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DETERMINANTS OF INTERNET FINANCIAL REPORT

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***Abstract*— The development of technology is more effective in helping users including for companies in doing financial reporting. IFR is a voluntary disclosure of financial statement which measured using IFR Index. Practice of IFR make transparency of financial statement disclosures. The purpose of this study to examine what are the factors that influence IFR's disclosure level on manufacturing companies sub-sector customer goods. The sampling method used is purposive sampling. Total sample are 173 for 5 years. Data analysis used multiple regression. The results of this study indicate that the firm size, profitability, and audit quality are influences to IFR's disclosure level. While the ownership structure not influences to disclosure level of IFR.**

Keywords: IFR, Firm Size, Profitability, Ownership Structure, Audit Quality

I. INTRODUCTION

The current development of the internet has facilitated the sharing of information by millions of users and institutions throughout the world. The internet can also be said as a global library that can be accessed by everyone anytime and anywhere. The Indonesian Internet Service Providers Association (APJII) has conducted surveys on the number of internet users each year. In 2017 APJII stated that internet users in Indonesia reached 143.26 million, and 45.12% of internet users were used as business interests[1]. This states that the internet has a great power to facilitate information needs (Merina, 2016).

According to the Financial Services Authority (OJK) regulation Number 29 / POJK.04 / 2016 Article 15 concerning the availability of annual reports stating that the company must create its own website and disclose its financial statements the same as the date of submission of annual reports to the Financial Services Authority. However, there are still some companies that do not disclose company financial statements (Bustomi, 2017). It is this business phenomenon that states that the company has not been stable in disclosing financial statements.

The means for disclosure of these financial statements can be stated by Internet Financial Reporting (IFR). This form of disclosure is done using a website. IFR presents voluntary information both financially and information on internet-based corporate social responsibility. So that IFR is used as an important and interesting thing to learn more. In recent years many companies have implemented IFR practices or often called voluntary disclosure of financial statements with various variations in accordance with the company's field. It is this technological change that demands that there be an increase in quality and improvements in various aspects of the company.

One company that plays an important role in people's needs today is a manufacturing company, because the company creates products that are always used by the general public. Investment fields in the manufacturing industry are very dominant. The development of the manufacturing sector in Indonesia is very interesting to observe. So that it becomes the trigger of the practice of IFR is the transparency of financial statement disclosures. The existence of IFR, management is able to meet the information needs of shareholders and also can avoid information asymmetry in which one party has more information than the other party.

Several studies on the practice of IFR have been studied by Momany and Pillai (2013) research on Analysis of IFR in the United Arab Emirates. The result of the study said that the profitability and corporate governance significant effect on IFR. While a similar study was stated by Aqel (2014), about the determinants of IFR in Istanbul Turkey that company size and profitability had an effect on IFR.

The research conducted by Bekiaris, Psimada & Sergios (2014) on the characteristics of IFR in Greek and Crypriot. The studies states that profitability, leverage, company age, and audit quality influence IFR. Pervan and Bartulovic (2017) examined the determinants of IFR with banking samples. The result of the studies said that company size and ownership structure have a positive effect on IFR. Asbaugh, Johnstone & Warfield, Ardiansah, & Hamidah (2017). examine the effect of company size, company age, public ownership, and audit quality toward Internet financial reporting on companies listed in Indonesia Sharia Stock Index (ISSI).

The result of the research shows that IFR is influenced positively and significantly by company size, company age and public ownership indicating that the higher company size, company age and public ownership of a company, the higher the company's opportunity to do IFR. Meanwhile, IFR is influenced positively but not significant by audit quality,

This research is replication from Pervan and Bartulovic (2017). The difference previous researches with this study are research sample, different periods and the difference proxies to measure the level of disclosure IFR. The sample use is consumer goods manufacturing sub-sector companies listed on the Indonesia Stock Exchange. With different periods are 2012 until 2016 and using IFR index to measure the level of disclosure IFR . This study aims to examine what are the factors that influence the IFR disclosure level.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Agency theory

Agency theory is a relationship where there are two parties that are interrelated because of something, and where one party agrees to use the services of one particular party. The statement that agency theory can be described by the principal is that shareholders and management responsible for tasks and authority are certain agents (Jensen and Meckling, 1976). Thus, it is the reason that the need for IFR practices by management to external users through financial statements as an accountable form of accountability, so that agents or management can meet the needs of principals in widespread voluntary disclosure.

Signaling theory

Signal theory was first introduced by Spence (1973). Signal theory states how should a company management uses voluntary disclosure to signal to users of financial information that can increase the credibility and success of the company even though the information is not required. News information in the form of promotions, future profit growth, and other information that states that the company will be better than other companies is a form of signal given by the management of the company.

There are several circumstances if the company has bad news for sure the company tends not to inform the news to the public, if the company has good news, surely the company's management will be more eager to disseminate that information to the public. This can lead to information asymmetry. One way to reduce information asymmetry is to provide accurate information about financial reporting that can be trusted, understood, and can be legally accountable to the company.

IFR

IFR is the reporting of internet-based financial disclosures, which companies do to present some of their reports on a company's website (Asbough, 1999). Internet use can be easier and faster, so that it can be accessed by anyone, anytime, anywhere. IFR also makes the dissemination of financial information more cost-effective because companies do not have to spend money on printing financial reports and costs for faster distribution of financial statements and delivery and can increase the frequency of presentation (Momany & Pillai, 2013).

Financial reporting on the internet in this study is measured by the disclosure index adopted from Bonson and Escobar (2006). This disclosure index consists of 44 items to describe the extent of the practice of IFR by companies.

Company size

The higher the size of the company, the higher the level of disclosure that can be expressed by the number of shares outstanding. This causes large companies to have large agency costs also because the company must be responsible for reporting financial reports to shareholders or users of financial statements. Agency costs are costs incurred by the company in disseminating financial report information (Hanny & Chairiri, 2007). One way to reduce agency costs is to publish IFR practices such as printing costs, shipping costs so that agency costs are getting smaller.

Profitability

Investors and shareholders certainly have more attention to financial statements, especially if the company always allocates these profits to dividends. Then there will be many new investors who try to invest in the company. Narsa (2012) said that two important elements of IFR are the higher level of website information disclosure and the scope of internet reporting proven to increase company value. Company size has a negative and significant effect on firm value while company profitability has a positive and significant effect on the value of the company.

Ownership structure

The higher level of information needs the higher disclosure that will be made by the company in fulfilling information needs. Therefore the ownership structure will be the thing that will affect the level of compliance in providing needs in the form of financial statements. Many ownership structures cause differences in the form of supervision and control of the company's operational activities.

Some elements of the ownership structure are managerial ownership, institutional ownership, and public ownership. These three things will be one indicator in terms of financial reporting compliance (Beiner, 2003). The statement that IFR may not be able to provide empirical financial reports that are reliable and high quality, due to the need for a good ownership structure to meet the information needs of investors. Hence, there is no information imbalance between the company and investors.

Audit quality

It is a condition that companies listed on the Indonesia Stock Exchange must use the services of auditors to assess,

review, review financial statements whether they have been presented based on generally accepted accounting principles (DeAngelo & Elizabet, 1981). Audit quality for auditors is the result of work in conducting audits of financial statements that are in accordance with the standards and professional code of ethics that have been set. For users of financial statements, good audit quality is able to provide opinions that are in accordance with the audit process and can be accounted for, so that there is no fraud or material misstatement. Companies can use public accountants to increase the trust of external parties to information issued by management. Quality audit results will increase the credibility of financial statements.

Development of Hypothesis

The effect of company size on the level of disclosure IFR

The possibility of the level of disclosure of internet financial statements can be viewed from the size of the company is the complexity of various things. Each company tends to inform its financial statements to the parties concerned so that the company can be superior to other companies. There are several studies that explain that the application of IFR is influenced by the size of the company, as research from Sari (2011) states that only the company size is able to influence IFR. A similar study conducted in Istanbul Turkey stated that the size of the company also had a positive influence on IFR (Aqel, 2014).

The existence of IFR, management is able to meet the information needs of shareholders and also can avoid information asymmetry in which one party has more information than the other party. Based on this description, the size of the company is expected to have an impact on internet-based disclosures. Then the first hypothesis proposed is:

H1: Company size influences the IFR disclosure level

The effect of profitability on the level of disclosure IFR

Based on signal theory, companies will tend to disclose financial statement information because they have a high level of profitability to avoid high agency costs through IFR. Previous research found evidence that profitability can affect the presence of IFR (Bekiaris, Psimada & Sergios 2014). Other and similar studies that support are Abdullah, Ardiansyah, & Hamidah (2017), namely company size, profitability, and public ownership influence on IFR.

In line with some of these studies, this study will also use profitability variables as independent variables. Then the second hypothesis proposed in this study is:

H2: Profitability influences the IFR disclosure level

The effect of ownership structure on level of disclosure IFR

The ownership structure consists of institutional ownership, public ownership and managerial ownership. These three things will be one indicator in terms of financial reporting compliance (Beiner, 2003). The statement that IFR may not be able to provide empirical financial reports that are reliable and high quality, due to the need for a good ownership structure to meet the information needs of investors. Thus there is no information imbalance between the company and investors (Ball, 2006). One of the studies on IFR is Momany & Pillai (2013) stating that corporate ownership has a significant effect on IFR. In accordance with the above statement, it can be explained that the ownership structure can be predicted to determine the existence of IFR factors. Thus, the third hypothesis proposed is:

H3: Ownership structure influences the IFR disclosure level

The effect of audit quality on level of disclosure IFR

Many audit quality studies that discuss auditor size based on big four and non big four . Companies tend to choose Auditors who work in Big Four KAPs because they are seen as having better ability and expertise in conducting audits compared to non-big four KAPs .

Based on agency theory, audit quality can reduce problems between management and shareholders. Several studies have been conducted, concluding that audit quality is one of the factors that influence the existence of IFR. This study was conducted with 326 companies in Indonesia (Kartika & Puspa, 2013. The result of the research audit quality affected the quality of IFR. So based on the details above, it can be stated that the fourth hypothesis proposed is:

H4: Audit quality influences the IFR disclosure level

Based on the explanation of the development of the hypothesis above, the research model is as follows:

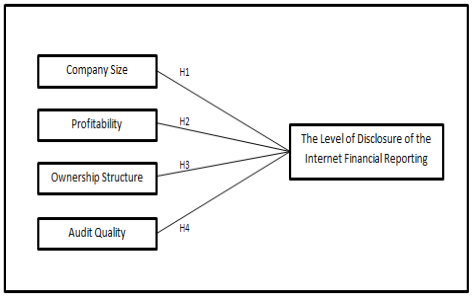

Fig. 1. Research Model

III. METHOD

Population and Sample

This study is a quantitative method approach. This study can also be classified as cross section data research, because it does not require data from previous years. The sample selection technique used in the study is a non- probability sampling method that is purposive sampling. The object of the research used is a manufacturing company with a consumer goods industry sub-sector totaling 39 companies and listed on the Indonesia Stock Exchange in 2012-2016 which can be accessed on the Bursa website. Indonesian Securities (www.idx.co.id).

The sample selection is based on several criteria, namely: (a) Manufacturing companies listed on the Indonesia Stock Exchange in 2012-2016. (b) Manufacturing companies

included in the consumer goods industry sector in the Indonesia Stock Exchange in 2012-2016. (c) Companies that have websites and websites can be accessed by the company. (d) Companies that submit annual report data and financial reports.

Number of sample can be seen in table 1 are 173 companies manufacturing consumer goods industry sub-sector with the period 2012-2016.

TABLE I. SAMPLES

Criteria	2012	2013	2014	2015	2016	Total
Manufacturing companies listed on the Indonesia Stock Exchange in 2012-2016	132	137	141	144	145	699
Non-consumer goods manufacturing companies listed on the Indonesia Stock Exchange in 2012-2016	(97)	(101)	(104)	(106)	(107)	(515)
Companies that do not have websites and websites that cannot be accessed	0	0	0	0	0	0
Companies that do not submit annual reports and financial reports	(3)	(2)	(2)	(2)	(2)	(11)
Final Company Samples	**32**	**34**	**35**	**36**	**36**	**173**

Operational variables and measurement

Dependent variable

IFR disclosure level

IFR is financial disclosures carried out by companies through the internet that are presented on company websites (Asbough, 1999). Likewise, IFR can be measured using a disclosure index adopted from the research of Bonson and Escobar (2006). In determining the disclosure index there are 44 items that can measure IFR. The formula for determining the IFR index value is:

$$\text{Disclosure Index} = \frac{\text{Amount Of Score Obtained}}{\text{Total Disclosure Index Score}}$$

Source: Bonson dan Escobar (2006)

Hence, the more item elements expressed by the company, the higher the value.

Independent variables

Company size

The size of the company identifies the existence of the IFR will motivate the rate of disclosure in banking companies so as not to lag behind other types of companies. Agency theory that underlies this study supports that company size influences IFR (Pervan, 2017). In this study, the size of the company is measured by the natural logarithm of the total assets of the company, which can be seen from the number of assets in the annual report during the accounting period.

Profitability

Profitability in this study is measured by the return on assets to profit or ROA (Return on Asset). This level of profit or profitability is used to test how much the level of disclosure in the company. Here is the formula for Return on Assets:

$$\text{Return On Asset} = \frac{\text{Net Income After tax}}{\text{Total Asset}}$$

ource: Brigham dan Houstan (2010)

Ownership structure

Ownership structures include managerial ownership, institutional ownership, and public ownership. These three things will be one indicator in terms of financial reporting compliance (Beiner, 2003). The ownership structure in this study is one of the things that can affect IFR. However, researchers want to take only one element of the ownership structure, namely public ownership. This public ownership if the number of shares held by the public will be more information that should be disclosed and more public demand for transparency is done (Jannah, 2015). So that public ownership will be measured using a dummy variable, if public ownership <5% then gets a score of 1 and if public ownership> 5% then gets a score of 0.

Audit quality

Quality of audits in research alternated by firm size, defined as large or small a public accounting firm. The Big Four KAP has a high reputation and expertise, which guarantees better audit quality compared to Non Big Four KAPs. The KAP size in this study refers to research conducted by Gerayli et.al (2011) and Alzoubi (2016). KAP size is measured using a dummy variable. If the company is audited by the Big Four KAP then it is given a value of 1, whereas if the company is audited by the Non Big Four KAP then it is given a value of 0.

Based on the explanation above, measurement of variables in this study can be seen in Table II.

Data Analysis

The analytical data used multiple regression analysis. The data has examined the classical assumption test and the data is normal. The regression models used in this study are:

$$\mathbf{IFR = \alpha + \beta 1SIZE + \beta 2PROF + \beta 3OWNPUB + \beta 4AQLY + \varepsilon}$$

IFR	is the level of disclosure IFR
SIZE	is company size profitability audit quality
PROF	is profitability
OWNPUB	is ownership structure
AQLY	is audit quality
ε	is standard error

TABLE II. SUMMARY OF MEASUREMENTS VARIABLE

Variable	Definition Measurement	Symbol
Company Size	Natural Logarithm of Total Assets	SIZE
Profitability	Net Income After Tax / Total Assets	PROF
Ownership Structure	Variable Dummy, 1 = Public Ownership <5%, 0 = Public Ownership> 5%	OWNPUB
Audit Quality	Dummy 1 = Big KAP 4, 0 = Non Big 4 KAP	AQLY
IFR Diclosure Index	Amount of Actual Score Obtained / Total Index Score	IFR

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SIZE	is company size profitability audit quality
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ε	is standard error

IV. RESULT AND DISCUSSION

Descriptive statistics

Based on the statistical results table 3, it can be seen that firm size variables expressed by natural logarithms of total assets have an average value and standard deviation of 28.35 and 1.60, with the smallest and largest values being 24.40 and 32.15. The variable profitability of the company denoted by the ability to generate profits from the assets used produces an average value and standard deviation of 11.93 and 11.48, and obtains the smallest and largest value of -4.19 and 65.72. The third independent variable is the ownership structure with the smallest value of 0, and the largest value is 1. The average of the ownership structure is 0.13 and the standard deviation is 0.334. Audit quality with a value of 0 is the smallest value and 1 is the biggest value. The average owned is 0.47 and the standard deviation is 0.50. Whereas for the dependent variable, the IFR disclosure level has the smallest value of 45.45 and the largest value is 86.36. The average of this dependent variable is 67.65 with a standard deviation of 6.93.

TABLE III. DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Mini	Max	Mean	Std. Dev
SIZE	173	24.40	32.15	28.35	1.60
PROF	173	-4.19	65.72	11.93	11.48
OWNPUB	173	0	1	0.13	0.33
AQLY	173	0	1	0.47	0.50
IFR	173	45.45	86.36	67.65	6.93

Results

Table four describes about results of hypothesis testing. The table indicates company size, profitability and audit quality have significant value < 5% so that company size, profitability and audit quality influences to IFR disclosure level. Ownership structure not influences to IFR disclosure level because the value of significant > 5%.

TABLE IV. RESULTS OF HYPOTHESIS TESTING

Variable	Regression coefficient	t-value	Sig
Constant	37,569	3,751	0.000
SIZE	0,783	2,412	0,017**
PROF	0,171	2,549	0,023**
OWNPUB	-1,036	-0,654	0,514
AQLY	0,382	2,361	0,048**
F-hitung = 2,753			
R-square = 0.59			

α=5%

Based on the results of testing the hypothesis table 4, the summary of the results of the hypothesis test is found in table 5.

TABLE V. SUMMARY OF RESEARCH RESULTS

Hypothesis	Conclusion
H1: Company size influences the IFR disclosure level	Supported
H2: Profitability influences the IFR disclosure level	Supported
H3: Ownership structure influences the IFR disclosure level	Not supported
H4: Audit quality influences the IFR disclosure level	Supported

Company Size Influences the Level of Disclosure IFR

Based on the results of statistical tests, H1 indicates the size of the company influences the level of IFR disclosure, so H1 is stated to be supported. Thus this study is also in accordance with research conducted by Sari (2011), Soepriyanto & Dustinova (2012), Aqel (2014), which states that firm size has a significant effect on IFR disclosures (IFR). So based on signal theory can be said that IFR can be a form of accountability as a way to reduce information asymmetry and company size can be a factor that triggers company management to disseminate financial information and reduce agency costs.

This means that large companies that have better reporting information systems tend to have more resources in obtaining information and costs. Large companies have a higher intensity to present voluntary disclosures because large companies are

faced with higher political costs and pressures than small companies. This means that the larger the size of the company in the consumer goods manufacturing sub-sector shows that the greater the level of disclosure of IFR.

Profitability Influences the Level of Disclosure IFR

Based on the results of testing hypothesis 2 which states that profitability affects the level of IFR disclosure this is stated to be supported. So this study can support previous research which states that profitability has a positive and significant effect on Aqel (2014) and (Momany & Pillai, 2013), also in line with signal theory proving that the influence of profitability has greater opportunity or motivation in implementing internet-based financial information disclosure.

This means that profitability is one of the factors that can increase IFR disclosure in consumer goods manufacturing sub-sector companies, because the higher the company's ability to earn profits, the higher the company will disclose and disseminate good news or internet-based financial statement information items.

Ownership Structure Influences the Level of Disclosure IFR

Based on the results of hypothesis testing, it can be stated that H3 is not supported. This means that the structure of public ownership does not affect the level of IFR disclosure. The results of this study conflict with previous studies which state that the structure of public ownership influences the level of IFR disclosure Pervan and Bartulovic, (2017) and Momany & Pillai (2013). These results occur because the structure of public ownership is a share ownership by the community below 5% and is only to be traded and not to control the company's management; therefore information about the company as a whole is less attention to shareholders who have a proportion below 5%. In addition, the statement that public ownership has no effect on IFR is due to several reasons, namely the nature of voluntary financial reporting through the internet and the cost of managing the website which is quite expensive. So that each company has its own policies in disclosing IFR practices because of the need to consider cost and benefits. Therefore, the greater the composition of public share ownership does not trigger a wider disclosure of information through the company's website.

Audit Quality Influences the Level of Disclosure IFR

Based on the results of hypothesis testing, H4 shows that there is a significant influence between the size of KAP on the level of IFR disclosure. Therefore, it can be concluded that hypothesis 4 is supported. The results of this study are consistent with the research conducted by Kartika and Puspa (2013) which states that the size of KAP has an effect on IFR. The greater the size of the KAP that conducts the audit, the better the financial information disclosure stated by the IFR. This financial report audit can be used to increase the credibility of the report so that if the company is audited by a KAP that has a good reputation, it can attract investors to invest because the level of investor confidence increases.

V. CONCLUSION

Considering the results of research and discussion about the factors that influence the level of disclosure of IFR (IFR) in consumer goods manufacturing sub-sector companies listed on the Stock Exchange in 2012-2016, conclusions can be drawn: (1) Firm size influences the level IFR disclosure. This explains that the greater the size of the company revealed through total assets, the higher the level of IFR disclosure. (2) Profitability influences the level of IFR disclosure; this means that the greater the profit obtained by the company, the greater the disclosure of IFR (IFR). (3) The ownership structure does not affect the level of IFR disclosure. This is because the nature of the composition of share ownership by the public is below 5% only to be traded and not to control the management of the company and the company has its own decision in the use of IFR. (4) Audit quality shows the effect on IFR disclosure level. This means that if the company uses the Big 4 KAP, the disclosure of IFR will also increase because the audit results issued have good value.

The implication of this study for companies, these results can contribute to informing the company how the IFR disclosure should be. Provide direction and input to further enhance all knowledge regarding the practice of disclosure of internet-based financial statement information. The results of this study are expected to add to the research literature that discusses what factors can affect the practice of disclosure level of disclosure IFR

There are limitations in this study, only uses four variables that can identify the factors that influence the level of disclosure of IFR, while there are many more factors that influence IFR besides the four variables. This study only uses one sub-sector in a manufacturing company because at first researchers wanted to see if there was any effect on the consumer goods industry sub-sector because this sector interacted directly with the community.

Based on the results of this study the authors suggest that further research can be able to expand the location and object of research, only limited to the manufacturing sector but add samples to all sectors of the company on the IDX. Add research variables such as the level of timely delivery, financial ratios, and a broad ownership structure. Future research is expected to use panel data analysis so that it can better know how the company discloses its information every year.

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