

The Influence of the Quality of Financial Reports on Investment Efficiency with Litigation Risk as a Moderating Variable (Empirical Study of Manufacturing Companies in Bei 2018-2022)

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Abstract

This study aims to examine the effect of the independent variables: the quality of financial reports (X) on investment efficiency (Y) with litigation risk as a moderating variable (Z) in manufacturing companies listed on the Indonesia Stock Exchange. The research method used is a quantitative method with an explanatory research approach. The population in this study is 193 companies' financial report data from manufacturing companies listed on the IDX for 2018-2022. The data collection technique in this study used a purposive sampling technique and produced a sample of 39 manufacturing companies listed on the IDX for 5 years. Data analysis techniques were processed using IBM SPSS Statistics. The results of this research indicate that the financial report quality variable has no effect on investment efficiency. Meanwhile, the litigation risk variable is able to moderate the relationship between the quality of financial reports and investment efficiency.

1. INTRODUCTION

The capital market offers a variety of attractive investment opportunities. This place allows investors to invest their capital for growth and as a means to facilitate investment activities. Investment itself is the use of current funds to obtain future profits (Tandelilin, 2017). When making investments, investors consider various factors, such as economic information, stock price trends, interest rates, and others, to minimize risk. In this case, the investor's ability to make the right investment decisions is very important so that investments can be carried out effectively (Verawaty et al., 2022).

Investment efficiency is the optimal level of profitable company investment (Sari and Suaryana, 2014). One of the criteria used to make investment decisions is Net Present Value (NPV). NPV is the difference between the price of an investment and its cost in the market (Ross, Westerfield, and Jordan, 2008). Companies consider NPV to decide whether an investment is worth making. A company can be said to be in a state of overinvestment if it accepts a project with a low NPV, and conversely, underinvestment if it accepts a project with a high NPV (Biddle et al., 2009).

Manufacturing companies, which are the subject of research, have an important role in the Indonesian economy. The government pays special attention to increasing investment from the manufacturing sector because it can have a positive impact on the national economy (kemenperin.go.id). However, the phenomenon of investment efficiency in Indonesia shows that the economy is still wasteful and inefficient (Mustami, 2022). This is reflected in the high Incremental Capital Output Ratio (ICOR), which indicates a low level of investment efficiency (www.kontan.co.id).

The quality of financial reporting influences investment efficiency (Rahmawati and Harto, 2014). Asymmetric information can reduce the quality of financial reports, which in turn can increase the risk of litigation (Awalia and Daljono, 2014). Litigation risk is the risk that large costs may arise as a result of handling legal issues (Putri et al., 2017). Good management of litigation risk can avoid losses to business (Ningsih, 2013).

Various studies show that the quality of financial reporting has a positive or negative effect on investment efficiency (Ardianto et al., 2021; Emawati and Budiasih, 2020; Putra and Damayanthi, 2019). Agency theory and

contingency theory explain the factors that influence managers' behavior in managing companies and making investment decisions.

In this context, this research aims to investigate the influence of financial report quality on investment efficiency, with litigation risk as a moderating variable. This research is relevant to efforts to improve investment efficiency and the quality of litigation risk management in manufacturing companies on the Indonesia Stock Exchange.

2 RESEARCH METHODOLOGY

This research uses an explanatory research approach which aims to test the proposed hypothesis, with a focus on explaining the relationship and impact between the independent variables and the dependent variable of the hypothesis. The research method used is a quantitative method, with random sampling and statistical analysis to test hypotheses. This quantitative approach follows the logic of inference in hypothesis testing and provides significance to group differences or relationships between the variables studied.

The research was conducted at the IDX Unismuh Makassar Investment Gallery from March to April 2023. The data used was secondary data obtained from the annual reports of manufacturing companies listed on the Indonesia Stock Exchange via the website www.idx.co.id. The population of this research is 193 manufacturing companies registered on the IDX during the 2018-2022 period, with a sample of 39 manufacturing companies that meet the specified criteria.

The data collection technique is carried out through the documentation method, by studying data that has been documented by the company in the form of financial reports published via the website mentioned. The operational definitions of variables in this research are clearly explained, including the independent variable (quality of financial reports), dependent variable (investment efficiency), and moderating variable (litigation risk).

Data analysis was carried out using various statistical tests, starting from descriptive statistical tests to explain sample characteristics, classical assumption tests to check the feasibility of the regression model used, to hypothesis testing to test the relationship between the variables studied. The results of the analysis will provide a deeper understanding of the relationship between financial report quality, investment efficiency and litigation risk in manufacturing companies listed on the IDX during the period studied..

3. RESULTS AND DISCUSSION

The Influence of Financial Report Quality on Investment Efficiency

The test results show that the quality of financial reports does not have a significant effect on investment efficiency, with a significance value of $0.325 > 0.05$. These results indicate that hypothesis H1 is rejected. The quality of financial reports may not have a large influence on investment efficiency because investors consider other factors such as auditor specialization, accounting conservatism, debt maturity, company characteristics, corporate governance, and ownership structure. Risks in the capital market such as purchasing power, liquidity, interest rates and market risks also influence investment decisions. Although quality financial reports can reduce information asymmetry and help investors, manipulation of financial reports still occurs, indicating the presence of other factors such as human behavior, culture and the environment.

The Influence of Litigation Risk on the Relationship between Financial Report Quality and Investment Efficiency

The test results show that litigation risk moderates the relationship between financial report quality and investment efficiency, with a significance value for the interaction between these two variables of $0.014 < 0.05$. This shows that hypothesis H2 is accepted. Litigation risk puts pressure on companies and managers to improve the quality of financial reports to avoid legal risks. The high level of litigation risk encourages managers to be more careful in presenting financial information so that investors can make

investment decisions efficiently. However, it is possible that managers may make adjustments to financial statements to reduce the risk of litigation, which may not reflect the actual condition of the company.

4. CLOSING

Based on the research results and discussion in the previous chapter, this research examines the influence of financial report quality on investment efficiency with litigation risk as a moderator variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2022 period. From the research results, it can be concluded that the quality of financial reports does not have a significant effect on investment efficiency. The quality of the financial reports presented in this research cannot yet reflect the actual condition of the contents of the financial reports, and does not always indicate the manager's opportunistic attitude. However, the influence of litigation risk is proven to be able to moderate the relationship between financial report quality and investment efficiency. The high risk of litigation encourages companies to improve the quality of financial reports to avoid legal risks.

Based on these conclusions, several suggestions were put forward. Theoretically, it is recommended that further research expand the research object because the contribution of financial report quality to investment efficiency is only 0.5%, while most of it is influenced by other factors not included in this research. Other factors such as auditor specialization, accounting conservatism, debt maturity, company characteristics, corporate governance, and others need to be included in the research model. Practically, companies are advised to prevent the risk of litigation by improving the quality of financial reports in a transparent and accurate manner. Investors are also advised to consider the results of this research in making investment decisions and pay attention to the potential risk of litigation or lawsuits that may occur.

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