

# THE EFFECT OF FIRM SIZE AND ORGANIZATIONAL CULTURE ON THE QUALITY OF FINANCIAL REPORTING IN SHARIA MICROFINANCING INSTITUTION (BAITUL MAAL WA TAMWIL) (THE CASE OF EX BANYUMAS RESIDENCY-INDON

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## THE EFFECT OF FIRM SIZE AND ORGANIZATIONAL CULTURE ON THE QUALITY OF FINANCIAL REPORTING IN SHARIA MICROFINANCING INSTITUTION (BAITUL MAAL WA TAMWIL) (THE CASE OF EX BANYUMAS RESIDENCY-INDONESIA)

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### ABSTRACT

*This study aims to determine the effect of firm size and organizational culture on the quality of financial reporting on Islamic microfinance institutions (Baitul Maal wa tamwil / BMT) in Ex Banyumas residency, which includes Banyumas, Cilacap, Banjarnegara and Purbalingga. The study was conducted by questionnaire survey using research instruments to be filled by the leaders of Islamic microfinance institutions in the former residency of Banyumas. By using snowball sampling, the sample size was selected as 35 BMT. Data were analyzed by using Partial Least Square (PLS). The analysis showed that company size does not affect the quality of financial reporting, and organizational culture affects the quality of financial reporting*

Keywords: Company Size, Organizational Culture, Quality of Financial Reporting

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### 1. INTRODUCTION

The quality of financial reporting depends on the quality of each part of the financial reporting process (Jonas and Blanchet, 2000). Azhar Susanto (2004: 40) says that the quality of information that has the characteristics: accurate, timely, relevant, and complete. Miller and Bahnson (1999) suggests the quality of financial firms, proxies by the disclosure of complete information, timely and understandable. Jonas and Blanchet (2000: 360) states reporting quality seen from the achievement of a conceptual framework. Hilton, et al (2000: 551) explains that the quality of accounting information must satisfy the following three characteristics: relevance, accuracy, and timeless.

Quality of financial reporting is influenced by many factors. Strasser (2011: 13) states that the quality of information is positively related to several other factors, including the size of the company. Belkaoui (2002: 102) states that the stakeholder (audience) companies appreciate better the quality of information companies large and give them a better reputation. Cohen's research (2003) which proved that the company with diverse ownership and leverage are significantly higher provide high financial information. The bigger the company, the quality of financial reporting will be higher.

Furthermore, the quality of financial reporting from perspective of senior management. Senior management gives an example of the attitude and integrity. They must continue to convey the message that it is a must to make high quality financial reporting (Leinicke, et. Al, 2000). Young (2012: 150) states that first and foremost, Sarbanes Oxley explained that the company's senior management is responsible for the culture they create and must adhere to the same rules that apply to other employees. One purpose of this rule is that the CEO should ultimately responsible for the quality control of corporate disclosure and financial reporting and to ensure 'tone of the top' has true meaning. Furthermore, Rezaee (2009: 80-81) states that the integrity of financial reporting is essential in rebuilding investor confidence, financial reporting and capital markets.

#### Problem Formulation

Based on the above, the formulation of the problem in the research plan is as follows:

- 1). How big is the influence of firm size on the quality of financial reporting?
- 2). How big is the influence of organizational culture on the quality of financial reporting?

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT FRAMEWORK

### 2.1. Size and Quality of Financial Reporting

Strasser (2011: 13) states that the quality of information is positively related to several factors, including the size of the company and the company's experience in reporting. Belkaoui ((2002: 102) states that the auditors appreciate the quality of information companies over larger companies, and provide a better reputation for him. Study Cohen (2003) which proved that the company with diverse holdings and higher leverage, it will significantly provide more financial information. Companies with less competition, less likely to report high-quality information. capital-intensive company will provide more accurate financial information to predict future cash flows. coefficient growth has no significant effect on the level of future cash flow predictions. huge company believed financial reporting quality better. Another research by Cohen (2006) also mentioned that companies with high operating cycles will have a low quality of financial reporting. Watts and Zimmerman (1986) stated that the company size is used as a guide to political costs and political costs will increase with the size and risk of the company.

The size of the company reflects the characteristics of the company. The literature indicates that the relationship between firm size and discretionary accruals no conclusive findings regarding the direction of the relationship (Lehner and Losbichler, 2012). Atiase (1985) found that the amount of information 'unexpected' is up to the market by the actual profit is inversely related to the capitalization of the company, where other things fixed. It shows that the larger the company, the less information available in the financial statements (Lehner and Losbichler, 2012).

Transparency may be viewed as an indicator of the quality of financial reporting (Ewen, 2009: 3). When a single definition of financial reporting quality is not there, then the market using constructs such as earnings quality. The higher the quality of the earnings will be more persistent. Others say that the quality of earnings (earnings) is defined to shareholders who rely on financial statements to buy future earnings. Meanwhile Miettinen (2008: 41) states that earnings management is an indicator of the quality of financial reporting. Rezaee and Riley (2010: 8) states that fraudulent financial reporting is dangerous because it damages the quality and integrity of the financial reporting process.

Mark Lang and Russell Lundholm (1993) stated that the results are generally consistent with the existence of empirical research on voluntary disclosure. Disclosure scores were higher in companies with good performance, the agency, the larger, the company with a weaker relationship between annual stock returns and earnings, and the company that issued the securities. Belkaoui (2001) found that the level of disclosure increases with increasing firm size. Rezaee and Roshani (2012) find evidence that firm size affects the type of earnings management and earnings smoothing.

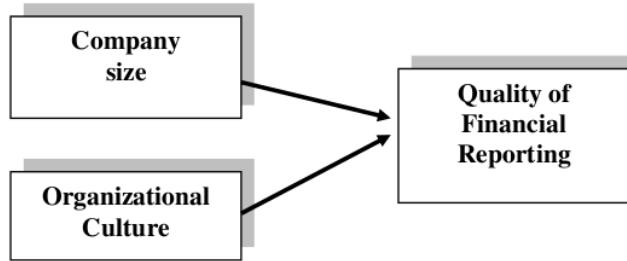
Based on theory and previous research results, the hypothesis proposed in this study are:  
H1: The larger the company, the better the quality of financial reporting

### 2.2 Organizational Culture and Quality of Financial Reporting

Brenkert (2004: 90-91) states that individuals must comply with the spirit and rules of competence and moral commitment. Moral commitment is understood in simple terms-that is to live in accordance with the ethical principles of honesty in providing adequate financial statements as well supported by the organizational culture. Furthermore, Young (2012: 150) states that first and foremost, Sarbanes Oxley explained that the company's senior management is responsible for the culture they create and must adhere to the same rules that apply to other employees. One purpose of this rule is that that the CEO should ultimately responsible for the quality control of corporate disclosure and financial reporting and to ensure that the 'tone of the top' has true meaning. Furthermore, Rezaee (2009: 80-81) states that the integrity of financial reporting is essential in rebuilding investor confidence, financial reporting and capital markets.

Research Hashim (2012) revealed a positive and significant influence of the board of directors is dominated by ethnic Malays on the quality of financial reporting. Positive and significant results between ethnic and financial reporting quality as measured by discretionary component of accruals quality models in this study support the political cost theory, which indicates that the company is controlled by the ethnic minorities are more likely to face political costs of reporting high profits. While research Mir et.al (2009) revealed that the average Indian company has provided more information in the directors report in almost all categories than their counterparts in New Zealand.

Based on theory and previous research results, the hypothesis proposed in this study are:  
H2: The stronger the culture of the organization, the quality of financial reporting will become even better.



### 3. METHODOLOGY , FINDING AND DATA ANALYSIS

#### Operationalization of Variables

1. The size of the company (X1), the size of the company is seen from the value of total assets. (Mas'ud Machfoeds 1995), Bambang RJ, (1994)
2. Cultural Organization (X2), with dimensions include; involvement in determining the organization's policies and procedures, consistency in the implementation of the organization's values and norms, Adaptation to the environment and changes in the organization, mission in the achievement of organizational goals. Denison, et al (1995; 2006), Sadri and Lees (2001)
3. The quality of financial reporting (Y), is an important device information in order to make the information useful. Jonas, Gregory J and Jeannot Balchet (2000) Azhar Susanto (2004: 40), Financial Accounting Standards (IFRSs) (2012)

#### Methods of Data Analysis

Primary data was collected using a questionnaire as a research instrument. After done tabulation of data, then analyzed the data by the method of Structural Equation Modeling (SEM) with aids Partial Least Square (PLS)

#### Description of Research Results

The unit of analysis in this study is the Baitul Maal Wat Tamwil (BMT) in the former residency of Banyumas which include Banyumas, Purbalingga, Banjarnegara and Cilacap district. Determination of the sample was conducted using snowball sampling.

The number of questionnaires distributed 50 copies. Of these, questionnaires were returned by 46 units, 11 units of which are not complete. Therefore, the number of questionnaires were analyzed in this study were 35 units, from 35 BMT.

Table 1. Sampling Research

Description	Amount
The number of questionnaires distributed	50
Number of questionnaires returned	46
Incomplete	(11)
The number of the analyzed	35

Source: Primary Data Processed.

Point statement 5 valid if the validity index <sup>3</sup> statement items 0.30 (Barker et al, 2002: 70). Then the reliability testing using Cronbach alpha and declared reliable, if the reliability coefficient greater than 0.70 (Barker et al, 2002: 70).

**Data analysis**

**Testing Effect Size and Cultural Organization Against Corporate Financial Reporting Quality**

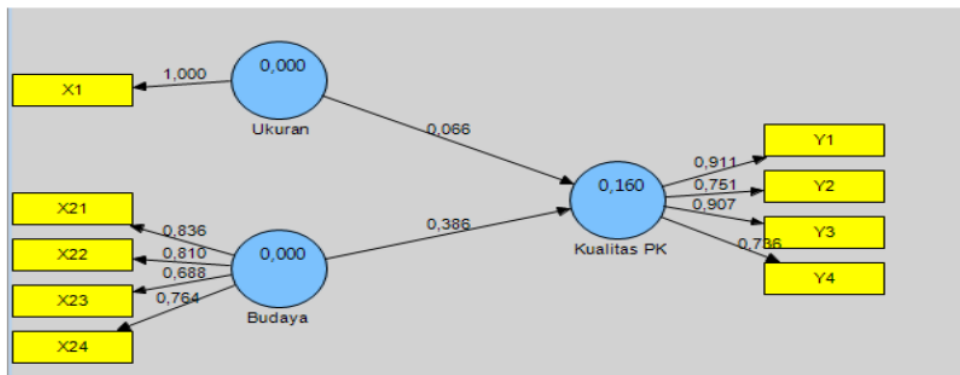
Testing the effect of firm size and organizational culture on the quality of financial reporting is done by using structural equation modeling (SEM). In structural equation modeling, there are two types of models are formed, the measurement model and the structural model. Measurement model describes the proportion of variance of each manifest variables (indicators) that can be explained in the latent variable. Through the measurement model will be known which indicators are more dominant in the formation of the latent variables. After each measurement model latent variables will be elaborated further elaborated structural model that will assess the effect of each independent latent variables (latent exogenous variables) to the latent dependent variable (endogenous latent variable).

**Model Measurement (Outer) Model**

Measurement model is a model that links between latent variables to the manifest variables. In this study there are two latent variables to the manifest variables as number 8 latent variables of organizational culture consists of 4 manifest variables and the quality of financial reporting consists of 4 variables manifest.

Using Partial Least Square method of estimation obtained full path diagram model of the effect of firm size and organizational culture on the quality of financial reporting and its relationship with financial performance as shown in Figure 1 below.

Figure 1. Full Model Influence Measurement of Company Size And Organizational Culture on the Quality of Financial Reporting



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Through the weighting factor (factor loading) contained in Figure 1 can be seen in the organizational culture of the latent variables, dimensions X21 (employee participation) has the greatest weighting factor indicates that the participation / involvement of employees most strongly reflect the latent variables in the organizational culture. Instead dimensions X23 (environmental adaptation) has the smallest weighting factor indicates that the weakest adaptation in organizational culture reflects the latent variables.

In latent variable quality of financial reporting, Y1 dimension (relevance) has the highest value of weighting factor that reflects the relevance of the strongest in the latent variable quality of financial reporting. Instead dimension Y3 (reliable / relibel) has the smallest weighting factor indicates that the reliability of information weakest in the latent variable reflecting the quality of financial reporting.

Further testing to prove whether these dimensions are used to measure organizational culture and quality of financial reporting has a high degree of conformity of approach of reliability and average composite variance extracted. The test results for each latent variable indicators outlined in the following table.

**a) Variable Measurement Model of Organizational Culture**

Organizational culture consists of 4 variables and the manifest weight of each factor in the manifest variables reflect organizational culture variables are presented in Table 2.

Table 2. Weight Factors Variable Organizational Culture

Variabel Manifest	Loading factor	Measurement model	t count
Employee participation	0,836	$BO = 0,836 X_{21} + 0,426$	4,992984
consistency Value	0,813	$BO = 0,813 X_{22} + 0,394$	4,304783
Environmental adaptation	0,685	$BO = 0,685 X_{23} + 0,169$	2,007281
Socialization Vision	0,762	$BO = 0,762 X_{24} + 0,270$	2,409934
Composite Reliability (CR)= 0.857770			
Average Variance Extracted(AVE)=0.602573			

Source: Primary Data Processed

As presented in Table 2, it can be seen the weight factor (factor loading) for the five manifest variables obtained still greater than 0.50, indicating that the dimensions used are valid to measure organizational culture. Similarly, the test results obtained t value is greater than the critical value of 1.96. This means that a fourth dimension that is used can significantly reflect the organizational culture variables.

Value Composite Reliability for the latent variable of organizational culture 0.857770. The values obtained indicate the level of conformity of dimensions in the latent constructs shaping organizational culture variables for 0.900 in a scale of 0 - 1 average variance extracted value of 0.602573 indicates that, on average, 60.26% of the information contained in the manifest variables can be reflected in the fourth dimension through the latent variable of organizational culture.

**b) Variable Measurement Model Quality financial reporting (QFR)**

The quality of local government financial reporting consists of 4 variables and the manifest weight of each factor in shaping the manifest variables of financial reporting quality variables are presented in Table 3.

Table 3 Weight Factor Variable Quality Financial Reporting

Variabel Manifest	Loading factor	Measurement model	t hitung
Relevant	0,911	$KPK = 0,911 Y_1 + 0,331446$	4,992984
Reliable	0,751	$KPK = 0,751 Y_2 + 0,152285$	11,217452
Comparability	0,907	$KPK = 0,907 Y_3 + 0,307378$	7,463872
Understanding	0,786	$KPK = 0,786 Y_4 + 0,208891$	3,708337
Composite Reliability (CR)= 0.897464			
Average Variance Extracted(AVE)= 0.688455			

Source: Primary Data Processed

As presented in Table 3, it can be seen the weight factor (factor loading) for the four manifest variables obtained greater than 0.50 indicates that the dimensions used are valid for measuring the quality of financial reporting. Similarly, the test results obtained t value is greater than the critical value of 1.96. This means that a fourth dimension that is used can significantly reflect the variable quality of financial reporting.

**Structural Model (Inner Model)**

Structural model is a model that links the latent variables exogenous to endogenous latent variables or endogenous variable relationship with the other endogenous variables. Here's a summary of the values used in the structural model.

Figure 2 Structural Model (Inner Model)

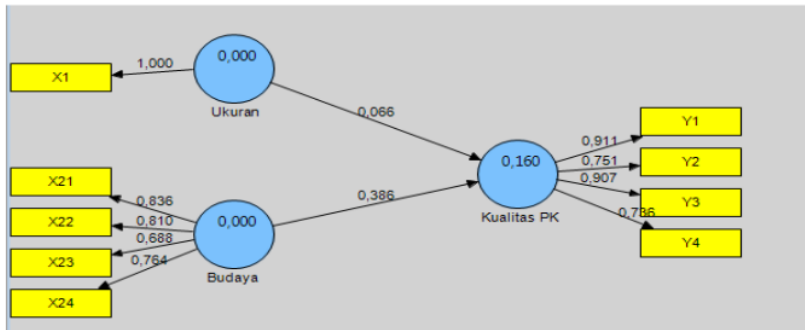


Table 4 Summary of Results of Test Statistics

Sub Structure	Path	coefisient	T <sub>count</sub> *	R Square
First	Size → QFR	0,066	0,397	0,160
	OC → QFR	0,386	1,973	

\*t<sub>critical</sub> = 1,96

Firm size affects the quality of financial reporting by 6.3%, while the rest is influenced by other factors not examined. Then the influence of organizational culture on the quality of financial reporting by 38.7%, while the rest is influenced by other factors not examined. Hypothesis test to prove whether the company size and organizational culture have a significant effect on the quality of financial reporting.

**Effect of Company Size on the Quality of financial reporting**

To test the first hypothesis, which examines the effect of firm size effect on the quality of financial reporting is based on the research paradigm as follows:

Table 5. Effect of Structural Model Company Size And Organizational Culture on the Quality of Financial Reporting

Endogenous Constructs	Exogenous Constructs		Error variance
	Company Size	Organizational Culture	
QFR	$\gamma_{1.1}$ Size	$\gamma_{1.2}$ OB	+ $\zeta_1$

Source: Primary Data Processed

Specific on:

$\zeta_1$ : The influence of other factors on the quality of financial reporting

$\gamma_{1.1}$ : Coefficient effect of firm size on the quality of financial reporting

$\gamma_{1.2}$ : Coefficient influence of organizational culture on the quality of financial reporting

Of attachment using the data processing software obtained SmartPLS structural equation as follows.

Table 6 Effect of Structural Equation, Company Size and Cultural Organization on the Quality of Financial Reporting.

Endogenous Constructs	Exogenous Constructs		Error variance
	Company Size	Organizational Culture	
Quality Financial Reporting	0,063 (0,397)	0,387 (1,973)	0,196210

Note: Figures in brackets are the t-test statistic value.

Firm size affects the quality of financial reporting by 6.3%, while the remaining affected enumerated other factors not examined. Then the influence of organizational culture on the quality of financial reporting by 38.7%, while the rest is influenced

by other factors not examined. Furthermore, the size of the company and the culture of the organization to contribute or influence 16% of the quality of financial reporting, while the rest is influenced by other factors. Thus, variations in the quality of financial reporting changes, 16% of which is determined by the size of the company and the culture of the organization, while the rest is contributed by other factors.

Furthermore, to prove whether the company size significantly influence the quality of financial reporting is done by testing the following hypothesis:

$H_0 : \gamma_{1.1} = 0$  company size does not affect the quality of financial reporting.  
 $H_a : \gamma_{1.1} \neq 0$  company size affects the quality of financial reporting.

Table 7 Results of Testing Influence of firm size on the Quality of Financial Reporting

Path Coef.	T <sub>count</sub>	T <sub>critical</sub>	Ho	Ha
0,066	0,397	1,96	accepted	rejected

Based on the test results can be seen t count variable firm size (smaller than t critical 0.397 (1.96). Due t count smaller than t critical, then the error rate of 5% so it is decided to accept Ho Ha rejected. So based on the test results it can be concluded that firm size is not significant to the quality of financial reporting.

**Influence of Organizational Culture on the Quality of Financial Reporting**

To prove whether the company size significantly influence the quality of financial reporting is done by testing the following hypothesis:

$H_0 : \gamma_{1.2} = 0$  Organizational culture does not affect the quality of financial reporting.  
 $H_a : \gamma_{1.2} \neq 0$  Organizational culture affects the quality of financial reporting.

Table 8 Results of Testing Effects of Organizational Culture on the Quality of Financial Reporting

Path Coef	T <sub>count</sub>	T <sub>critical</sub>	Ho	Ha
0,387	1,973	1,96	accepted	rejected

Based on the test results can be seen t count organizational culture (1.973) greater than t critical (1.96). Because t count greater than t critical, then the error rate of 5% was decided to reject Ho, so Ha is accepted. So based on the test results it can be concluded that organizational culture significantly influence the quality of financial reporting.

**DISCUSSION**

**The Influence of Company Size on the Quality of Financial Reporting.**

Company size in this study was measured by total assets. The analysis showed that company size does not affect the quality of financial reporting, as evidenced by the t statistic, which is smaller than the t-table. It could explain these results, the possibility is that the size of the Baitul Maal Wa Tamwil assets is relatively small, with a range of hundreds of millions, even there BMT which has assets of less than Rp.50.000.000. This guess is supported by market share BMT that is targeting micro and small entrepreneurs, who are in their area of operation. When compared with the major banks, BMT is more limited services, support services that take advantage of information technology is also limited, so that the customers of BMT is limited. With limited customers, the asset growth is also limited. Another thing is the lack of stakeholder BMT, the BMT is not an entity that many highlighted various parties. This is different from the issuing company and the securities and shares held by the public.

These results support the research of Mark Lang and Russell Lundholm (1993) states that the disclosure scores higher in larger companies and the companies that issue securities. It is also in line with Cohen's research (2003) which proved that the company with diverse ownership provides a significantly higher financial information. In addition, larger companies have financial reporting quality is higher. It is also in line with the statement Belkaoui (2002: 102) states that the company audients better appreciate the quality of information companies provide a bigger and better reputation for him.

**The Influence of Organizational Culture on the Quality of Financial Reporting**

The analysis showed that the influence of organizational culture on the quality of financial reporting. This is indicated by the value of the T statistic greater than the t-table. Strong organizational culture indicate that BMT involving employees in decision-making, and the accommodated employee ideas. In addition, the company implemented Punish and reward in the

implementation of organizational values. Thus employees will be motivated to give their best for the company. A strong organizational culture is also influenced by the employee adaptability in the face of competition among BMT. The Company will seek to encourage employees to mengembangkan spirit of competition with the competitors. Another point of concern is the company that employees are encouraged to achieve the vision and mission of the company. However, the examples given by the leadership of great influence on the culture created.

These results are in line with the statement Brenkert (2004: 90-91) states that the individual must follow the spirit and the rules of the competence and moral commitment. Furthermore, Young (2012: 150) states that the company's senior management are responsible for the culture they create and must adhere to the same rules that apply to other employees.

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