

Analysis of the Relationship Between Cost Stickiness and Financial Reporting Quality in the Indonesian Stock Exchange (Study in Manufacturing Sector Companies in 2018)

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ABSTRACT

This study aims to determine the relationship between financial statements and cost stickiness in companies listed on the Indonesia Stock Exchange. The study used all data from manufacturing companies registered in Indonesia in 2018. The data collection method was carried out by means of documentation study and literature study. Data were analyzed using descriptive statistical tests, classical assumption tests, hypothesis tests, multiple regression analysis tests and goodness of fit tests, using the IBM SPSS 23 software. The results in this research showed that the raw material cost stickiness (MCA) had a significant positive effect on the level of disclosure of corporate financial statements (FRQ). However, administrative cost stickiness (ACA), sales cost stickiness (SCA) and labor cost stickiness (LCA) do not have a significant effect on the level of disclosure in the company's financial statements in the manufacturing sector.

Keywords: Financial report quality, manufacturing sector, cost stickiness, report quality, administration, sales, raw materials, labor.

INTRODUCTION

Accounting is data processing activity that resulting in a “business language” in form of statement. The financial report can be called as financial statement (Mellett, 2002). The financial statement formed will be distributed both for interested internal and external parties. The process includes collecting and analyzing the data from every department and composing it into a financial statement. It is managements responsibility to compose a financial statement to inform stakeholders regarding the performance of the company (especially the financial stability) periodically at least once a year, nevertheless, more often means better (Kieso et al., 2018). For the systematic of publishing the finance reporting from company listed in Indonesia Stock Exchange will do four times a year (quarter I, II, III and annual).

DeFond & Zhang (2014), argued that the information quality base on the content of the financial disclosure, which means that the amount of financial statement issued by the company highly affecting stakeholder’s decision. That also will allow financial reporting as well as increase the transparency aspect to the stakeholders. However, not only the transparency aspect, managers and companies should also take the comprehensive aspect into account because the quality of financial statement was not only measured by the transparency but also the comprehensiveness.

The quality of financial statement always be an interesting topic to discuss for all the Board of Directors (BOD), observers and researchers, shareholders and professional accountant. Alfred (2014) in his research about how accounting information affect the decision of shareholders in change to increase the quality and the action of the company. In the era of 21st century, a scandal in international finance gives negative impact on the financial reporting quality (Brown et al., 2010). Other than that, in a study done by Bushman & Smith (2013); Healy & Palepu (2001); Lambert et

al. (2007) shows that standardized financial report gives significant impact on the economic aspect for the company, including increases in investing efficiency.

Financial reporting has predictive and prospective role that directly impact the operational sustainability because it gives that interested party's knowledge regarding risk and uncertainty (Banker & Chen, 2006; Weiss, 2010). This role is highly used in managerial accounting. Another aspect that directly linked to financial statement in terms of financial analysis and forecasting company's income percentage is cost behavior. Financial analysis activities can help companies anticipate costs that will occur in the future. Meanwhile, cost behavior can be used to forecast whether the resources had been acquired used well by the company.

However, the benefit of the cost behavior in predicting microeconomics indicators at the company level is still not being considered. Chen et al. (2012) suggested that cost behavior is an important factor in corporate decision making. Cost behavior is one of an important factor from cost accounting and management. Cost behaviors have a relationship with change in cost. In the tradition model, changes (increase or decrease) in the volume of activity does not have significant impact to influence the amount of change in cost. Other than that, on one of the research results (Calleja et al., 2006) show that have an increasing cost impact caused by the decreases in volume on company activity. This kind of behavior can be called as cost stickiness.

Cost stickiness is an asymmetrical reflection on the economic activity that happened on the increase and decrease of sales (Anderson et al., 2003). Cost stickiness means the increase in cost when the sales are increasing will decrease the cost when the sales were decreasing, thus making the cost behavior sticky (Weiss, 2010). In a certain condition, cost stickiness will give a benefit or loss for the company.

This aspect was interesting to analyze due to the dynamics of economy that will always be a challenge for company's sustainability. The reasons for cost stickiness are not only driven by market movements between demand and availability stock. While cost stickiness also triggered by other factors affect and drive price stiffness are adjustment cost on human resources and operational internal changes, changes in the flow of economic activity that change the linear pattern, target and expectancy strived by the company in a certain amount of time interval, and ambitious managers behavior to increase personal benefit/utility (Venieris et al., 2015).

Therefore, the main objective of this study is to investigate whether there is a relationship between financial reporting quality and cost sticky. Although, there have been many studies investigating financial reporting quality and cost stickiness, empirical studies examining the relationship between financial reporting quality and cost stickiness have not been undertaken when the economy is stable. This study will use data from manufacturing companies listed on the Indonesia Stock Exchange in 2018.

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

Theory of Agency

Theory of agency explains contractual relation between principal and agent. Principal party (business owner) is a party that gives their trust to the agent party (managers) to execute every activity related to company's activity including taking a decision. According to researcher, entity has a function as a as a focus in a complex process where individual disapprovals were brought into equilibrium in a contractual relationship framework (Ezeani et al., 2012). Furthermore, Jensen & Meckling, (1976) stated that the conflict of interest between managements and business owner are often occurred especially when the managers was not the business owner. Agency theories speculate that managers have an individualistic, egoistic, self-fulfilling and opportunist demeanour. Manager reflected under agency theory tends maximize their own personal interest by sacrificing business owner's interests (Adelopo, 2010). This theory derived from accounting research development which combine human behaviour and economic model. This theory explain relationship between principals (business owners) and agents (managers) were often contradicting, meaning that they were not always has the same goals due to conflicts of interest.

Positive Accounting Theory

Positive Accounting Theory is a theory used to explain a process with the ability, understanding, accounting knowledge and appropriate accounting policies to deal with conditions in the future. Basically, positive accounting theory states that the purpose of accounting theory is to

explain and predict accounting practices. Positive Accounting Theory is oriented towards empirical research and justifies some of the accounting techniques and methods currently used or is looking for new models for the development of accounting theory in the future.

Financial reporting will involve the use of management judgment to make accounting choices or to design transactions that affect the possible transfer of wealth between companies and society through the political cost hypothesis, providers of funds through the debt agreement hypothesis or managers through the bonus plan hypothesis (Diana and Madalina, 2007).

Financial Reporting Quality

Researchers who examine the financial reporting quality find that improving the financial reporting quality that part of a managerial decision. There are a lot of research done subjecting on the financial reporting quality will decreasing the asymmetric information (Biddle et al., 2009; Gomariz & Ballesta, 2013; Hope et al., 2011). Moreover, researchers Hope et al., (2011) suggest that there is an additional effect, namely a reduction in risk of reversal and ethics that allows managers to recognize excellent chances of investment. Top level of financial reporting quality will make increase the effectiveness and efficiency of investment. These studies also examine cost elements connected to financial reporting quality, such as lower costs, longer debt maturities and lower security costs for bank financing. Financial reporting quality permits the managers have to more responsible so that these managers can make better contributions during the management period. Good reporting quality will also be dropping the risk of asymmetric information, invert selection risk and moral risk which are expected to solve investment problems.

In addition, Gomariz & Ballesta, (2013) improving the quality of reporting can enable managers to recognize and identify projects so that they can provide equitable of accounting figures for domestic decision makers. Researchers Hope et al., (2011) use data from companies in emerging markets. He concluded that the quality of financial reporting will help companies to have more investment when the company lacks internal investment which also helps them to reduce investment problems.

Cost Stickiness Concept

Cost Stickiness reflects asymmetrical economic cost regarding cost responds to sales fluctuation (Anderson et al., 2003). Companies can be distinguished into two categories of cost stickiness. First is an efficient company (positive statement) and second, inefficient company (negative statement). Therefore, in this case, company can be categorized as efficient due to bearing an extra cost (unused resources) by avoiding resource adjustment cost (fluctuation), thus it will generate a greater benefit for the company. Companies that encounter efficient cost stickiness because that company choose for cover the resource expenses which they don't really need it. In addition to avoiding the resource adjustment cost, hoping the situation of efficient cost stickiness can give benefit for the company in the future. On the other hand, inefficient cost stickiness tends to be chosen by companies that experience a decline in sales and the decline is predicted to occur permanently / in the long run. Therefore, the company chooses not to decreasing the costs (expense) of unused resources. This condition can be said to be inefficient (inefficient). Resources that are not financed by the company, of course, will not generate benefits for the company either now or in the future. The two categories of cost stickiness described above will still have a negative impact on current profit because in both categories the decrease in sales is not compensated by the same amount of cost / expense reduction. So, we can conclude that in efficient cost rigidity, rebound on sales were hoped to generate positive impact for future income/profit while ineffective cost rigidity will always run into a negative effect in future income/profit due to fixed decrease in selling (Homburg & Nasev, 2010).

Hypothesis

In this researcher will evaluate in manufacturer companies in term of the relationship between cost stickiness and financial reporting quality listed on the Indonesia Stock Exchange. Hypothesis that stated in this sub-chapter was derived from a few reasons. First, it was hoped to increase the interest of legal drafters in Indonesia regarding financial report quality which also motivate exploration in economic consequences of cost stickiness. Second, suboptimal international financial report standard applied by Indonesian accounting system, Indonesia was hoped to motivate users to learn many factors that directly impactful to financial report quality such as IFRS application in Indonesian economic. Companies are responsible to release financial reports

accordance to four financial reports qualitative characteristics that are reliability, relevance, explication, and comparability as a credibility evidence. Financial report used to identify cost stickiness, which is very important qualitative characteristic. Third, investment is an assessment basis in the economy. Third, investment is an assessment basis in the economy. Standard Setters stated that accounting framework is one of the fundamental in financial report quality as a tool to gives useful information for stakeholders. This shows that there is relation between economic consequences regarding financial quality in Indonesian Stock Exchange. Previous research focused in predicting companies who have a good economic.

Researchers do their investigation by implementing managerial accounting information as a types of production cost in developing country (Anderson et al., 2007; Anderson et al., 2003; Balakrishnan et al., 2004; Francis et al., 2008; Homburg & Nasev, 2010; Kama & Weiss, 2013; Weiss, 2010). Moreover, this also showed a new function from cost accounting concept to qualitative variable to find a relation between them. Compared to market in developed countries, agency problems asymmetric information was more seen to be more impactful in developing countries due to bad investor protection and a poorly regulated disclosure policy. Indonesian market showed a low investment protection, that is why the financial report have an impactful direct effect on asymmetrical information mitigation and agency problems between shareholders and managers. Both of those things significantly affect Indonesian economic environment. Market was determined by low information disclosure by the companies. Then, poor tracking by financial analysts will result in low quality financial information. This will have a major impact on improving the company's financial condition. The results of this study can help managers demonstrate that eliminating excess sources and reducing costs does not necessarily increase future profits. If managers hope to increase sales in the future, they are better off applying unused resources during periods of low sales to reduce the firm's costs in the long run. This will increase the company's profit as well as effective elements such as cost rigidity in exceptional financial quality.

Based on the explanation above, I formulate several hypotheses as follows:

Hypothesis 1: Administrative cost stickiness influences the quality of financial reports.

Hypothesis 2: Sales cost stickiness influences the quality of financial reports.

Hypothesis 3: Material cost stickiness influences the quality of financial reports.

Hypothesis 4: Labor cost stickiness influences the quality of financial reports.

RESEARCH METHODS

Dependent Variables

The dependent variable is the main variable that affects the independent variable. The dependent variable used in this study is the Financial Reporting Quality. In establishing the dependent variable measurement model, we can follow the ED (IASB, 2010) literature who defines financial reporting quality which is fundamental to enhancing qualitative characteristics. Fundamental qualitative characteristics (i.e. relevance and faithful representation) are the most important which can determine financial statement information. Enhanced qualitative characteristics, namely understanding, comparison, verification, and timeliness can increase the usefulness of decisions when basic conditions are established. In research (Francis et al., 2004; Lipe, 1990; Schipper, K. and Vincent, 2003) applied predictive value as the ability of past earnings to predict future earnings which refers to the company's ability to model future cash flows. Predictive value is considered as one of the most extraordinary indicator regarding its relevance to the function of the decisions made.

The model used to measure the financial reporting quality as follow.

$$CFO_{it+1} = \alpha_0 + \beta_1 CFO_{it} + \beta_2 \Delta AR_{it} + \beta_3 \Delta INV_{it} + \beta_4 \Delta AP_{it} + \beta_5 DEPR_{it} + \beta_6 OTHER_{it} + \epsilon_{it+1}$$

Where,

CFO	: Cash from operations.
ΔAR	: Accounts receivable changes.
ΔINV	: Inventory changes.
ΔAP	: Changes in deferred debt and liabilities.
DPER	: Depreciation of fixed and intangible assets.

OTHER : After deducting other accruals which are calculated as follows:

$$OTHER = OP - (CFO + \Delta AR + \Delta INV - \Delta AP - DEPR)$$

OP : Operating Profit

£ : An error value that has a mean of zero and a fixed variant.

Independent Variables

Independent variable in this study to measure the rigidity of costs that occurs using an approach that estimates the amount of variation in costs recorded in the financial statements. The cost variations that we use are administrative cost data, sales cost data, material cost data, and labor cost data (Anderson et al., 2003; Salehi et al., 2018). The data used for the measurement was taken from the company's annual reports listed in Indonesian Stocks Exchange. The independent variables are presented as follows:

1. Administrative Cost Stickiness (ACA), deviation of administrative costs in years t and t-1 and divided by the previous sales revenue.
2. Sales Cost Stickiness (SCA), deviation of sales costs in years t and t-1 and divided by the previous sales revenue.
3. Material Cost Stickiness (MCA), deviation of material costs in years t and t-1 and divided by the previous sales revenue.
4. Labor Cost Stickiness (LCA), deviation of labor costs in years t and t-1 and divided by the previous sales revenue.

Control Variable

Control variables can be defined as variables that are controlled or made constant so that the influence of the independent variable on the dependent is not influenced by external factors that are not examined (Sugiyono, 2014). In this undergraduate essay, we also follow the same variables as previous studies (Salehi et al., 2018). The variables used in this study are as follows:

1. Return on Investment (ROI), the ratio of operating income divided to investment of the company.
2. Return on Sales (ROS), the ratio of operating income divided to company sales revenue.
3. Return on Assets (ROA), the ratio of profit divided to total assets of the company.
4. Price Earning (P/E), the ratio of the current share price relative divided to earnings per share in the company.
5. Total Asset, the company's total asset value.
6. Leverage (LEV), the result of total assets divided by debt.

Sample and Population

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (BEI) in the 2018 period. Companies listed their financial reports on the Indonesia Stock Exchange for several reasons, first, have an organized and recorded system, second, financial statements have a high position if they are listed on the Stock Exchange. This is due to the government of the Stock Exchange and other supervisory agency. The accounting and financial data used in this study were collected manually from audited financial reports provided by the official website of the Indonesia Stock Exchange. In the subject of applying sample deletion, it occurs when companies that are disaggregated according to the boundaries among the Indonesian Stock Exchange, participate in research (Salehi et al., 2018) and research adjusted accordance to our country. The selected company data is based on the following qualifications:

1. The company is not a sub-industry of the financial intermediation industry, holding and banking. This is because these companies have different nature of activities and classification of accounting report items compared to other companies.
2. Trading in the company's stock must not be completely stopped during the study period.
3. The company was listed before and throughout 2018.
4. The financial statements are stated in rupiah currency and presented in full.
5. All necessary research data for these companies will be available during the research process.

Analysis Method

The analytical method used to test the hypothesis in this research is descriptive statistical test, classical assumption test, hypothesis test, multiple regression analysis test and goodness of fit test. To test the regression model hypothesis in this study are as follows:

$$FRQ_{it} = a_0 + a_2ACA_{it} + a_3CSA_{it} + a_4MCA_{it} + a_5WCA_{it} + a_7ROI_{it} + a_8ROS_{it} + a_9P/E_{it} + a_{10}SIZE_{it} + a_{11}LEV_{it} + \epsilon_{it}$$

Where,

FRQ	: The result of the CFO _{it} residual measurement
ACA	: Administration fee measure
CSA	: Sales cost measure
MCA	: Material cost measure
WCA	: Employee cost measures
ROI	: The company's investment income ratio
ROS	: Company sales revenue ratio
P/E	: A measure of the share earning price
Total Asset	: Total of company's assets
LEV	: Result of total assets divided by debt.
i, t	: Index and year
ϵ	: Error value

RESEARCH RESULTS AND DISCUSSION

Description of Research Purpose

The purpose used in this study is a manufacturing company listed on the Indonesia Stock Exchange. The criteria for the companies selected as samples belows;

Table 1
Sample Selection Process

No	Criteria	Number of Samples
1	Companies listed on the Indonesia Stock Exchange in 2018.	696
2	Companies that are not included in the manufacturing sector.	(507)
3	Companies whose annual reports are not audited on the Indonesia Stock Exchange throughout 2018.	(53)
4	Companies that do not attach annual reports in Rupiah for the period December 2017 to December 2018	(29)
5	Companies that do not meet the research data needs in terms of the dependent, independent and control variables.	(39)
6	Outlier	(8)
Number of Company Samples		60

Resource: Data Processing 2020

In Table 1 above, of the 696 companies listed on the Indonesia Stock Exchange throughout 2018. 507 companies are not included in the manufacturing sector, thus eliminating the annual report data of 507 companies. Furthermore, there are 189 manufacturing companies listed on the IDX that experienced elimination during the data collection and processing process. There are 53 companies that have not audited their financial statements on the Indonesia Stock Exchange, 28 companies report financial reports in foreign currency and one company that reports January to January, 39 companies whose complete data requirements for research are incomplete both on the dependent, independent and control. Furthermore, in the data processing process, outlier data search was carried out. The outlier sample was identified as the cause of the data sample being abnormal because the extreme value that looks very much different from other data, this causes the outlier sample to be eliminated from the research sample. (Ghozali, 2018). The existence of outlier samples resulted in

elimination of 8 data from the study sample. With an explanation of the number of samples used in the study amounted to 60 companies. This data will then be used for analysis and hypothesis testing.

Descriptive Statistics Test

This descriptive statistical analysis provides an overview (description) or explanation of the research data that can show the results of the maximum, minimum, standard deviation, and mean values. Descriptive statistics for this research are presented in Table 2.

Table 2
Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
FRQ	60	-1744848,0010	859258,8535	10386,0295	506428,5015
ACA	60	-25277,9366	0,0499	-421,2945	3263,3682
SCA	60	-0,2747	0,4535	0,0953	0,1226
MCA	60	-0,6149	0,4022	0,0625	0,1260
LCA	60	-0,0143	0,1717	0,0080	0,0253
ROI	60	-49,3895	53,8422	1,6564	11,2575
ROS	60	-0,2733	0,4581	0,0788	0,1139
ROA	60	-0,1641	0,4808	0,0696	0,1013
PE	60	0	0,2642	0,0087	0,0429
TOTAL ASSET	60	2295,7350	5538079503	97013208,9431	714400781,1717
LEV	60	0,0004	0,9151	0,4045	0,2232
Valid N (listwise)					

Resource: Data Processing 2020

Hypothesis testing

This research we have 4 aspect, so the test used is multiple regression test. The hypothesis is accepted if the results of the statistical test show a probability score of not more than 0.05 or 5%. The assumption test in this multiple regression uses the OLS assumption or what is commonly called the Ordinary Least Square which aims to determine the effect of the independent variable on the dependent variable in this study.

Table 3
Hypothesis testing

Model		Unstandardized Coefficients		Standardized Coeff.	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	485980,158	130580,109		3,722	,001
	ACA	6,476	16,438	,042	,394	,695
	SCA	-1009625,592	624081,756	-,244	-1,618	,112
	MCA	1170175,430	566703,172	,291	2,065	,044
	LCA	2416152,648	2187851,540	,121	1,104	,275
	ROI	-10128,240	4825,962	-,225	-2,099	,041
	ROS	14453,296	823105,428	,003	,018	,986
	ROA	-2913868,523	938130,399	-,583	-3,106	,003
	P/E	3387102,582	1241496,365	,287	2,728	,009
	Total Aset	,000	,000	-,162	-1,470	,148
LEV	-663924,064	259746,406	-,293	-2,556	,014	

Resource: Data Processing 2020

Table 4.10 represent the results of hypothesis of raw material cost stickiness (MCA) which has a sig significance value. 0.044 below 0.05. Meanwhile, 3 (three) other variables of independent have a value of more than 0.05, namely the administrative cost stickiness (ACA) sig. 0.695, sales cost stickiness (SCA) sig. 0.112 and labor cost stickiness (LCA) sig.0,275.

Based on the results of the data processing process, the researcher found that the relationship between the materials cost and the quality of financial reports proved a significant effect. From the results of the SPSS analysis, we can see that the cost of raw materials at the company shows a presentation of the variable raw material costs. This contradicts the research findings (Mahlberg et al., 2013) which is not in line with the results tested in the study where the results show a negative effect, contrary to the results of this study. Other research findings (Salehi et al., 2018) which in this study has not been explored, but in general the results of this hypothesis show that most shareholders in the country of Tehran, because they have a long-term perspective, and manage company investment efficiently and control the monitoring of agency cost reduction.

Conclusion

The conclusions are as follows; the administrative cost stickiness variable (ACA) does not influence the company's financial reporting quality (FRQ). This is shown based on the results of the sig coefficient value that exceeds the 0.05 limit, namely 0.695. The sales cost stickiness (SCA) variable does not influence the company's financial reporting quality (FRQ). This is shown based on the results of the sig coefficient value that exceeds the 0.05 limit, namely 0.112. The raw material cost stickiness (MCA) variable influences the level of disclosure in the company's financial reporting quality (FRQ) in the manufacturing sector. This is shown based on the results of the sig coefficient value lower than 0.05, namely 0.044. The variable labor cost stickiness (LCA) does not influence the company's financial reporting quality (FRQ). This is shown based on the results of the sig coefficient value that exceeds the 0.05 limit, namely 0.275.

This study has several limitations. First, the observation period is only carried out for 1 year with only 60 companies whose financial report data can be processed, so that the research model has difficulty in testing the data. Second, this research has other elements that can explain the level of disclosure of corporate financial statements that were not included in the study due to time and data limitations.

As for suggestions for further research, first, Future research should take a lengthy period of data on the Financial Statements of the companies to obtain a larger sample size and a more accurate measurement of the level of disclosure so as to produce a more accurate analysis. Second, the next measurement is expected to include more variables which are supposed to influence the quality of financial reports. For example, overhead costs, operations management, or contractual bonds.

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