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The Influence of Financial Reporting Quality, Sustainability Reporting and Debt Maturity on Investment Efficiency

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ABSTRACT

The purpose of this study is to find out and obtain empirical evidence regarding the effect of financial reporting quality, sustainability reporting and debt maturity on investment efficiency. This research was conducted on all non-financial companies listed on the Indonesia Stock Exchange in 2015-2019. Samples were taken as many as 18 companies with a total sample of 90 research observations in 5 years, through purposive sampling method. The data collection method in this study was a non-participant observation method. The data analysis technique used is multiple linear regression analysis. Based on the results of the analysis, it is known thatthe higher the quality of a company's financial reporting, the higher the level of investment efficiency of the company and it is known that Sustainability Reporting is able to affect investment efficiency. SR reporting is able to create a positive image of the company and is able to attract investors and potential investors to invest. But Debt Maturity has not been able to affect the efficiency of investment in non-financial companies. The results of this study are the practice of stakeholder theory and legitimacy theory carried out by the company to maintain the long-term sustainability of the company's operations and the company's consideration in carrying out operations and making good and efficient investment decisions.

Keywords : financial reporting quality, sustainability reporting, debt maturity, investment efficiency

INTRODUCTION

The company is an institution in the form of an organization that is operated to provide goods and services for the community. The main goal to be achieved by all companies is to obtain the maximum profit to be able to advance the company in the long term. To be able to advance the company in the long term, usually a manager will take a decision to invest. A manager will strive to be able to invest properly and efficiently in order to obtain profits that can increase the prosperity of the company and investors.

Efficiency is an action to use resources appropriately so that there is no waste of existing resources. The company performs efficiency in its operations to reduce costs and facilitate the company management process in order to achieve company goals easily. Investment activities carried out by the company must be efficient in order to bring benefits to the company. Investment efficiency is an investment activity carried out in accordance with company expectations. An investment can be said to be efficient if the level of investment expected by the company can increase company profits, increase the prosperity of the company and investors and do not experience any deviations.

In 2015 there was a decline in income experienced by 2 major sectors of the 8 company sectors on the IDX which were the samples of this study. The decline in revenue was influenced by government regulations. Sectors that experienced a decline in income were the manufacturing sector and the mining sector. In the manufacturing sector, the largest industry that experienced a decline in income was the tobacco industry by 58.34%. Meanwhile, the mining sector experienced a decline in revenue, namely coal and cement issuers.

2016 was a year in which 9 corporate sectors on the IDX experienced a decline in revenue. There are several companies belonging to the 9 sectors that experienced a decline in revenue of almost 100 percent. The 9 sectors include the consumer sector; trade, services and investment; basic and chemical induction; various industries; property and construction; mining and energy; infrastructure and transportation; and agriculture. The companies that experienced the biggest decline in revenue were the property and construction sectors.The decline in revenue in 2016 was caused by the weakening of the Indonesian economy due to the uncertainty of global conditions from 2015, weakening export performance and declining world commodity prices.

In 2017 there were 4 major sectors of companies listed on the IDX that experienced a decline in income, these sectors include the manufacturing sector, the trade sector, the construction sector and the mining and quarrying sector. Data from the Central Statistics Agency (BPS) states that economic growth during 2018 only reached 5.17 percent of the 5.4 percent target in the 2018 State Budget assumption. Investment growth weakened because in the fourth quarter of 2018 there was economic turbulence caused by the trade war, government policies and value fluctuations.

In 2019, there were 11 coal issuers who experienced a decline in profits which caused further pressure on the performance of coal companies in Indonesia. The decline in profit was influenced by the decline in the average selling price of coal by 13% throughout 2019, one of which was caused by the trade war between China and the United States.Central Bureau of Statistics data (BPS) stated that investment growth in the second quarter of 2019 weakened. This was due to a contraction in the growth of investment in capital goods, apart from buildings and machinery.

Based on researchBiddle, Hilary and Verdi, 2009factors that affect investment efficiency, namely the quality of financial reporting. In this study, researchers added 2 new variables to test investment efficiency, namely Sustainability Reporting and Debt maturity. One that affects investment efficiency is the quality of financial reporting owned by a company.Several studies have been conducted regarding the relationship between financial reporting quality and investment efficiency, showing that high quality financial reporting can improve investment efficiency.The study concludes that the quality of financial reporting and investment efficiency are positively and significantly related. In addition, a large amount of literature shows that companies with higher levels of financial reporting quality have higher investment efficiency, and financial reporting quality is efficient in reducing information asymmetry in the market.(Biddle, Hilary and Verdi, 2009 ;Cheng, Dhaliwal and Zhang, 2013 ;Cutillas Gomariz and Sánchez Ballesta, 2014).

The quality of financial reporting is very important for stakeholders as a whole. The higher the quality of financial reporting, the company's information is better reflected in the financial statements so that the information asymmetry that occurs will be smaller. This condition can help the company's investment decision making to be more efficient. In addition to the quality of financial reporting, this study also examines the effect of Sustainability Reporting on investment efficiency.*Sustainability Reporting*is a sustainability report issued by a company or organization on the economic, environmental and social impacts caused by daily activities. Sustainability Reporting helps organizations to measure and understand their economic, environmental and social performance, and then set goals and manage change more effectively. Sustainability Reporting or corporate social responsibility reporting is another factor that companies need to consider in an effort to improve corporate image.Investment efficiency can also be achieved by properly funding investments. One source of funding for companies can come from debt. The use of low maturity debt (short-term debt) from the lender's perspective is better, because it allows for better supervision and monitoring of managers (Diamond and Verrecchia, 1991). Research conducted by Sakti and Septiani (2015) shows that the quality of financial reporting and short-term debt has a significant positive effect on investment efficiency.

All non-financial companies listed on the IDX were selected as the population in this study. The research population was chosen because of the phenomenon that occurred from 2015-2019 in the sector and because the company has a large capitalization value so that the company provides a source of revenue that is large enough to invest. These companies are also more directly related to the use of natural resources that can cause environmental damage and require social action from companies that are around them. This study uses a time period from 2015-2019. The reason for choosing the time period from 2015-2019 is because of the phenomena that occur,

The motivation in this study is to examine the effect of Financial Reporting Quality, Sustainability Reporting, and Debt Maturity on Investment Efficiency. This study uses all non-financial companies listed on the Indonesia Stock Exchange in 2015-2019 because there was a phenomenon that occurred from 2015 to 2019, namely a decrease in income and a decline in investment growth of non-financial companies caused by declining commodity prices and planned government regulations. This will certainly affect the efficiency of investments made by the company by looking at the quality of financial reporting, SR reporting, and debt maturity by the company. The company's investment efficiency will be achieved if the company has a high level of financial reporting quality, good social actions towards the surrounding environment as well as the selection of appropriate funding alternatives. The existence of this phenomenon and not many have researched the research on the topic of investment efficiency is interesting to do.

Financial reporting is required to provide information that is useful for investors, creditors, and other users in making rational investments, credit decisions, and other similar decisions.(White et al., 2003). This is in accordance with the stakeholder theory in which the company has the urge to provide information to all parties who have an interest in the company. However, in the company's activities, there is a possibility that managers will make investments that are not in line with the objectives of the shareholders(Jensen & Meckling, 1976). Previous research has shown that high quality financial reporting can increase investment efficiency(Biddle et al., 2009).Verdi (2011)conducted research on the effect of financial reporting quality on investment efficiency in 38,062 companies in 1980-2003 and found that financial reporting quality was positively related to investment efficiency. A similar conclusion was also foundLi and Wang (2010) and Gilaninia, S., Chegini, MD, and Mohtasham (2012).

The high quality of financial reporting can cause shareholders to believe in investing in the company. Disclosure of good information in financial statements is one way that companies must do to maintain good relations with shareholders so that the company gets a positive image and can increase investor interest in investing. The high quality of financial reporting can attract funding providers from outside so that they are interested in providing funding to the company. High reporting quality can help management and investors in making decisions. The higher the quality of financial reporting, the more company information is reflected in the financial statements.

H1 : Quality of Financial Reporting has a positive effect on Investment Efficiency

This Sustainability Reporting (SR) disclosure is one source of information that can be used as a reference in making investment decisions by stakeholders in accordance with stakeholder theory. Based on the legitimacy theory, it is stated that SR disclosure can have an effect on developing its business if the company's operational activities run according to community expectations.

SR is a social activity that involves the community and companies. The Sustainability Report can be used by the company to prove that the company has carried out social and environmental responsibilities in accordance with applicable regulations. This is an effort so that the existence of the organization can be accepted by the community.

Several studies have been conducted regarding the relationship between CSR and investment efficiency. Dhaliwal et al. (2011) conclude that CSR-related information can serve as a substitute for financial information, especially when it comes to reducing information asymmetry between a company and its non-financial stakeholders. If high CSR firms are associated with more information quality, more transparency, and less earnings management, this should be reflected in their investment efficiency. High CSR companies tend to increase the company's investment efficiency because of the low information asymmetry reported by the company. SR disclosure also serves to get a picture of the future prospects of the company and the investment efficiency of the company.

H2 : Sustainability Reporting Positive effect on Investment Efficiency

Debt Maturity is a policy of determining the maturity of debt carried out by the company. Companies in developing their business will need a number of funds that can come from debt. The company will do various ways so that the company continues to provide profits and can operate well. This is done in order to obtain a positive image from investors and can provide good information for stakeholders. Based on stakeholder theory, companies that perform low debt maturity are good companies because they can reduce excessive use of funds so as to increase company profits. So the company can give a sign to stakeholders that the company is a good company in investing.

Myers (1997) and Jensen and Meckling (1976) in Cutillas Gomariz and Sánchez Ballesta (2014) reveal that debt has a role in reducing overinvestment problems, as well as reducing information asymmetry problems. The study revealed that when there are projects with positive NPV values, companies can finance these investments with short-term debt, because according to him, short-term debt will be liquidated in a short time and all profits will belong to the company. In line with Childs, Mauer and Ott (2005) revealed that high short-term debt flexibility can reduce agency conflict between stakeholders and creditors, this can reduce underinvestment and overinvestment.

Short term debt maturity can help managers monitor better, because debt with shorter maturities will lead to more intense interest rate re-setting. This allows the supervision and monitoring of managers to be better so as to improve the quality of the company. A good quality of corporate funding has an impact on company profits, so that the company's funding policy can be used as material for investment decisions so that investments are made more efficient.

H3 : Debt Maturity has a positive effect on Investment Efficiency

RESEARCH METHODS

Location This research is all non-financial companies listed on the Indonesia Stock Exchange (IDX) in 2015 – 2019 by accessing the websitewww.idx.comand official websites for all non-financial companies. The reason for choosing the research location is because the companies listed on the IDX report complete financial statements and report the Sustainability Report on the official website of each company.

Investment efficiency in this study is measured by the model that has been used by Biddle, Hilary and Verdi (2009) to estimate the level of investment expected by company i in year t. Here are the models:

Investment i,t+1 = 0 + 1*Sales Growth i,t + i,t+1 ………………………… (1)

Investment i,t+1 = Total total investment in non-current assets

Sales Growth it = Percentage of sales growth of company I from t-1 to t

The investment efficiency that is proxied by using the investment model above will later obtain a residual value which will be used as a measurement of the investment efficiency variable. The residual value is then absolute, then the absolute value as a proxy for investment efficiency. The smaller the residual value, the more efficient the company's investment level will be.

The quality of financial reporting in this study was measured by identifying discretionary accruals using the Modified Jones Model (Dechow, Sloan and Sweeney, 1995) with the following steps:

a. Calculating Total Accruals (TA)

The total accruals of company I in period t can be calculated by the formula:

$TACit = Nit - CFO$it . ……………………...…………………………(2)

Description :

$TACit$: Total accruals company i in year t

Nit : Net profit of company i in year t

CFOit: Cash flow out of company i's operations in year t

The total accrual value (TA) is estimated using multiple linear regression equations based on ordinary least squares (OLS) as follows:

$TACit/Ai,t-1 = 1 (1/Ai,t-1)+ 2 (\Delta REVt /Ai,t-1)+\beta 3(PPEi\ t /Ai,t-1)+e$...(3)

Description :

TACit : Total accruals company i in year t

Ai,t-1 : Total assets company i in year t

REVt : Change in the company's income in year t with t-1

PPEi t : Fixed assets of company i in year t

e : error

β : Regression coefficient

b. Calculating Non-Discretionary Accrual (NDA)

By using the regression coefficient above, the value of non-discretionary accrual (NDA) can be calculated by the formula:

$NDAit = 1(1/Ai,t-1)+ 2(\Delta REVt /Ait-1- RECt/Ait-1)+ 3(PPEt/Ait-1)$…………………..(4)

Description :

NDAit : Non-discretionary Accrual

Ai,t-1 : Total assets company i in year t

REVt : Change in the company's income in year t with t-1

RECT : Change in company receivables year t with t-1

PPEt : Fixed assets of company i in year t

c. Calculating Discretionary Accruals (DA)

Based on the previous two equations, the measurement of the value of discretionary accruals (DA) is estimated by the difference between total accruals (TA) and the value of non-discretionary accruals (NDA).

$DAit = (TAit/Ai,t-1) – NDAit$……………………………………………………(5)

Description :

DAit : Discretionary Accruals

TAit : Total accruals company i in year t

Ai,t-1 : Total assets company i in year t

NDAit : Non-discretionary Accruals

The measurement of this SR variable is carried out using a check list that refers to the latest version of the Global Reporting Initiative (GRI), namely the GRI Standards. In the GRI Standards, it uses a modular structure that is interconnected, and is a global best practice for reporting various economic, environmental and social impacts. The total indicators contained in the GRI Standards reach 151 items.

This Sustainability Reporting (SR) disclosure is measured using the SRDI index developed by Wijayanti and Surakarta (2016).

The index for each company is calculated as follows:

$SRDI = \frac{n}{k}$ ……(6)

Description :

SRDI = Sustainability Report Disclosure Index company

n = the number of items disclosed by the company,

dummy variable: 1 = if the item is disclosed; 0 = if the item is not disclosed

k = expected number of items, k 151

Debt Maturity can be calculated using the formula Amrullah and Eliza Fatima (2015) namely as follows:

$STD = \frac{Utang\ jangka\ pendek}{Total\ utang}$……………………………………………………(7)

The population in this study includes all non-financial companies listed on the Indonesia Stock Exchange in 2015-2019. All non-financial companies were used as a sample due to the consideration of data homogeneity.

This analysis was processed using the SPSS program. Multiple linear regression analysis technique is used to describe a dependent variable (dependent) associated with two or more independent variables, namely:

$Y= + 1.X1 + 2.X2 + 3.X3 +$ ………………………..……………….(8)

Description :

Y = Investment Efficiency

= constant value

1, 2, 3 = Independent variable regression coefficient

X1 = Quality of Financial Reporting

X2 = Sustainability Reporting

X3 = Debt Maturity

= standard error

RESULTS AND DISCUSSION

Testing the data in this study using multiple linear regression analysis techniques. This analysis was processed using the SPSS program. Multiple linear regression analysis technique is used to describe a dependent variable (dependent) associated with two or more independent variables (independent). The results of multiple linear regression analysis can be seen in Table 1.

Table 1 Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.527	.174		-3.029	.003
	KLK	.006	.002	.300	3.251	.002
	SR	1.020	.234	.410	4.349	.000
	DM	.004	156	.002	.027	.978

Source: Data processed, 2021

Based on Table 1, multiple linear regression equations can be made as follows:

Y = - 0.527 + 0.006 X1 + 1.020 X2 + 0.004 X3 + 0.373 ………………………..(9)

The constant value (α) of -0.527 means that if the Quality of Financial Reporting, Sustainability Report and Debt Maturity has a constant value at zero, then Investment Efficiency will decrease by 0.527 units. The regression coefficient of the financial reporting quality variable of 0.006 means that if the quality of financial reporting increases by one unit, the investment efficiency increases by 0.006 units with the assumption that other variables are constant. The SR variable regression coefficient of 1.020 means that if the SR reporting increases by one unit, the investment efficiency increases by 1.020 units assuming the other variables are constant. The regression coefficient for the Debt Maturity variable of 0.004 means that if the Debt Maturity increases by one unit, the investment efficiency increases by 0.004 units assuming the other variables are constant.

The value of the coefficient of determination is between zero to one (0<R2<1). A small value of R2 means that the ability of the independent variables to explain the dependent variation is very limited. A value close to one means that the independent variables can provide almost all the information needed to explain the dependent variable. The coefficient of determination can be seen through the adjusted R2 value. The results of the coefficient of determination test can be seen in Table 2.

Table 2. Coefficient of Determination Test Results (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.574a	.330	.306	.4153105	1966

Source: Data processed, 2021

Based on Table 2, it can be observed that the adjusted R2 value of 0.306 means a 30.6% change (up and down) in investment efficiency which is influenced by the quality of financial reporting, Sustainability Report and Debt Maturity, while the remaining 69.4% is influenced by other factors outside this research.

The assessment criteria is carried out by comparing the significant value of Fcount with the significant value of a. If the significant value of Fcount is less than = 0.05, the research model can or is feasible to use. If the significant level is F 0.05, then Hi is accepted and Ho is rejected. However, if the significant level is F > 0.05, then Hi is rejected and Ho is accepted. The results of the simultaneous significant F test can be seen in Table 3.

Table 3 Results of Model Feasibility Test (Statistical Test F)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.296	3	2,432	14,100	.000b
	Residual	14,834	86	.172		
	Total	22,129	89			

Source: Data processed, 2021

Based on Table 3 above, it can be seen that the significant value of F is 0.000 less than 0.05 (0.000 <0.05), this means that the model used in this study is feasible. This result means that all independent variables are able to predict or explain investment efficiency. In other words, the quality of financial reporting (X1), SR (X2) and Debt Maturity (X3) have a significant effect on investment efficiency. This means that the model is feasible to be used for further analysis or in other words the model can be used for projecting because the results of the goodness of fit are good with a significance value of P value of 0.000.

Based on Table 1, it can be seen that the quality of financial reporting has a value of 1 of 0.300 which is positive and the significance of 0.002 is smaller than 0.05. This means that the quality of financial reporting has a significant positive effect on investment efficiency, this shows that if there is an increase in the quality of financial reporting, there will be an increase in investment efficiency. So the hypothesis which states that the quality of financial reporting has a positive effect on investment efficiency is accepted.

Based on Table 1, it can be seen that SR has a value of 2 of 0.410 which is positive and has a significance value of 0.000 which is smaller than 0.05. This means that SR has a significant positive effect on investment efficiency, this shows that if there is an increase in SR, there will be an increase in investment efficiency. So the hypothesis which states that Sustainability Reporting has a positive effect on investment efficiency is accepted.

Based on Table 1, it can be seen that Debt Maturity has a value of 1 of 0.002 which is positive and has a significance of 0.978 greater than 0.05. This means that Debt Maturity has no effect on investment efficiency. So the hypothesis which states that Debt Maturity has a positive effect on investment efficiency is rejected.

The test results show that the quality of financial reporting has a positive effect on investment efficiency so that the first hypothesis (H1) in this study is accepted. This means that the higher the quality of a company's financial reporting, the higher the level of investment efficiency of the company. The high quality of financial reporting can cause shareholders to believe in investing in the company. Disclosure of good information in financial statements is one way that companies must do to maintain good relations with shareholders so that the company gets a positive image and can increase investor interest in investing. The higher the quality of financial reporting, the more company information is reflected in the financial statements.

Results This study is consistent with the results of research by Verdi (2006) which shows that the quality of financial reporting is positively related to investment efficiency. Chen et al. (2011) found empirical evidence that concluded that the quality of financial reporting has a positive effect on investment efficiency. The results of the same study were also found by Li and Wang (2010), Gilaninia et al. (2012), Biddle & Hilary (2006) Biddle et al. (2009), and Kangarlouei (2011).

Results This research is in accordance with the stakeholder theory which plays an important role in increasing the efficiency of the company's investment. Companies must prioritize the interests of all parties who have an interest in the company, both investors and potential investors who will invest in the company. Stakeholder theory encourages companies to provide appropriate information and in accordance with the reality that occurs to investors and potential investors to create a good corporate image and can be believed to be the right place to invest.

*Sustainability Reporting*is the commitment of all companies doing business in the community to voluntarily pay attention to the social environment by emphasizing the balance between attention to economic, social and environmental aspects of their operations. The results show that SR has a positive effect on investment efficiency so that the second hypothesis (H2) in this study is accepted. This means that the higher the Sustainability Reporting of a company, the higher the level of investment efficiency of the company.

*Sustainability Reporting*as a form of corporate responsibility to the environment and a form of corporate social responsibility. The results of the research on the disclosure of sustainability reports in non-financial companies are able to reduce the level of information asymmetry in the company so that it makes SR disclosure able to affect investment efficiency.

Results this study is in line with the research of Dhaliwal et al. (2011) which states that CSR-related information can serve as a substitute for financial information, especially when it comes to reducing information asymmetry between a company and its non-financial stakeholders. High SR companies are associated with more information quality and more transparency, resulting in investment efficiency. High SR firms tend to be associated with more investment efficiency because of the lower information asymmetry they enjoy.Nurdin (2006)states that the disclosure of Sustainability Reporting can influence investors in making efficient investment decisions. Similar research was also carried out by(Cheng and Christiawan (2011) stated that investors have used the information content contained in the Sustainability Report in making investment decisions.

This research is in accordance with stakeholder theory where SR reporting is able to provide benefits to stakeholders in making investment decisions. This research is also able to confirm the legitimacy theory where SR reporting is able to create a positive image of the company and is able to attract investors and potential investors to invest.

Debt maturity is a policy of determining the maturity of debt carried out by the company. The results showed that the use of Debt Maturity was not able to affect the efficiency of investment in non-financial companies. The use of short-term debt cannot increase investment efficiency because interest rates in Indonesia are higher than interest rates abroad. This condition will result in the flow of cash in the company that should be used to invest in the end must be used to pay off debt and the interest is quite high. So that investments that can bring profits to the company cannot be carried out optimally and investment efficiency cannot be achieved.

Debt maturity is a policy carried out by the company as a source of funds that can realize investment efficiency. In the results of the study the use of debt maturity has not been able to realize investment efficiency in the company. This study has not been able to confirm the stakeholder theory where debt maturity has not been able to reduce the use of funds that can increase company profits. So that debt maturity has not been able to convince companies, investors and potential investors as material for making investment decisions.

CONCLUSION

The quality of financial reporting has a positive effect on the investment efficiency of non-financial companies in 2015-2017. This means that the higher the quality of a company's financial reporting, the higher the level of investment efficiency of the company. The higher the quality of financial reporting, the company's information is better reflected in the financial statements. This condition can help the company's investment decision making to be more efficient. High quality financial reporting can maintain good relations with shareholders so that the company gets a positive image and can increase investor interest in investing.

Sustainability Reporting has a positive effect on investment efficiency. This means that the higher the Sustainability Reporting of a company, the higher the level of investment efficiency of the company. The results of the research on the disclosure of sustainability reports in non-financial companies are able to reduce the level of information asymmetry in the company so that it makes SR disclosure able to affect investment efficiency. SR reporting is able to create a positive image of the company and is able to attract investors and potential investors to invest.

Debt Maturity has not been able to affect the efficiency of investment in non-financial companies. In the results of the study the use of debt maturity has not been able to realize investment efficiency in the company. This study has not been able to confirm the stakeholder theory where debt maturity has not been able to reduce the use of funds that can increase company profits. So that debt maturity has not been able to convince companies, investors and potential investors as material for making investment decisions.

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