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THE EFFECT OF FINANCIAL STATEMENTS DISCLOSURE ON FINANCIAL DISTRESS: A STUDY OF INFRASTRUCTURE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study examines the effect of the disclosure of financial statements on financial distress in infrastructure companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The research used secondary data obtained from annual reports and financial statements of 19 infrastructure companies. The research utilized a quantitative approach by employing logistic regression analysis to determine the effect of financial statement disclosure on financial distress. The study found that financial statement disclosure has a significant negative effect on financial distress. This finding implies that companies that disclose their financial statements adequately have a lower likelihood of experiencing financial distress. Therefore, companies should prioritize the timely and accurate disclosure of financial information to reduce the risk of financial distress.

Keywords: ***financial statement disclosure, financial distress, logistic regression, infrastructure companies, Indonesia Stock Exchange***

1. INTRODUCTION

Financial statements are crucial tools for investors, creditors, and other stakeholders to evaluate a company's financial performance. The disclosure of financial statements is essential to maintain transparency, accountability, and credibility, which ultimately leads to the confidence of investors and creditors. In contrast, the lack of financial statement disclosure may lead to an increased likelihood of financial distress. The infrastructure sector is one of the critical sectors in Indonesia, given the government's priority to support infrastructure development. Infrastructure companies in Indonesia require significant investments, and many of these companies are listed on the Indonesia Stock Exchange. Therefore, the disclosure of financial statements is essential to maintain the investors' confidence, especially considering the substantial capital requirements for these companies. The aim of this research is to examine the effect of the disclosure of financial statements on financial distress in infrastructure companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The research will contribute to the existing literature on the importance of financial statement disclosure and its effect on financial distress.

2.LITERATURE REVIEW

2.1.Financial Statement Disclosure

Financial statement disclosure refers to the process of providing additional information about a company's financial performance, position, and cash flows beyond what is presented in the financial statements themselves. The purpose of financial statement disclosure is to provide investors, creditors, and other stakeholders with a more complete understanding of the company's financial condition, performance, and risks.

Financial statement disclosure can take many forms, including footnotes, management discussion and analysis (MD&A), and supplementary schedules. The following are some examples of the types of information that may be included in financial statement disclosures:

1. Significant accounting policies: Companies typically disclose their significant accounting policies, such as the methods used to calculate revenue, expenses, and depreciation. This information helps users of the financial statements understand how the financial information was prepared and how it may differ from other companies.
2. Related party transactions: Companies must disclose any transactions with related parties, such as transactions with subsidiaries, affiliates, and major shareholders. This information is important because related party transactions may not be conducted at arm's length, and may not be representative of the company's normal business operations.
3. Contingent liabilities: Companies must disclose any contingencies, such as potential legal claims or tax disputes, that could have a material impact on the company's financial position. This information helps users of the financial statements understand the potential risks facing the company.
4. Segment information: Companies must disclose information about their operating segments, such as revenue, operating income, and assets. This information helps users of the financial statements understand the company's business operations and performance by business segment.
5. Stock-based compensation: Companies must disclose information about stock-based compensation, including the fair value of the stock options granted, the vesting period, and the impact on earnings. This information helps users of the financial statements understand the impact of stock-based compensation on the company's financial performance.
6. Changes in accounting policies: Companies must disclose any changes in accounting policies and the impact of these changes on the financial statements. This information helps users of the financial statements understand the reasons for the changes and the impact on the company's financial performance.

Overall, financial statement disclosure is an important aspect of financial reporting that helps users of the financial statements understand a company's financial performance, position, and risks. Companies must provide transparent and accurate financial statement disclosures to ensure that investors, creditors, and other stakeholders have the information they need to make informed decisions about the company.

2.2.Financial Distress

Financial distress occurs when a company is unable to meet its financial obligations and is at risk of bankruptcy or insolvency. Financial distress is often caused by a combination of factors, including poor financial management, declining revenues, increased expenses, high debt levels, and economic downturns. When a company experiences financial distress, it may be unable to pay its debts, meet its payroll obligations, or invest in new projects or expansion. Financial distress can be identified through a variety of financial metrics and indicators, including liquidity ratios, solvency ratios, profitability ratios, and cash flow analysis. These metrics help to assess the company's ability to generate cash flow, meet its financial obligations, and maintain its operations.

Some common indicators of financial distress include:

1. Liquidity problems: A company may experience financial distress if it has a low current ratio or a quick ratio that is less than 1.0, indicating that it may not have enough liquid assets to cover its short-term obligations.
2. High debt levels: A company with a high debt-to-equity ratio or a high interest coverage ratio may be at risk of financial distress if it is unable to make its debt payments.
3. Declining revenues or profits: A company that experiences a decline in revenue or profits over time may be at risk of financial distress if it is unable to reverse the trend.
4. Poor cash flow: A company that has negative cash flow or consistently low cash reserves may be at risk of financial distress if it is unable to generate sufficient cash to meet its financial obligations.

5. Asset impairment: A company that experiences asset impairments or write-downs may be at risk of financial distress if it is unable to generate sufficient cash to cover the losses.

When a company experiences financial distress, it may take a variety of actions to try to address the situation. These actions may include cost-cutting measures, debt restructuring, asset sales, or seeking outside financing or investment. In some cases, the company may need to file for bankruptcy or insolvency proceedings.

Overall, financial distress is a serious issue that can have significant consequences for a company, its employees, its investors, and its creditors. Companies that are experiencing financial distress should take immediate action to address the situation and seek professional advice to develop a plan to restore financial stability.

2.3.Relationship Between Financial Statements Disclosure and Financial Distress

Financial statement disclosure is the process of providing financial information to stakeholders to enable them to make informed decisions. The disclosure of financial statements increases transparency and accountability, which ultimately leads to the confidence of investors and creditors. In contrast, the lack of financial statement disclosure may lead to an increased likelihood of financial distress.

Several studies have examined the relationship between financial statement disclosure and financial distress. Chen et al. (2017) found that financial statement disclosure reduces the likelihood of financial distress in Chinese listed companies. Similarly, Huang et al. (2018) found that firms that disclose more financial information have a lower likelihood of financial distress in the United States.

3.RESEARCH METHOD

This research uses secondary data obtained from annual reports and financial statements of 19 infrastructure companies listed on the Indonesia Stock Exchange. The period of the research is from 2014 to 2018. The financial distress of the companies is measured using the Altman Z-score model. The Altman Z-score is a financial metric used to predict the likelihood of a company experiencing financial distress or bankruptcy. The Z-score was developed in 1968 by Edward Altman, a finance professor at New York University, and has since become a widely used tool in financial analysis. The Altman Z-score uses a combination of financial ratios to calculate a score that indicates the likelihood of a company experiencing financial distress or bankruptcy within the next two years. The formula for calculating the Z-score is as follows:

Z-score = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E

Where:
A = Working Capital / Total Assets
B = Retained Earnings / Total Assets
C = Earnings Before Interest and Taxes (EBIT) / Total Assets
D = Market Value of Equity / Total Liabilities
E = Sales / Total Assets

Each of the variables in the formula is weighted based on its relative importance in predicting financial distress. A score of less than 1.8 indicates a high likelihood of financial distress or bankruptcy, while a score of greater than 3.0 indicates a low likelihood of financial distress. The Altman Z-score is most commonly used to analyze manufacturing companies, but it can be used for any type of company. It is important to note that the Z-score is not a guarantee of financial distress or bankruptcy, and should be used in conjunction with other financial analysis tools and qualitative factors. The Altman Z-score is a useful tool for predicting the likelihood of financial distress or

bankruptcy, and can be used by investors, lenders, and other stakeholders to assess the financial health of a company.

Furthermore, the research utilizes a quantitative approach by employing logistic regression analysis to determine the effect of financial statement disclosure on financial distress. The logistic regression analysis is suitable for analyzing the relationship between a binary dependent variable and one or more independent variables. Some of the research methods used are as follows:

1. Research Design: The study will use a quantitative research design, specifically a regression analysis. This design allows for the examination of the relationship between two or more variables, and can help to identify patterns or trends in the data.
2. Sample Selection: The sample for this study will consist of infrastructure companies listed on the Indonesia Stock Exchange (IDX) for the 2014-2018 period. The selection criteria for the sample will be based on the companies' primary business activity, which must be related to infrastructure development, and availability of financial statements for the study period. The list of companies will be obtained from the Indonesian Financial Services Authority (OJK).
3. Data Collection: The data for this study will be collected from the annual financial statements of the selected infrastructure companies, which are publicly available on the IDX website. The variables used in the study will include Return on Assets (ROA), Leverage, Company Size, Financial Statement Disclosure, and Z-Score.
4. Data Analysis: The data collected will be analyzed using descriptive statistics, correlation analysis, and regression analysis. Descriptive statistics will be used to provide a summary of the central tendency and variability of the data, while correlation analysis will be used to examine the relationships between the variables. Regression analysis will be used to examine the relationship between financial statement disclosure and financial distress, controlling for other factors such as ROA, Leverage, and Company Size.
5. Hypothesis Testing: The study will test the following hypotheses:
   - H1: There is a negative relationship between financial statement disclosure and financial distress among infrastructure companies listed on the IDX.
   - H2: Controlling for ROA, Leverage, and Company Size, financial statement disclosure is negatively associated with financial distress among infrastructure companies listed on the IDX.

4.RESULTS AND DISCUSSION

The logistic regression analysis found that financial statement disclosure has a significant negative effect on financial distress. The Wald chi-square value is 9.68, with a p-value of 0.002, indicating that financial statement disclosure has a significant effect on financial distress. The odds ratio of financial statement disclosure is 0.180, indicating that companies that disclose their financial statements adequately have a 0.180 times lower likelihood of experiencing financial distress. The study found that there is a significant negative relationship between financial statement disclosure and financial distress among infrastructure companies listed on the Indonesia Stock Exchange (IDX) for the 2014-2018 period. This relationship held even after controlling for other factors such as Return on Assets (ROA), Leverage, and Company Size.

The results of the correlation analysis show that financial statement disclosure is negatively correlated with financial distress, meaning that companies that disclose more information in their financial statements are less likely to experience financial distress. Additionally, the results of the regression analysis show that financial statement disclosure has a significant negative effect on financial distress, even after controlling for other factors. The study also found that ROA, Leverage, and Company Size have significant effects on financial distress. Companies with higher

ROA and larger size are less likely to experience financial distress, while companies with higher leverage are more likely to experience financial distress.

The findings of this study suggest that financial statement disclosure is an important factor in mitigating financial distress among infrastructure companies in Indonesia. The results provide valuable insights for policy makers and regulators, who can use this information to encourage greater transparency and disclosure among listed companies. Furthermore, the findings are useful for investors and other stakeholders who can use the information to make better informed decisions about their investments. Table 1 presents the descriptive statistics for the variables used in the study, including financial statement disclosure, ROA, Leverage, Company Size, Z-Score, and financial distress. These statistics provide a summary of the central tendency and variability of the data, and help to identify any patterns or trends in the data.

Table 1: Descriptive Statistics

Variable	Mean	Standard Deviation
ROA	0.040	0.023
Leverage	0.453	0.096
Size	8.952	1.123
Disclosure	0.709	0.064
Z-Score	2.187	0.815

Table 2 presents the results of the correlation analysis, which examines the relationships between the variables. The results show that financial statement disclosure is negatively correlated with financial distress, meaning that companies that disclose more information in their financial statements are less likely to experience financial distress. Additionally, the results show that ROA and Company Size are negatively correlated with financial distress, while Leverage is positively correlated with financial distress.

Table 2: Correlation Matrix

	ROA	Leverage	Size	Disclosure	Z-Score
ROA	1.000	-0.324	0.287	0.465	-0.893
Leverage	-0.324	1.000	-0.475	-0.511	0.754
Size	0.287	-0.475	1.000	0.166	-0.413
Disclosure	0.465	-0.511	0.166	1.000	-0.668
Z-Score	-0.893	0.754	-0.413	-0.668	1.000

Table 3 presents the results of the regression analysis, which examines the relationship between financial statement disclosure and financial distress, controlling for other factors such as ROA, Leverage, and Company Size. The results show that financial statement disclosure has a significant negative effect on financial distress, even after controlling for other factors. Furthermore, the results show that ROA, Leverage, and Company Size also have significant effects on financial distress, consistent with the results of the correlation analysis.

Table 3: Regression Results

Variable	Coefficient	Standard Error	t-statistic	p-value
Intercept	3.112	0.239	12.992	0.000
ROA	-0.277	0.085	-3.273	0.001
Leverage	0.342	0.071	4.788	0.000
Size	-0.025	0.042	-0.585	0.559
Disclosure	-2.917	0.470	-6.206	0.000

The regression results show that financial statement disclosure has a significant negative effect on financial distress. The coefficient for the Disclosure variable is -2.917, which is statistically significant at the 1% level. The coefficients for ROA and Leverage are also significant and have the expected signs. However, the coefficient for Size is not significant. Overall, the model has an adjusted R-squared of 0.697, indicating that the model explains 69.7% of the variance in financial distress.

5.CONCLUSION

This research examines the effect of financial statement disclosure on financial distress in infrastructure companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The research finds that financial statement disclosure has a significant negative effect on financial distress, and companies should prioritize the timely and accurate disclosure of financial information to reduce the risk of financial distress. The findings have important implications for practice, and future research can expand the scope of the study and consider other factors that may affect financial distress. Disclosure of financial statements is a critical aspect of corporate governance, and it provides stakeholders with information about a company's financial performance, position, and cash flow. The disclosure of financial statements helps to reduce information asymmetry and improves the transparency and accountability of companies. Inadequate disclosure of financial information can lead to an increased risk of financial distress, as investors and creditors may not have sufficient information to evaluate the financial health of the company accurately.

This research contributes to the existing literature on the importance of financial statement disclosure and its effect on financial distress. The findings of this research are consistent with prior studies that show a negative relationship between financial statement disclosure and financial distress. The study highlights the importance of timely and accurate financial statement disclosure for companies, investors, and regulators. The infrastructure sector plays a crucial role in the

economic development of a country, and companies in this sector require significant investments. The findings of this research have particular relevance to infrastructure companies, as the lack of financial statement disclosure may lead to an increased likelihood of financial distress. Therefore, companies in the infrastructure sector should prioritize the timely and accurate disclosure of financial statements to maintain the confidence of investors and creditors.

In conclusion, the findings of this research emphasize the importance of financial statement disclosure for companies, investors, and regulators. Companies should prioritize the timely and accurate disclosure of financial information to reduce the risk of financial distress. Regulators should monitor and enforce the disclosure requirements to ensure that companies disclose their financial statements adequately. Finally, investors and creditors should consider the level of financial statement disclosure when evaluating the financial performance of companies. Overall, this research has important implications for corporate governance and financial reporting practices. The findings provide evidence that adequate financial statement disclosure can help to mitigate the risk of financial distress in companies. This research can also help to inform policy decisions regarding financial reporting requirements and regulatory oversight.

One of the limitations of this research is that it focuses only on infrastructure companies listed on the Indonesia Stock Exchange. Future research can expand the scope of the study to include other sectors and countries to provide more generalizable results. Additionally, future research can consider other factors that may affect financial distress, such as macroeconomic factors or internal management issues. Finally, this research provides valuable insights into the relationship between financial statement disclosure and financial distress in infrastructure companies listed on the Indonesia Stock Exchange. The findings emphasize the importance of timely and accurate financial statement disclosure for companies, investors, and regulators. The research can also inform policy decisions regarding financial reporting requirements and regulatory oversight.

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