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THE INFLUENCE OF LEADERSHIP STYLE ON FINANCIAL REPORTING

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ABSTRACT
The purpose of this study is to reveal the truth by examining the impact of leadership style on financial reporting. This study is confirmatory, descriptive, and causal in nature, aiming to examine how predicted factors influence variables along with other variables. The data used in this study comprise primary data obtained from questionnaires distributed to 100 respondents from various organizations in Indonesia. The unit of observation for this study is the accounting and finance department of each organization. The sampling technique employed is a non-probabilistic technique. Hypotheses were tested using a structural equation model (SEM) with model parameter estimation conducted through the partial least squares (PLS) method. The unobservability of the variables involved and the causal relationships between variables should be considered when selecting an SEM analysis technique. In other words, the underlying concept is that management style contributes to improved financial reporting. Leadership style reflects a leader's ability to plan and achieve specific goals and can be determined by the cohesiveness of the group or organization they lead. Leadership style refers to how leaders at the organizational or individual level influence and carry out their tasks. The research results indicate that management style influences financial reporting.

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Introduction.

Leadership style involves the process of an individual influencing others or groups within an organization to achieve a specific goal. By employing an appropriate leadership style, a manager can effectively motivate employees to perform their best and surpass predefined objectives.

Financial reporting holds significant importance for organizations in Indonesia as it serves as a tool to communicate various financial metrics regarding resources and performance to relevant stakeholders (Imaniar, 2016). The process of financial reporting within an organization is influenced by several factors, including executive leadership style. Research conducted by Saputra (2020) suggests that the individual leadership style within an organization plays a crucial role in influencing others to comply with regulations. Hence, it can be inferred that leadership style plays a substantial role in influencing financial reporting.

Rivai (2014) defines leadership style as a collection of traits that leaders employ to effectively influence their subordinates towards attaining organizational objectives. However, Kotter (2014) argues that it is a mistake to view leadership style solely as a manager's ability to control and exercise power, which often leads to excessive command and control, lacking motivation and creativity. This can result in unmet work objectives.

According to research conducted by Pramitha and Suhael (2017), leadership style is seen as a factor that magnifies the impact of human expertise on the quality of financial statements. Consequently, in order to enhance human resources and improve the quality of financial reports, it is essential to carefully select individuals who possess specific leadership styles (Salia and Wibowo, 2022).

According to Mustika and Farikhah (2021), financial reporting is a form of management responsibility in managing company resources to parties with an interest in the company. A concerning phenomenon in Indonesia, as revealed by Nurafiah (2018), is the poor quality of financial reporting within the Indonesian government, which creates opportunities for corrupt practices.

In line with the research background and objectives, the primary aim of this study is to investigate the impact of leadership on the quality of financial reporting within the context of Indonesia. Furthermore, the study seeks to gather substantial empirical evidence, employing a scientific approach, to comprehensively elucidate the observed phenomena.

Literature and Hypothesis Development.

There are several factors that can influence the quality of financial reporting, such as leadership style, organizational culture, internal control, governance, and others. Leadership plays a significant role in shaping the quality of financial reporting by motivating subordinates to implement high-quality reporting practices. Salia and Wibowo (2022) conducted research indicating that leadership style plays a significant role in augmenting the impact of human resources on the quality of financial statements. As a result, it becomes essential to carefully choose individuals with particular leadership styles in order to enhance the overall quality of financial reports.

Furthermore, a study conducted by Nirwana, and Syamsudin (2019) demonstrates that human resources impact the quality of municipal financial information, while leadership style does not directly affect it. However, internal control measures can effectively limit personal relationships and contribute to meaningful reporting of local government data. Additionally, research by Pradipa, Dwija, and Tatnad (2016) indicates that effective internal controls and the application of transformational leadership styles can significantly improve the quality of financial reports.

Furthermore, Saputra's research (2020) suggests that leadership style and external pressure influence the implementation of financial reporting transparency in the Semarang Great Parish Church Yogyakarta Rayon and Sleman Parish, while organizational commitment does not have a significant effect on the implementation of financial reporting transparency.

In a study carried out by Satyawati and Suartana (2014), it was observed that leadership style positively impacts both work contentment and financial results. Conversely, corporate culture was found to have a positive effect on work contentment but a negative effect on financial results. Additionally, job satisfaction was identified as an intermediary variable that exerts a positive influence on financial performance.

In her research, Silistyowati (2017) reported that small and medium-sized enterprises (SMEs) in Malang city hesitate to submit financial reports due to a lack of understanding of financial accounting standards (SAK). When company managers lack a full understanding of financial reporting standards, it hinders the accurate recording and reporting of finances, ultimately affecting the quality of the resulting financial statements.

From several previously reported empirical studies, they lead to the generation of hypotheses stated as follows:

H1: Leadership style influences financial reporting.

The dimensions and indicators of leadership style are as follows:

Leadership Style (X1) (Rivai, 2018: 53)	**I. cooperation and good relationship** (Rivai, 2018-53)	- Foster cooperation with subordinates (Rivai, 2018:53)
		- Establish a good relationship with subordinates in the implementation of tasks that are the responsibility of each person. (Rivai, 2018:53)
	II. effectiveness (Rivai, 2018-53)	- Capable of exceeding assigned tasks (Rivai, 2018:53)
		- Timely completion of tasks (Rivai, 2018:53)
	III. Participatory (Rivai, 2018-53)	- deliberative decision-making (Rivai, 2018:53)
		- Proficient in researching and resolving work-related issue (Rivai, 2018:53)
	IV. Delegate tasks or time (Rivai, 2018-53)	- Willingness to prioritize broader interests over personal or organizational interests (Rivai, 2018:53)
		- able to complete tasks in accordance with targets (Rivai, 2018:53)
	V. Delegate tasks or authority (Rivai, 2018-53)	- A leader's duty in determining tasks suitable for individual handling and those best addressed collaboratively (Rivai, 2018:53)
		- Provision of guidance and training for effective decision-making (Rivai, 2018:53)

The dimensions and indicators of financial reporting are as follows:

Financial Reporting (Y)	**I. completeness** (Wiley,2015:217)	- The financial statement information presented includes all the information needed. (Hery, 2013:29)
		- the financial statement information presented must be complete and accurate of the transactions that occur. (Hery, 2013:29)
	II. Impartial measurement (Wiley,2015:217)	- The valuation of assets in the financial statements produced by the company is subjective and unbiased. (Wiley, 2015:271)
		- The assessment of the liability of the financial statements produced by the company is subjective and unbiased (Wiley, 2015:271)
	III. Clear presentation (Wiley,2015:217)	- The resulting financial statement information can be clearly understood (Hery, 2013:29)
		- Financial statement information is organized systematically so that it is easy to understand. (Hery, 2013:29)

Research Design.

The research conducted can be classified as confirmatory and explanatory, aiming to determine the factors that potentially influence a variable in hypothesis testing. This approach provides a foundational solution to address the issue of problematic financial reporting practices in Indonesia. The study focuses on accounting and finance employees from various organizations in Indonesia, with a sample size of 100 respondents.

For data collection, snowball sampling was employed, where initial respondents who completed the questionnaire were encouraged to share it with colleagues in the accounting or finance department of their respective companies or organizations. Structural equation modeling (SEM) was utilized for data analysis, primarily due to two reasons. Firstly, the variables in this study are latent, meaning they cannot be directly measured and need to be inferred from items. Secondly, SEM is well-suited for small sample sizes, typically ranging from 30 to 100 respondents (Ghozali, 2014).

Empirical Results.

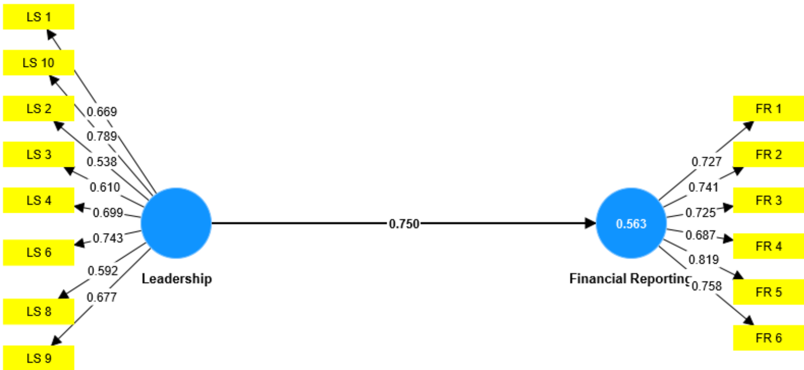


Figure 2. Full Model Path Diagram (for Outer Model).

Data analysis carried out in this study using SmartPLS 4 and with a complete model path that can be obtained a diagram as shown in Figure 2 which reflects the complete model path diagram for the outer model.

Outer Model Evaluation.

Validity Test.

In this research, the assessment of validity involves examining confounding factors and utilizing factor analysis to obtain results related to discriminant validity and convergent validity. Hair et al. (2018) suggest that discriminant validity can be tested by considering cross-loading indicators with an acceptable outer loading value of 0.7. To evaluate convergent validity, the average variance extracted (AVE) is utilized, with a minimum threshold of 0.5 for acceptance. Convergent validity is assessed by considering the outer loading value or factor loading of each indicator. An indicator is considered to exhibit robust convergent validity if its outer loading value surpasses 0.7. The outer loading values for the research variables' indicators are provided in the following section:

Table 2. Outer Loading.

Variable	Indicator	Outer Loading
Leadership Style	LS1	0,669
	LS2	0,538
	LS3	0,610
	LS4	0,699
	LS6	0,743
	LS8	0,592
	LS9	0,677
	LS10	0,789
Financial Reporting	FR1	0,727
	FR2	0,741
	FR3	0,725
	FR4	0,687
	FR5	0,819
	FR6	0,758

Referring to the information provided in Table 2, it is evident that several indicators have an outer loading value below 0.7. However, according to Ghozali (2014), outer loading values ranging from 0.5 to 0.6 can still be considered adequate to meet the requirements of convergent validity.

To assess discriminant validity, the Average Variance Extract (AVE) method is employed for each construct or latent variable. It is necessary for each indicator to possess a value above 0.5 to meet the required criteria. The AVE values are presented in Table 3 below:

Table 3. Average Variant Extract.

Variable	Average Variance Extracted (AVE)
Leadership Style	0,448
Financial Reporting	0,563

Based on the data presented in table 3 above, it can be seen that the AVE value of the leadership variable is below 0.5. Thus it can be said that the leadership variable has poor discriminant validity.

Reliability Test.

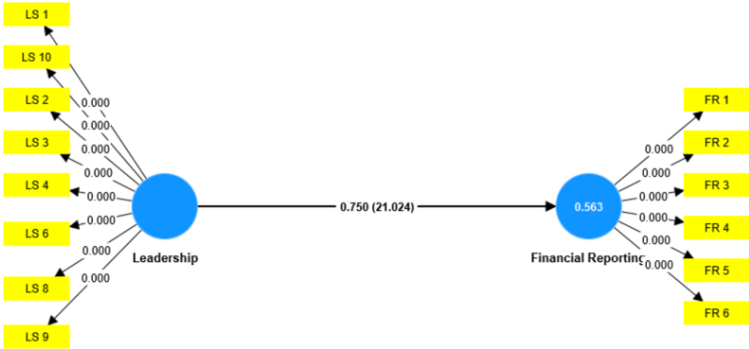
To assess the reliability of the measurements, two commonly used coefficients, Cronbach's alpha and composite reliability, can be examined. According to Hair et al. (2014), both coefficients should ideally fall within the range of 0.7 to 0.9.

Table 4. Cronbach Alpha & Composite Reliability.

Variable	Cronbach's alpha	Composite reliability
Leadership Style	0,820	0,865
Financial Reporting	0,841	0,881

From the data provided in Table 4, it is clear that the Cronbach's alpha and composite reliability values in this study exceed the required threshold of 0.7. Thus, it can be concluded that all variables utilized in this study exhibit a satisfactory level of reliability.

Inner Model Evaluation.



Picture 3. Complete Model Path Diagram (For Inner Model).

Table 5. Inner Model Testing Results .

Path	Path Coefficient	T Value	P Value	R Square
LS→FR	0,750	21,024	0,000	0,563

The model evaluation aims to provide an explanation of the results obtained from assessing path coefficients, R-Square, and hypothesis testing, which collectively illustrate the extent of influence exerted by the independent variable on the dependent variable. In reference to the inner model depicted in Figure 3, the path coefficient value reflecting the influence of leadership style on financial reporting is calculated as 0.750, indicating a positive correlation. Therefore, a higher path coefficient value signifies a more pronounced impact of the independent variable on the dependent variable.

The coefficient of determination (R-Square) is employed to quantify the degree to which endogenous variables are affected by other variables. For the financial reporting variable, the obtained R-Square value is 0.563. This value signifies that financial reporting can be explained by leadership style, accounting for 56.3% of the variation.

Hypothesis Testing.

Table 5 shows that the probability (p-value) of the leadership style coefficient is 0.000, which is lower than 0.01. Therefore, it can be concluded that leadership significantly influences financial reporting (H1 supported). The research findings indicate that leadership within an organization affects the financial reporting within that organization. These results is align with the study by Satyawati and Suartana (2014), which states that leadership has a positive impact on job satisfaction and financial performance. The influence of leadership is attributed to effective communication among colleagues and subordinates, creating a positive work environment that enables financial reporting to meet expectations.

Emphasizing vision, mission, and values is crucial in leadership as it guides decision-making processes and provides training. Decision-making should align with the stated vision and mission, ensuring that resulting financial reporting aligns with the organization's values. Effectiveness also plays a significant role in leadership, requiring leaders to guide their organizations in completing tasks within designated timeframes and meeting or even surpassing targets.

Based on their responsibilities, a leader must be capable of independently completing or handling tasks in accordance with assigned responsibilities. However, cooperation is also essential, particularly in discussions regarding target achievement or when presenting guests within business organizations. Leadership style significantly influences the resulting financial reporting. If a leader fails to provide guidance to subordinates and colleagues, it can impact the completeness of supporting data and other core financial information, leading to misalignment with the intended targets. Each individual also needs to establish leadership and self-discipline, ensuring that the financial reports produced meet the required standards. Clear and easily comprehensible delivery of financial reporting information is essential.

Conclusions.

Based on the research objectives, hypothesis testing, and research results, it can be concluded that leadership style has an impact on financial reporting. Effective leadership within an organization plays a crucial role in building relationships with personnel. The results of hypothesis testing indicate that leadership is essential in conducting financial reporting. It is evident that a leader's ability to provide guidance to subordinates and offer motivation directly influences the outcomes of the financial statement presentation process.

Therefore, this research aims to offer valuable insights to organizations, specifically accountants involved in financial reporting, by emphasizing the significance of considering the leadership style within the organization. In the academic realm, this study contributes to the existing knowledge by demonstrating the close connection between accounting behavior and the influence of leadership styles on financial reporting. Future researchers are encouraged to replicate this study using similar research methods but with different units of analysis, samples, and independent variables, in order to validate and reinforce the obtained results.

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