

# Provision of High Quality FI

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# The Provision of High-Quality Financial Information in Increasing Voluntary Disclosure

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## Abstract

Diverse parties require more extensive, pertinent, exhaustive, and timely information to aid decision-making. This research aims to determine how financial information quality (FIQ) affects voluntary disclosure (VD), particularly when it is moderated by corporate culture (CC). We employed two stages of data collection. The first stage was carried out by distributing questionnaires to company accountants, auditors, and educator accountants concerning the FIQ, CC, and VD. The selected respondents were considered competent with the intended research topic to obtain the respondents' objective and professional perceptions of the distributed questionnaires. The second stage was conducting semi-structured interviews with the competent participants to obtain their professional judgments on the variables studied. The data was processed using a variance-based approach to answer the constructed hypotheses. The study proposed that high-quality financial information could significantly influence the increase of VD. This study also showed that an opened CC could strengthen VD. The supervisory role of top management and the board is crucial to producing reliable, high-quality financial information and building a more open CC. It also influences the growth of VD, reduces information asymmetry, and increases capital market investment transactions.

**Keywords:** information asymmetry, financial statement, supervisory, culture

## I. Introduction

From the information perspective, financial statement information disclosure strives to offer users appropriate information for decision-making and to reduce information asymmetry between internal and external entity users (Potin et al., 2016). The term disclosure can be interpreted as the company's efforts to disseminate information to ensure transparency to stakeholders. Submission of minimum information to the public or mandatory disclosure is submitting minimum information that refers to laws and regulations or existing standards. When companies make disclosure policies and implement them beyond the minimum requirements, this condition is called VD (Abeysekera et al., 2021). The term VD refers to things that the corporation reveals more than the specified level of mandated disclosure (Breton, 2018).

Financial statement information plays a role in strengthening the reliability of VD, namely by providing information that can be verified by users of information. That information submitted to stakeholders can be a reference and tool for verifying past performance (Hui-Sung, 2014). Financial statement information should provide reliable and helpful information for decision-making (Krismiaji & Raharja, 2018); for this reason, management/accountants must present validating qualitative aspects so that they function to minimize information asymmetry (Breton, 2018).

Several prior academics have investigated the quality of financial statement information. Some of them have proven that the concepts of good quality financial statements can benefit various parties (Dumisani, 2019) and positively affect company growth and size (Astutie & Fanani, 2016). Likewise, various factors have been found that can affect the quality of financial statement information, including the adoption of good corporate governance (Uwuigbe et al., 2018); application of adequate professional standards of ethics (Tarawneh & Altarawneh, 2019); application of accrual-based accounting (Kiryanto et

al., 2020); audit tenure and audit quality (Ogungbade et al., 2021); IFRS compliance, and good corporate governance (Deborah et al., 2020).

Regarding information disclosure, research has proven various benefits for the parties as a result of extensive disclosure of information, including that extensive information disclosure provides benefits in the investment mechanism for both investment actors and regulators (Li & Zhang, 2021); provide strategic benefits from both financial and product aspects (Shi et al., 2021); provide great benefits to employees (Watkins, 2021); in banking companies will increase the number of deposit customers (Nnachi et al., 2020). Even more extensive VD of human resources has a beneficial influence on the company's market value (Mishra et al., 2015).

Even though there is a standard that governs the presentation of financial reports, incidents of low-quality financial reports are still encountered, as evidenced by Deborah et al., (2020); Boolaky et al., (2018); Hasyati et al., (2017); Hui-Sung (2014). It should also be noted that although the study results have shown various benefits obtained from VD, various cases show that information disclosure is still low. Alfraih & Almutawa (2017), on the results of their study on companies in Kuwait, showed that of the 49 assessment items for VD, only 23% of the level of disclosure was made. Jankauskien et al. (2012) showed that weak supervision and low information sharing contributed to the failure of a Baltic bank. According to Seyseker et al. (2021), the quality of financial information disclosure in China remains inadequate, which has a destructive impact on the sustainability of disclosure quality. Saidatou et al. (2020) also found low disclosures in several companies in Canada. Ring (2016) said that in many cases in developing countries, the level of disclosure still needs improvement. The findings of Shin & Oh (2017), including Setiany et al. (2017), Pour & Imanzadeh (2017), Nakhodchari & Garkaz (2014), also supported some previous studies about limited information disclosure, which led to the emergence of information asymmetry issues.

On the contrary hand, the CC, which is a set of values that is used as a reference for habits in carrying out duties and obligations within the company, is seen as being able to moderate the influence of the quality of financial statement information on VD (Agyei-Mensah & Buertey 2019). If the degree of VD is significantly impacted by community views, habits, and environmental behavior, disclosure is also heavily influenced by culture; even company culture has a significant association with the level of VD. CC can be an instrument of significant competitive advantage if it supports its strategy and can quickly and appropriately overcome environmental challenges (Samson et al., 2017).

This research aims to ascertain the influence of financial statement information quality on VD of information based on accountant perceptions. Furthermore, this research aims to determine whether CC might mitigate the influence of FIQ on VD. The study's findings will be essential to raising accountants' and management's understanding of the impact of financial statement information quality and CC on VD of information to stakeholders.

## II. Methods

This study uses a descriptive exploratory approach, data collection through two stages. The initial step of data gathering was conducting semi-structured interviews with two Indonesian government-certified academics. The two interview participants are professors in financial accounting who are considered competent in providing their professional opinions. The interview participants were asked for information related to the FIQ, the level of VD, and how the role of CC in bringing information disclosure to the public to achieve the practice of VD in Indonesia.

The second step of data collecting was the distribution of research questionnaires to respondents. The respondents were corporate or professional accountants, auditors, and educator accountants. The collected data is analyzed in order to answer the hypotheses that have been developed. The data collection aims to gain an objective perception of the respondents on the questionnaires created and delivered. The chosen respondents are considered knowledgeable about the research issue (Sekaran and Bougie, 2016). Online surveys carried out the data collection method; the questionnaire web-link was distributed via email or the WhatsApp application in groups and directly on individual networks.

The descriptive study aims to describe the situation based on facts, while exploratory aims to reveal how the quality of financial statements and CC can explicitly affect VD and how CC can moderate the

effect of FIQ on VD. Data processing is carried out to answer research problems without data manipulation. Research like this has high objectivity so that the results can be generalized and is expected to be an essential input for management, accountants, company information users, and other stakeholders.

The questionnaire used refers to previous studies with several modifications, namely for the FIQ variable adopted from Abeysekera et al., (2021). Fifteen statements represent the FIQ variable. The questionnaires for the VD variable were adopted from Fennema & Koonce (2010) with some adjustments so that 14 statements represent it. The questionnaires for the CC variable, adopted from Samson et al. (2017), measures CC in two dimensions, namely the ritualism dimension and the opportunism dimension; the CC variable consists of 10 statements. To verify that each questionnaire's objective and clearly understood was, the questionnaires were pre-tested on ten regarded competent people and comprehended the themes presented.

The population of this research is the employees of corporate accountants or professional accountants, auditors, and accountant educators or lecturers. From the results of data collection, there are 117 sets of complete and appropriate questionnaires to be processed as research samples, consisting of 48 sets from corporate accountants or professional accountants, 37 sets of questionnaires from auditors, and 32 sets from accountants, educators, or lecturers. The entire statement in the questionnaire uses a Likert scale with five measurement scales; for answers, strongly agree is worth 5 to disagree strongly is worth 1. To minimize bias where respondents give careless responses, about twenty percent of the questionnaires are made with negative statements. To encourage respondents' objectivity in filling out the questionnaire, it is stated (in the introduction) that this research is exclusively for advancing knowledge and that each respondent's personal information is kept confidential.

We consider respondent accountant educators, respondent auditors, and respondent firm employees/professionals to have an equal understanding of the research object. It was supported by the t-test results, which show no significant difference ( $p > 0.05$ ) between educator accountants' knowledge and auditors' and employees' corporate accountants/professionals' knowledge, the focus of this study. The questionnaire data were collected, tabulated, and processed using descriptive statistics to obtain an overall picture of the data. To determine the answers to the hypotheses, hypothesis testing statistics were combined with a variance-based technique utilizing Smart PLS. The findings of this study are likely to be useful for practitioners and the development of future research to evaluate whether the quality of financial statements with a cultural moderator can affect VD.

### 17 III. Result and Discussion

The results of the analysis of the measurement model in Table 1 show the loading factor value  $> 0.50$ , AVE  $> 0.50$  and composite reliability or rho A  $> 0.70$  retained; this is a requirement in the measurement model (Henseler et al., 2017). Variable indicators with a loading factor of  $< 0.5$  are deleted from the measurement model; however, variables with a loading factor greater than 0.5 still be retained the content's validity, with an AVE value greater than 0.5 (Hair et al., 2019).

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Table 1: Construct Indicators and Model of Measurement

Items/ Indicators	Code	Factor Loading	Cronbach Alpha	AVE	rho_A
FIQ			0.927	0.596	0.939
Coverage of market analysis	QFI1	0.848			
Forward-looking information	QFI5	0.816			
Feedback information about market events	QFI6	0.621			
Feedback information that affects company	QFI7	0.874			
Positive and negative aspects to operational	QFI8	0.588			
Information about risks and opportunities	QFI9	0.605			
Cost of equity	QFI11	0.507			
Information about economic benefits	QFI12	0.851			
Accounting policy information	QFI13	0.848			
Comparative in financial profitability	QFI14	0.892			
Comparative in liquidity	QFI15	0.901			

VD			0.939	0.639	0.948
Business competition analysis	V.Disc11	0.539			
Market share	V.Disc12	0.792			
Key market trend assessment	V.Disc13	0.807			
Macro conditions effect on the company	V.Disc14	0.809			
Company plans and objectives	V.Disc15	0.890			
Alignment of actions with the goals	V.Disc16	0.844			
New investment perspectives	V.Disc17	0.874			
Financial effects on fund raising	V.Disc10	0.501			
Financial effects on own resources	V.Disc11	0.819			
Dependence upon technology and HR	V.Disc13	0.861			
Investment in social development	V.Disc14	0.936			
CC			0.897	0.543	0.913
Dimension of Ritualism					
Formal way of doing things in the organization	Cult1	0.657			
Coming through formal induction training before working	Cult2	0.816			
Hierarchy of information flow that must be observed	Cult3	0.712			
Reporting information on the environment	Cult4	0.790			
Standard for gauging ethical behaviour in organization	Cult5	0.835			
Following laid down procedures without questioning	Cult6	0.529			
Dimension of Opportunism:					
Encouraging to experiment new ways of doing things	Cult7	0.632			
More emphasizing on results rather than procedures	Cult8	0.790			
Having autonomy to make certain decisions	Cult9	0.814			

Note: QFI2, QFI3, QFI4, QFI10, V.Disc18, V.Disc19 and Cult10 were deleted due to low loading factors.

This test revealed the discriminant or divergent validity of latent variables in the model using the Fornell-Lacker criterion and the heterotrait-monotrait ratio (HTMT). The diagonal line's square root of AVE is more significant than the model's correlation between constructs, indicating that all variables in this research model match the discriminant validity standards (Table 2). The HTMT discriminant validity findings also reveal that all variables in the model match the validity requirements, as evidenced by the HTMT score being less than 0.90, indicating that it follows the suggested rule of thumb.

#### A. Testing Result

Table 2. Correlation and Discriminant Validity Results

Construct	Mean	Standard Deviation	(1)	(2)	(3)
Culture (1)	1.547	0.668	<b>0.737</b>	0.415	0.689
QFI (2)	1.613	0.617	0.427*	<b>0.772</b>	0.497
Voltr. Disclr. (3)	1.838	0.583	0.696*	0.480*	<b>0.799</b>

Note: \*Significant at the level of 0.05.

The diagonal and bold components represent the square roots of the extracted average variance.

Correlations between construct values are shown below the diagonal elements.

The HTMT values are shown above the diagonal elements.

This study data analysis employs Partial Least Squares-Path Modeling. It is a good approach for investigating quadratic effects, where features are available to complete nonlinear modeling even with small samples (Ramli et al., 2018). Furthermore, Partial Least Squares-Path Modeling allows researchers to group segmentation easily and overcome the measurement invariance problem in multi-group analysis. It is also mentioned that Partial Least Squares-Path Modeling allows researchers to simultaneously test the relationship between variables (Latan and Noonan, 2017).

After confirming that all indicators of each variable meet the validity and reliability requirements (supported by Figure 1), the next step is testing the structural model and hypotheses.

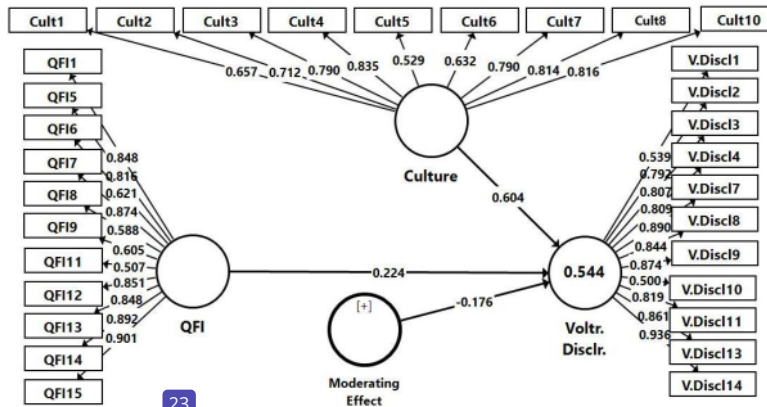


Fig. 1 Evaluation of the Full Sample Measurement Model

The structural model collinearity test (given in Table 3) utilizing the variance inflation factors (VIF) revealed that the model is free of collinearity concerns and all below the required VIF value of 3.3 (Hair et al., 2019). The model evaluation results have shown that the coefficient of determination  $r$  square is 0.544 or the adjusted  $r$  square is 0.532, which indicates that CC and FIQ have good predictive power on VD; as the rule of thumb states, the coefficient of determination between 0.25 to 0.50 is in a good prediction (Hair et al., 2017).

This study also uses  $f^2$ , which represents the contribution of individual variance. The  $f^2$  values  $>$  0.02, 0.15, and 0.35 respectively indicate small, medium, and significant contribution (Hair et al., 2019), while the test results from this study show the  $f^2$  values are 0.090 and 0.655, respectively for the variable FIQ and CC, which offers small and significant contributions to the FIQ and CC. In addition, this study also assesses the predictive accuracy of the structural model that was formed using the  $Q^2$  value. The advice said that  $Q^2$  values larger than 0, 0.25, and 0.50 indicated modest, medium, and significant predictive accuracy, respectively; nevertheless, this investigation revealed that the  $Q^2$  value of this study is 0.333, indicating that it is in the medium range.

Table 3. Structural Model Outcomes

Constructs	$R^2$	Adj. $R^2$	$f^2$	$Q^2$	VIF	SRMR	NFI
FIQ			0.090		1.223		
VD	0.544	0.532		0.333		0.106	0.819
CC			0.655		1.224		
Moderating Effect			0.042		1.001		

This research model uses the standard root mean squared residual (SRMR) as the goodness of fit indices. The result of SRMR obtained a value of 0.106  $<$  1.0, which implies there is no difference between the implied model and the observed correlation. It means that the model that has been built is following the empirical data being tested. Generally, it is found that the SRMR cut-off value using variance-based SEM gives lower results when compared to testing using covariance-based-SEM. It is because of the different roles of the two algorithms used (Hair et al., 2017a, p. 193).

Table 4. Hypotheses Testing Result

Hypotheses	Structural Path	Coef ( $\beta$ )	Standard Deviation	t-Value	P-Value	Conclusion
Ha <sub>1</sub>	QFI $\rightarrow$ Voltr. Disclr.	0.224	0.072	3.107	0.002*	supported
Ha <sub>2</sub>	Culture $\rightarrow$ Voltr. Disclr.	0.604	0.068	8.928	0.000*	supported
Ha <sub>3</sub>	QFI x Culture $\rightarrow$ Voltr. Disclr.	-0.176	0.084	2.103	0.036**	supported

Note: \*, \*\* statistically significant at the 1% and 5% levels, respectively

The results of the three hypotheses that have been developed and tested (test results are presented in Table 4) show that the first result proposed that the high-quality financial information could significantly affect the increase in VD (Ha1 supported). This result supported the findings of Potin et al. (2016) and Ertimur (2007) but is not in line with the results of research by Oluwagbemiga (2014). The testing result for the second hypothesis has shown that an open CC can significantly affect the increase in VD (H2 supported); this finding is in line with the research conducted by Samson et al. (2017) but contradicts the results of a study conducted by ElKelish & Hassan (2016). The result of the last hypothesis testing proposed that CC could moderate the FIQ on VD made by management (Ha3 supported). Companies with open and transparent cultures tend to strengthen VD of information to information users.

#### *B. The interview result*

Semi-structured interviews were conducted with two interview participants to determine how the FIQ and CC can affect VD in Indonesia. Concerning the FIQ, interviewees claimed that there had been an improvement in the FIQ in Indonesia compared to prior years, which is accompanied by more internal control and stronger implementation of corporate governance. The two parties also agreed that the growing capitalization and number of capital market transactions on the Indonesia Stock Exchange had contributed to the rising FIQ. One of the participants also said that although there were still cases related to fraud in financial reporting, concrete actions have been taken directly in handling the cases. It would have a deterrent effect and become an essential concern for various parties regarding the importance of good quality financial reports.

Regarding CC and VD, an interview participant said that the culture and stringent rules for conveying information to the public, strict procedural requirements for information delivery, and excessive communication can make management act very carefully in conveying information to the public. In such circumstances, management even tends to feel reluctant to be creative in conveying information beyond the specified minimum requirements. Even if management views the information submitted can providing a positive sentiment for the company, management will act very carefully. This condition restricts the information that reaches users to the formal. He further said that many companies in Indonesia are increasingly open to providing information to the public nowadays. Even some large companies have openly submitted their corporate strategic plans. Such open cultural practices encourage the disclosure of richer information to the public. "Don't stakeholders need complete, relevant, and timely information?... So, it is indispensable to be motivated so that the practice of open culture in conveying information to the public is increasingly enhanced so that information is symmetrical and ultimately an investment in the capital market is lively and vibrant."

Another interview participant said, "...management that is more results-oriented rather than procedural, as well as providing flexibility for unit or division managers to take certain best ways to obtain results and performance through the delivery of information to the public, tends to lead to the practice of information disclosure better. Currently, such practice is growing in a number of companies in Indonesia....."

#### **IV. Conclusion**

Stakeholders need good quality, valid, relevant, timely, and reliable financial information. It has been shown that good FIQ leads management to be more confident in conveying financial and other non-financial information to the public, thereby encouraging more disclosure than is required. Under these conditions, information asymmetry tends to be reduced, transaction costs are decreasing, and transaction volume is increasing, leading to the expectation that capital market transactions will be more exciting. As a result, it is highly anticipated that the financial statements produced by management provide credible, trustworthy, and relevant information to aid in making sound decisions. As a result, reasonable steps are required to ensure that management's financial statements suit the demands of information users. These efforts are carried out through adequate supervision from internal parties, including the board, audit committee, and internal auditors, to carry out corporate governance effectively. The parallel efforts of external auditors in producing good quality audits are also very helpful in producing reliable financial statement information.

It has also been found that a more open CC conveying information is not just a formality and ritual, providing an opportunity for management to be creative. Such a more open culture also gives management independent authority in delivering public information, is result-oriented, and motivates management productivity in better disclosure of information. Such conditions add value to the company and ultimately give positive sentiment to the company. Top management and the board play a vital role in shaping the implementation of a more open CC, encouraging management to be more productive in conveying relevant information to provide benefits for both the company and other outside information users.

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