high total asset values are not guaranteed to report their financial statements on time, and similarly, companies with low total assets are not always late in submitting their financial reports.
2. Audit opinion did not yield conclusive results in the research. This is because the data collected showed homogeneity, meaning all data points were the same, resulting in the inability of SPSS to process the data.
3. Company Size does not significantly affect the timeliness of financial reporting, with a significance level of 0.052. This suggests that both large and small companies are not always timely in submitting their financial reports. Both large and small companies have the same obligation to provide timely information about their financial condition to the public.
4. Debt to Equity Ratio significantly influences the timeliness of financial reporting with a significance level of 0.035. This indicates that companies with high or low Debt to Equity Ratios equally aim to report their financial statements on time. With an increasing number of investors or creditors, companies face tighter scrutiny of their performance, leading them to strive to provide relevant information in a timely manner for decision-making.
5. These conclusions highlight the complex dynamics between financial metrics and the timeliness of financial reporting, emphasizing the importance for companies of all sizes to prioritize timely and accurate disclosure of financial information.

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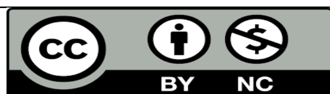

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