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# Organizational Complexity and Financial Reporting Quality

**Tumpal Manik[1*], Henry Eryanto[2)]**
[1,]Accounting Department, FEBM, Universitas Maritim Raja Ali Haji, Tanjungpinang, Indonesia
[2]Office Administration Department, Fakultas Ekonomi Universitas Negeri Jakarta, Jakarta, Indonesia

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**ABSTRACT**

This study examines the relationship between organizational complexity in the context of management and the quality of financial reporting. Organizational complexity is analyzed through four key components: subsidiary management, segment operation management, and human resource management. The findings provide evidence that managing organizational complexity through effective governance and sound management practices supports greater accuracy, transparency, and reliability in financial reporting. Such management practices also help prevent reporting errors and fraud. Consequently, organizational complexity can significantly influence the quality of financial reporting. Drawing on insights from agency theory and information asymmetry, this paper discusses how increasing complexity may reduce reporting quality and proposes mechanisms to mitigate its adverse effects.

## 1. Introduction

Financial reporting quality refers to the disclosure of an entity's financial information in accordance with accounting standards and in compliance with the fundamental characteristics of financial reporting (IASB, 2018; DSAK IAI, 2021). According to SAK, (2015, p.2),these fundamental characteristics include understandability, relevance, freedom from material misstatement, reliability, substance over form, prudence, completeness, comparability, and timely presentation. Kusnadi et al. (2016) argue that financial reports are considered of high quality when the information is accurately presented, reliable, and capable of reflecting the company's true performance.

High-quality financial reporting (FRQ) positively impacts investment decisions, credit allocation, resource distribution, and overall capital market efficiency (IASB, 2018). Firms with high-quality financial reports assist investors in making informed investment decisions (Mahdi Sahi et al., 2022; Alsmady, 2022; Wu & Abeysekera, 2023)., as investors rely on these reports to evaluate management performance and make rational choices (Muraina & Dandago, 2020). The information in financial reports reflects managerial success and provides insights into the firm's sustainability (Lo et al., 2017; Al-Dmour et al., 2018). Similarly, market analysts use FRQ to guide investment recommendations (Asyik et al., 2023), while creditors rely on it to assess loan approvals, considering current financial data and future profit projections as key contractual (Thuy et al., 2022). In today's business environment, increasing organizational complexity characterized by diversified operations, layered hierarchies, and globalized value-chains poses significant challenges for the integrity of corporate disclosures.

Koresponde[1*)]; Tumpal Manik*)
Email : tmanik@umrah,ac,id

Empirical evidence indicates that as firms become more structurally and operationally complex, the quality of their financial reporting tends to deteriorate for instance, a recent study of Indonesian firms finds that organizational complexity negatively affects reporting quality even when internal controls are strong (Chychyla et al., 2019; Bimo et al., 2019). Moreover, complexity in operations has been shown to delay timely financial disclosures, thereby reducing transparency and increasing information asymmetry (Gill-de-Albornoz & Rusanescu, 2018).

Against this backdrop, investigating how organizational complexity interacts with internal governance and control mechanisms to influence financial reporting quality is imperative. This paper thus aims to examine the impact of organizational complexity on financial reporting quality, while considering moderating factors such as internal control effectiveness and board expertise (Rajabalizadeh, 2023). By doing so, it contributes to both theory and practice, offering insights into how firms can safeguard reporting integrity amid increasing structural complexity.

**Signaling Theory**

The signaling theory developed by Ross, (1977), posits that company executives who possess a deeper understanding of their organization's conditions will be motivated to convey this information to potential investors in order to enhance the company's stock price.

The implementation of signaling theory in the context of organizational complexity suggests that firms use the quality of their financial reporting as a credible signal to reduce information asymmetry between management and external stakeholders. In complex organizations, information processing and coordination become more difficult, which increases the potential for information asymmetry (Spence, 1973; Connelly et al., 2011). By producing high-quality financial reports, firms signal their transparency, effective governance, and commitment to accountability (Morris, 1987). This signal helps investors and other users of financial statements assess the firm's performance and reliability, thereby enhancing trust and reducing uncertainty.

**Agency Theory**

In organizations with high complexity, for example multiple business segments, cross-border operations, a layered structure of subsidiaries, or diffuse decision-making processes, the separation between ownership (principals) and management (agents) tends to deepen the risk of agency conflicts. Under Agency Theory (Jensen & Meckling, 1976), managers (agents) may pursue their own interests rather than the interests of shareholders (principals), particularly when monitoring is difficult and information asymmetry is high.

When organizational complexity increases: The agent (management) may have more discretion, more layers, more strategic opportunities, and thus a greater ability to obscure or misreport performance. The principal (owner/shareholders) has less direct oversight, increasing monitoring costs and agency costs. Information asymmetry widens because internal operations are harder to follow, control and summarize. In this environment, applying agency theory to financial reporting means that organizations need to erect stronger governance and reporting mechanisms to align the agent's incentives with the principal's interests, thereby improving financial reporting quality. Specifically (Bimo et al., 2019), Governance mechanisms: Independent audit committees, strong internal controls, external auditors and monitoring systems become particularly important in complex organizations to mitigate agency risk. These mechanisms reduce the opportunity for agents to misreport information and increase the credibility of disclosures. For example, recent research emphasizes that the agency framework supports designing governance structures that align agents' interests with those of principals, enhancing transparency and reporting quality (Sun, 2023). Disclosure and transparency: In complex firms, clear, detailed and high-quality financial disclosures

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serve to limit the information gap. When agents know that disclosures will be scrutinized by principals and external stakeholders, they are less likely to engage in opportunistic reporting. Studies highlight that under agency theory, higher quality financial reporting reduces information asymmetry and restrains managerial opportunism.

## 2. Literature Review and Hypothesis Development

### 2.1 Signaling Theory

The signaling theory developed by Ross (1977), posits that company executives who possess a deeper understanding of their organization's conditions will be motivated to convey this information to potential investors in order to enhance the fianancial reporting quality. Signaling Theory posits that firms use financial reporting as a signal to convey their underlying quality to stakeholders. In the context of organizational complexity, firms with diversified operations and intricate structures face greater challenges in communicating reliable information. Complex organizations may provide more detailed disclosures to signal transparency and competence, thereby enhancing financial reporting quality. Conversely, excessive complexity can obscure information, increasing the risk of misinterpretation or earnings management. Thus, Signaling Theory provides a useful lens to understand how organizational complexity shapes the quality and credibility of financial reports.

### 2.2 Agency Theory

Agency Theory suggests that conflicts between managers and shareholders can affect financial reporting quality. In complex organizations, with multiple divisions and layers of management, monitoring becomes more difficult, increasing information asymmetry and the risk of opportunistic reporting. Higher organizational complexity can therefore either undermine or, when mitigated by strong governance, enhance the quality of financial reports.. gency Theory highlights that managerial opportunism can compromise financial reporting quality, especially in organizations with high complexity. As firms grow more complex, monitoring and control become more challenging, potentially increasing information asymmetry and reducing report reliability. Effective governance mechanisms are therefore essential to maintain reporting quality in complex organizational structures.

### 2.3 Organizational Complexity and Financial Reporting Quality

This study analyzes organizational complexity through four key components: subsidiary management, segment operations management, and human resource management. These findings provide evidence that managing organizational complexity through effective governance and sound management practices supports greater accuracy, transparency, and reliability of financial reporting. Managing organizational complexity is thought to limit these management practices and help prevent misreporting and fraudulent financial reporting.

Business complexity increases as firms expand, resulting in a greater volume and scope of transactions. This expansion broadens the audit scope, requiring auditors more time, expertise, and experience to conduct thorough examinations (Rif'at & Sulistyowati. 2019; Pramardhikasari & Januarti. 2019; Sandari. 2019). Such complexity elevates audit risk, as auditors cannot verify every transaction, increasing the likelihood of undetected errors or fraud and potentially leading to inaccurate audit opinions when financial statements are materially misstated.

As business complexity and scale increase, audit duration also extends, potentially fostering excessive familiarity that undermines auditor independence and compromises audit quality (Schneider. 2017; Rose et al.. 2020); Mechelli & Cimini. 2016; Knechel. 2016). Higher complexity elevates audit risk, requiring greater effort to detect material misstatements and operational

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irregularities (Ji et al. 2018; Adnyani et al. 2020; Fadhlan & Romaisyah. 2020).. Operational complexity affects audit team performance and aligns with firm-level risk (Namazi. 2021; Griffith et al. (2015), while audit risk in turn influences overall business performance (Pereira et al., 2021).

Organizational complexity is manifested through diversified operations, hierarchical structures, and multifaceted decision-making processes has long been recognized as a critical factor influencing financial reporting practices. However, empirical findings on its effect remain inconclusive. Some studies suggest that business complexity significantly increases earnings management, implying a negative impact on financial reporting quality (Gajevszky. (2015); Soliman & Elsalam. (2013). other research reports a positive association between organizational complexity and reporting quality, highlighting enhanced disclosure practices in complex firms (Alawaqleh et al.. 2021; Argimón & Rodriguez-Moreno. 2021; Seavey. 2011; Griffith et al.. 2015; Nwankpa & Roumani. 2014). Further evidence confirms that organizational complexity affects financial reporting processes (Chychyla et al.. 2019), and can influence both business and financial disclosures (Kaka. 2021). Nonetheless, some studies find no significant relationship between complexity and financial reporting quality Morais. (2020); Sirajuddin & Oktaviani. (2018); Pangastuti. (2018).These mixed findings underscore the need for further investigation into how organizational complexity interacts with firm characteristics and governance mechanisms to shape financial reporting quality. Understanding this relationship is crucial for both academics and practitioners, as it provides insights into maintaining transparency and reliability in increasingly complex corporate environments.

## 2.4 Hypothesis Development

**Subsidiary Management and Financial Reporting Quality**

This hypothesis posits that the way subsidiaries are managed, namely through effective oversight, alignment with corporate strategy, sound governance practices, and clear reporting channels, contributes positively to the quality of financial reporting within a corporate group. In other words, when a parent company ensures its subsidiaries operate under robust governance frameworks, with consistent policies, transparent information flows, and accountability mechanisms, the resulting financial statements are more likely to be reliable, accurate, and transparent. This improved subsidiary management reduces information asymmetry between management and stakeholders, mitigates agency costs, and strengthens internal control systems, ultimately raising financial reporting quality across the entire group. Based on the description and explanation above, the hypothesis that will be tested is as follows:

**H1a : Subsidiary management has a positive and significant effect on financial reporting quality**

**Subsidiary Management and Financial Reporting Quality**

This hypothesis posits that the way subsidiaries are managed, namely through effective oversight, alignment with corporate strategy, sound governance practices, and clear reporting channels contributes positively to the quality of financial reporting within a corporate group. In other words, when a parent company ensures its subsidiaries operate under robust governance frameworks, with consistent policies, transparent information flows, and accountability mechanisms, the resulting financial statements are more likely to be reliable, accurate, and transparent. This improved subsidiary management reduces information asymmetry between management and stakeholders, mitigates agency costs, and strengthens internal control systems—ultimately raising financial reporting quality across the entire group. Based on the description and explanation above, the hypothesis that will be tested is as follows:

**H1b : Subsidiary management has a positive and significant effect on financial reporting quality**

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**Segment Operation Management and Financial Reporting Quality.**

This hypothesis posits that the effectiveness of managing business segments contributes directly to the quality of financial reporting. Segment operation management involves overseeing the operational activities, resource allocation, and performance monitoring of distinct business units within a company. When each segment is efficiently managed through proper coordination, consistent internal controls, and clear reporting channels, it ensures that financial data from all segments are accurate, complete, and timely consolidated into the parent company's financial statements.

Effective segment management reduces operational errors, enhances transparency, and ensures that segment-specific risks are properly identified and mitigated. Consequently, the overall quality of financial reporting is improved, providing more reliable and decision-useful information to stakeholders. Empirical studies have shown that firms with well-managed operational segments demonstrate higher reliability and comparability in their financial statements, highlighting the critical role of segment governance in shaping financial reporting quality. Based on the description and explanation above, the hypothesis that will be tested is as follows:

**H1c : Segment operation management has a positive and significant effect on financial reporting quality.**

**Human Resource Management And Financial Reporting.**

This hypothesis asserts that robust human resource management (HRM) practices, encompassing recruitment and selection, continuous training and development, performance management systems, and employee competency enhancement, play a crucial role in elevating the quality of financial reporting. When a firm invests in the competencies and accountability of its workforce, particularly in the accounting, auditing, and financial reporting functions, it fosters an environment where financial information is prepared with greater precision, timeliness, and transparency. Effective HRM reduces error rates, enhances internal controls through skilled personnel, and strengthens ethical behavior among staff, thereby mitigating risks of misstatement or manipulation. For example, research finds that higher human resource competencies are directly associated with improved financial reporting quality in public sector organizations. Moreover, the integration of strategic HRM with financial management functions further suggests that the professional development of employees contributes meaningfully to the reliability and comparability of reported information. (Chychyla et al., 2019; Bimo et al., 2019). Based on the description and explanation above, the hypothesis that will be tested is as follows:

**H1d:** ***Human resource management has a positive and significant effect on the quality of financial reporting.***

**Business Risk Management and Quality Of Financial Reporting**

This hypothesis posits that the effectiveness of business risk management — encompassing the processes of risk identification, assessment, mitigation, monitoring and reporting — plays a pivotal role in enhancing financial reporting quality. When organisations proactively manage their business risks, they strengthen internal control frameworks, reduce the likelihood of material misstatements, and promote transparency. In particular, rigorous risk management ensures that potential threats to the financial reporting process (such as operational failures, strategic risks, compliance breaches, and information system breakdowns) are addressed before they compromise the accuracy, timeliness or reliability of financial statements. For example, empirical evidence shows that enterprise risk management (ERM) systems significantly enhance the quality of financial reporting in U.S. industrial

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firms. Moreover, the incorporation of risk assessment as a core component of internal control systems has been found associated positively with the quality of reported financial information in local government contexts. Based on the description and explanation above, the hypothesis that will be tested is as follows:

**H1d : Business risk management has a positive and significant effect on the quality of financial reporting**

## 3. Research Methods

This study used quantitative research method. The data used consist of secondary data, including annual reports published consecutively from 2018 to 2024 (a seven-year period) by companies listed on the Indonesia Stock Exchange (IDX). The financial sector is excluded from this study due to its regulatory framework, which differs from that of other sectors. As a result, a total of 215 companies listed on the IDX during the research period were included, yielding 1.210 observations. The data were subsequently processed using statistical software.

**Research Model**

$$FRQ_{i,t} = \lambda_0 + \lambda_1 MANJ\_SUB_{i,t} + \lambda_2 MANJ\_SEG_{i,t} + \lambda_3 MANJ\_HRD + \lambda_4 MANJ\_RISK_{i,t} + \lambda_5 SIZE_{i,t} + \lambda_6 LEV_{i,t} + \lambda_7 LOSS_{i,t} + \lambda_8 ROA_{i,t} + \lambda_9 BANK_{i,t} + \lambda_{10} BTM_{i,t} + \beta_{11} GROWTH_{i,t} + \lambda_{12} BIG4_{i,t} + \lambda_{13} LTENURE_{i,t} + \lambda_{13} ISSUE_{i,t} + \lambda_{15} CFO_{i,t} + \lambda_{16} VOL_{i,t} + \varepsilon_{i,t} \quad \text{.....1)}$$

### 3.2 Measuring Financial Reporting Quality

Several previous studies have used discretionary accruals as a proxy to measure financial reporting quality (Billett & Yu, 2016; Mousavi Shiri et al., 2018; Gill-de-Albornoz & Rusanescu, 2018; Shahzad et al., 2019; Bajra & Čadež, 2018; Asyik et al., 2023). However, this study measures financial reporting quality using the inverse of the absolute value of discretionary accruals (Abs_DAC), defined as FRQ = Abs_DAC × (−1). After multiplying DAC by negative one, the result becomes positive. This measurement indicates that the higher (more positive) the discretionary accrual value, the higher the quality of financial reporting. This approach is consistent with the studies studi Vander Bauwhede et al., (2015); Thuy et al., (2022).

The measurement model employed is closely related to financial reporting quality, depending on the firm's inherent characteristics and the quality of its financial reports (DeFond & Zhang, 2014).The steps for measuring financial reporting quality using earnings management metrics are as follows:

1) Total Accruals

$$TACC_{i,t} = NI_{i,t} - CFO_{i,t} \quad \text{.....2)}$$

2) Estimating Total Accruals,
Jones Model (Jones, 1991), Total accruals (TACC) are estimated using Ordinary Least Squares (OLS) as follows:

$$\frac{TACC_{i,t}}{TA_{i,t-1}} = \alpha_1 \left(\frac{1}{TA_{i,t-1}}\right) + \alpha_2 \left(\frac{\Delta REV_{i,t}}{TA_{i,t-1}}\right) + \alpha_3 \left(\frac{PPE_{j,t}}{TA_{i,t-1}}\right) + \varepsilon_{i,t} \quad \text{.....3)}$$

3) Model Dicretionary Accrual Dechow disebut (DAC _DC)
Measurement of Research Variables Dechow et al., (1995)model, which considers a modified version of the Jones, (1991)model, is used. The following is the regression model from Dechow et al., (1995)

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$$NDAC_{i,t} = \beta_0 + \beta_1\left(\frac{1}{TA_{i,t-1}}\right) + \beta_2\left(\frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{TA_{i,t-1}}\right) + \beta_3\left(\frac{PPE_{i,t}}{TA_{i,t-1}}\right) + +\varepsilon_{it} \quad \text{.....4)}$$

Where: NDACi,t is Non-discretionary accruals of company i in year t; TACCi,t is Total accruals of company i in year t; TAi,t-1 is Total assets untuk perusahaan i pada tahun t-1; ΔREVi,t is Change in revenue of company i from year t–1 to year t; ΔRECi,t is Change in accounts receivable of company i from year t–1 to year t; PPEi,t is Property, plant, and equipment value of company i in year t

4) Model Accrual Kothari (DAC_KLW)

The Modified Jones Model (Kothari et al., 2005), The Modified Jones Model, as adjusted by Kothari et al., (2005), refines the original model of Jones, (1991). The model by incorporating firm performance, measured through return on assets (ROA) to control for the potential influence of firm-specific profitability on discretionary accruals. This adjustment improves the accuracy of earnings management estimation by distinguishing between accruals driven by normal business operations and those resulting from managerial discretion. Model Jones yang disesuaikan dengan oleh (Kothari et al., 2005),

$$\left(\frac{TACC_{it}}{TA_{it-1}}\right) = \beta_0\left(\frac{1}{TA_{it-1}}\right) + \beta_1\left(\frac{(\Delta REV_{it} - \Delta REC_{it})}{TA_{it-1}}\right) + \beta_2\left(\frac{PPE_{it}}{TA_{it-1}}\right) + \beta_3 ROA_{it} + \varepsilon_{it} \quad \text{.....5)}$$

ROA is return on assets in year *t* for company *i*

5) Accrual Model by Francis (DAC_FLOS)

The accrual model developed by Francis et al., (2005), known as the FLOS model (Francis, LaFond, Olsson, and Schipper), posits that accrual quality is influenced by measurement errors in accruals. This model assumes that lower measurement errors indicate higher accrual quality, reflecting the firm's ability to generate reliable and sustainable earnings that closely align with actual cash flows.

$$TACC_{j,t} = \phi_{0,j} + \phi_{1,j}CFO_{j,t-1} + \phi_{2,j}CFO_{j,t} + \phi_{3,j}\ \phi_3 CFO_{j,t+1} + \phi_{4,j}\Delta REV_{j,t} + \phi_5 PPE_{j,t} + \nu_{jt} \quad \text{.....6)}$$

Where: TAi,t is toatl accrual year in t; TAi,t =ΔCAj,t – ΔCLj,t – Δcashj,t +ΔSTDEBT - DEPNj,t. CFOj,t is cash flow from operations of company *j* in year *t*; CFOj,t = NIBEj,t – TAj,t; NIBEj,t is he net income of company *j* before extraordinary items. Perusahaan j net income sebelum extraordinary item; DEPNj,t is the depreciation and amortization expense.

**Measuring Independent Variables**

Measuring the independent variable using four measurements, outlined below

a) Subsidiary Management (**MANJ_SUB**): measured using the *operating expense subsidiary ratio* eqivalent operating expenses divided revenue.
b) Segment Operation Management (**MANJ_SEG**): measured using *Segment Revenue Growth* is current year segment revenue minus previous year segment revenue) divided previous year segment revenue.
c) Human Resource Management **(MANJ_SDM)** is measured using the logarithm of the number of different types of training programs attended annually by all employees and funded by the company (e.g., accounting, auditing, internal control systems, information and technology systems, risk management, and corporate governance).
d) Measures business risk management (**MANJ_RISK**), measured with a dummy variable if the risk management unit reports on risk control and discloses the risks faced by the company, and 0 otherwise.

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**Control Variable**

This study used measurement the control variables: Firm size (SIZE) is measured as the logarithm of total sales. Loss (LOSS) is measured using a dummy variable, with a value of 0 if the firm reports a profit and 1 if it reports a loss. Leverage (LEV) is measured as total debt divided by total assets. Return on assets (ROA) is measured as net income divided by total assets. Financial distress or financial health (BANKCP) is measured using the Altman Z-Score model. The book-to-market ratio (BTM) is measured as the book value of equity divided by the market value of equity. Sales growth (GROWTH) is measured as the change in profit, calculated as the current year's profit divided by the previous year's profit. Audit quality (BIG4) is measured using a dummy variable, which takes the value of 1 if the firm is audited by one of the Big Four accounting firms and 0 otherwise.

## 4. Results and Discussion

### 4.1 Statistik Deskriptif

The descriptive statistics are presented in Table 1. Among the continuous variables, firm size (SIZE), measured by the logarithm of total assets, has the highest mean value of 55.4366. This is followed by financial reporting quality, proxied by the Kothari accrual model (DAC_KLW), with a mean value of 1.6879. Conversely, the lowest value is observed in the firm growth variable, measured by the growth of net income, with a mean of –0.0629.

**Table 1 Descriptive Statistics**

| Variable | | Mean | Std. Dev. | Min | Max. |
|---|---|---|---|---|---|
| DAC(DEC) | 1.210 | -0,2048 | 0,6645 | -0,1531 | 1,2067 |
| DAC(KLW) | 1.210 | -0,3763 | 0,4692 | -0,4203 | 1,6879 |
| DAC(FLOS) | 1.210 | -0,3679 | 0,7130 | -0,3796 | 1,5290 |
| MANJ_SUB | 1.210 | 0,6857 | 0,1618 | 0,7837 | 0,9023 |
| MANJ_SEG | 1.210 | 0,2637 | 0,2087 | 0,1790 | 0,7946 |
| MANJ_SDM | 1.210 | 0,2550 | 0,9593 | 0,3149 | 0,9736 |
| SIZE | 1.210 | 0,2316 | 0,6837 | 0,1923 | 55,4366 |
| LEV | 1.210 | 0,1841 | 0,7758 | 0,1951 | 0,3586 |
| LOSS | 1.210 | 0,6196 | 0,4859 | 0 | 1 |
| ROA | 1.210 | 0,1825 | 0,3568 | - 0,1840 | 0,5971 |
| BANKCP | 1.210 | 0,3357 | 0,3044 | 0,2562 | 0,6719 |
| BTM | 1.210 | 0,3095 | 0,4591 | 0,2762 | 0,6873 |
| GROWTH | 1.210 | -0,2797 | - 0,6995 | - 0,0629 | 0,7643 |
| BIG4 | 1.210 | 0,3750 | 0,4846 | 0 | 1 |
| VOL | 1.210 | - 0,4250 | - 0,1088 | - 0,4844 | 0,7815 |

### 4.2 Organizational Complexity and Financial Reporting Quality

The results of the hypothesis testing are presented in Table 2. Statistically, the findings provide empirical evidence that corporate management complexity has a positive effect on financial reporting quality. This indicates that as the complexity of corporate management increases—through effective oversight of subsidiaries, efficient segment operations, well-managed human resources, and comprehensive risk management—the quality of financial reports is enhanced. In essence, complex yet well-structured management practices enable organizations to produce more accurate, reliable,

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and transparent financial statements, thereby strengthening stakeholder confidence and supporting informed decision-making.

**Subsidiary Management and Finansial Reporting Quality**

The results of testing the effect of corporate management complexity on financial reporting quality are presented in Table 2. Statistically, the findings provide strong evidence supporting Hypothesis H1, indicating that subsidiary management has a positive and significant effect (α = 1%) on financial reporting quality. This result suggests that more structured and effective management of subsidiaries contributes to improved transparency, accuracy, and reliability of financial reports. In other words, companies that implement better subsidiary governance are likely to produce higher-quality financial information, which can enhance stakeholders' confidence and facilitate better decision-making. These findings also highlight the critical role of subsidiary management as a component of corporate complexity in shaping the overall financial reporting quality.

**Segment Operation Management and Finansial Reporting Quality**

The results of the test on the effect of corporate management complexity on financial reporting quality are presented in Table 2. Statistically, the test results provide evidence that Hypothesis H1a , the management of subsidiaries has a negative and significant effect (α = 1%) on earnings management, indicating that the management of subsidiaries. has a negative and significant effect (α = 1%) on earnings management, indicating that stronger subsidiary governance reduces the tendency for earnings manipulation. This suggests that effective control and transparency within subsidiaries enhance the reliability of financial reporting and limit opportunistic managerial behavior.

The hypothesis testing results for H2 provide evidence that segment operation management has a positive and significant effect (α = 1%) on financial reporting quality. This finding indicates that the effectiveness of managing business segments contributes to the enhancement of financial reporting quality. In particular, well-managed segments are likely to improve the accuracy, consistency, and reliability of financial statements, as effective segment management ensures proper monitoring, coordination, and allocation of resources across the organization. Consequently, this underscores the critical role of operational segment governance in supporting transparent and high-quality financial reporting.

**Human Resource Management and Finansial Reporting Quality**

The hypothesis testing for H3 reveals a novel finding: human resource management has a positive and significant effect (α = 1%) on financial reporting quality. This result indicates that enhancing the effectiveness of human resource management, particularly in improving employee competencies, can support the production of high-quality financial reports. In essence, well-managed and skilled personnel contribute to more accurate, reliable, and transparent reporting processes, underscoring the critical role of human capital development in strengthening overall financial reporting quality within the organization.

**Business risk management and Finansial Reporting Quality**

The hypothesis testing for H4 provides empirical evidence that business risk management has a positive and significant effect (α = 1%) on financial reporting quality. This finding suggests that effective risk management practices enable organizations to identify, assess, and mitigate potential threats, thereby enhancing the accuracy, reliability, and transparency of financial reports. In other

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words, companies that systematically manage business risks are more likely to produce high-quality financial reporting, which strengthens stakeholder confidence and supports informed decision-making.

**Table 2. The Results of Hypothesis Organizational Complexity on Financial Reporting Quality**

Model : $FRQ_{i,t} = \lambda_0 + \lambda_1 MANJ\_SUB_{i,t} + \lambda_2 MANJ\_SEG_{i,t} + \lambda_3 MANJ\_HRD + \lambda_4 MANJ\_RISK_{i,t} + \lambda_5 SIZE_{i,t} + \lambda_6 LEV_{i,t} + \lambda_7 LOSS_{i,t} + \lambda_8 ROA_{i,t} + \lambda_9 BANK_{i,t} + \lambda_{10} BTM_{i,t} + \beta_{11} GROWTH_{i,t} + \lambda_{12} BIG4_{i,t} + \lambda_{13} LTENURE_{i,t} + \lambda_{13} ISSUE_{i,t} + \lambda_{15} CFO_{i,t} + \lambda_{16} VOL_{i,t} + \varepsilon_{i,t}$ .....1)

| Variable | | Finansial Reporting Quality (FRQ) | | | | | |
|---|---|---|---|---|---|---|---|
| | | DAC(DEC) | | DAC(KLW) | | DAC(FLOS) | |
| | Eks | Coeff. | P-Value | Coeff. | P-Value | Coeff. | P-Value |
| Dependen Variable **Complexity** | | | | | | | |
| Cons. | | 0,0332 | 0,000*** | 0,3651 | 0,000*** | 0,1319 | 0,000*** |
| MANJ_SUB | + | 0,2819 | 0,000*** | 0,3554 | 0,010** | 0,5628 | 0,000*** |
| MANJ_SEG | + | 0,3444 | 0,000*** | 0,3187 | 0,000*** | 0,5370 | 0,000*** |
| MANJ_SDM - | + | 0,5717 | 0,000*** | 0,5882 | 0,010** | 0,5701 | 0,000*** |
| MANJ_INVES | + | 0,2750 | 0,020** | 0,4763 | 0,000*** | 0,5487 | 0,000*** |
| MANJ_RISK | + | 0,5686 | 0,000*** | 0,7145 | 0,000*** | 0,1170 | 0.021** |
| Control Varoable | | | | | | | |
| SIZE | - | -0,0221 | 0.000*** | 0,0018 | 0,130 | 0,0203 | 0,406 |
| LEV | - | -0,0056 | 0.000*** | 0,0016 | 0,407 | 0,0039 | 0,105 |
| LOSS | - | -0,0027 | 0,206 | 0,0421 | 0.020** | -0,0448 | 0.000*** |
| ROA | + | 0,1225 | 0.000*** | 0,3060 | 0.000*** | 0,1836 | 0.000*** |
| BANKCP | - | -0,1435 | -0,102*** | -0,0916 | 0.000*** | -0,0518 | 0.000*** |
| BTM | - | -0,1358 | -0.000*** | -0,0456 | 0,708*** | -0,0902 | 0.000*** |
| GROWTH | + | 0,0081 | 0.000*** | 0,0094 | 0.000*** | 0,0013 | 0,707 |
| BIG4 | + | 0,0073 | 0.000*** | 0,0037 | 0.000*** | 0,0037 | 0,201 |
| VOL | - | -0,0287 | -0.000*** | -0,0285 | 0,090*** | -0,0003 | 0,003 |
| R-squared | | | 0.7164 | | 0.4847 | | 0.6871 |
| Adj R-squared | | | 0.7144 | | 0.4803 | | 0.6848 |
| F- Test | | | 0,0000 | | 0,0000 | | 0,0000 |
| Observation | | | 1.210 | | 1.210 | | 1.210 |

**Description**: **DAC(DEC) :** Dicretionary accrual mofied Jione by Dechow; **DAC(KLW):** Dicretionary accrual by Kothari (DAC_KLW); **DAC(FLOS):** Dicretionary accrual by Francis; **MANJ_SUB:** subsidiary management; **MANJ_SEG: b**egment operation; **MANJ_HRD:** human resource management; **MANJ_RISK**: Business risk management; **SIZE**, firm size **.LOSS**; firm reports a loss. Lev; Leverage. ROA, Return on assets. **BANKCP**; Financial (Z-Score model.). **BTM**; The book-to-market rasio. **GROWTH**, company growth. **BIG4**, Big Four Auditor public accountant. **VOL** Volatiliry; Sales growth (GROWTH) is measured as the change in profit, calculated as the current year's profit divided by the previous year's profit. Audit quality (BIG4) is measured using a dummy variable, which takes the value of 1 if the firm is audited by one of the Big Four accounting firms and 0 otherwise

t-statistic significance indicator: *p < 0,10; **p < 0,05; and ***p < 0,01.

## 5. Conclusion

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The results of the hypothesis testing provide comprehensive evidence regarding the impact of corporate management complexity on financial reporting quality. Specifically: (1) Subsidiary Management (H1a): Effective management of subsidiaries has a positive and significant effect (α = 1%) on financial reporting quality. This indicates that well-governed subsidiaries enhance the accuracy, reliability, and transparency of financial reports. (2) Segment Operation Management (H2): Effective management of business segments also shows a positive and significant impact (α = 1%). Proper monitoring and coordination within segments contribute to improved reporting quality by ensuring consistency and proper resource allocation.(3) Human Resource Management (H3): Enhancing employee competencies and managing human resources effectively has a positive and significant influence (α = 1%) on financial reporting quality. Skilled and well-managed personnel are critical for producing accurate and transparent financial statements. (4) Business Risk Management (H4): Effective business risk management is found to have a positive and significant effect (α = 1%). Systematic identification, assessment, and mitigation of risks strengthen the reliability and integrity of financial reports.

Overall, these findings highlight that multiple dimensions of corporate management complexity—including subsidiary oversight, segment operations, human resource management, and risk management a crucial role in enhancing the quality of financial reporting. Companies that implement comprehensive and effective management practices across these areas are more likely to achieve transparent, accurate, and reliable financial information, thereby supporting better decision-making and strengthening stakeholder confidence.

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