JURNAL BISNIS DAN AKUNTANSI
Vol. 24, No. 2, Des 2022, Hlm. 353-364
Akreditasi Sinta3 SK No. 23/E/KPT/2019

P-ISSN: 1410 – 9875
E-ISSN: 2656 – 9124
http://jurnaltsm.id/index.php/JBA

HOW DIFFICULT ARE THE FINANCIAL STATEMENTS TO READ?

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Received: October 25, 2022; Revised: December 22, 2022: Accepted: December 27, 2022

Abstract**:** *This paper examines the relationship between financial performance and Annual Report Readability. This study is interesting in that companies should submit reports concisely and are easy to read. However, it turns out that many company managers submit management reports in many sentences, especially when financial performance is not in good condition. An interesting finding of this paper is that net income has a significant negative effect on ARR, which indicates that even when management earns profits, the language of reporting submissions by management is quite difficult for users of financial statements to read. This study uses 66 years of observation of companies listed on the Indonesia Stock Exchange and tests the hypothesis using multiple linear regression and correlation. The results show that companies with high ARR have higher financial performance. Service companies in Indonesia need to convey their performance using more words, especially when financial conditions are not good. Measured by ROA, excellent financial performance significantly positively affects the readability of annual financial statements. The implication of this research is mainly for the service sector; management behaves like saying more words even though the profit is positive.*

Keywords**:** financial performance, annual readability reporting, language of reporting, poor performance

Abstrak: Paper ini menguji hubungan antara kinerja keuangan dan keterbacaan laporan tahunan. Studi ini menarik karena perusahaan diharuskan menyampaikan laporan secara ringkas dan mudah dibaca. Namun, ternyata banyak manajer perusahaan yang menyampaikan laporan manajemen dalam banyak kalimat, terutama ketika kinerja keuangan sedang tidak baik. Temuan menarik dari studi ini adalah laba bersih berpengaruh negatif signifikan terhadap ARR, yang menunjukkan bahwa meskipun manajemen memperoleh laba, bahasa penyampaian pelaporan oleh manajemen cukup sulit dibaca oleh pengguna laporan keuangan. Penelitian ini menggunakan observasi 66 tahun terhadap perusahaan yang terdaftar di Bursa Efek Indonesia dan menguji hipotesis menggunakan regresi linier berganda dan korelasi. Hasil penelitian menunjukkan bahwa perusahaan dengan ARR tinggi dengan kinerja keuangan yang lebih tinggi. Perusahaan jasa di Indonesia perlu menyampaikan kinerjanya dengan lebih banyak kata, terutama ketika kondisi keuangan sedang tidak baik. Diukur dengan ROA, kinerja keuangan yang sangat baik berpengaruh signifikan terhadap keterbacaan laporan keuangan tahunan. Implikasi dari penelitian ini terutama untuk sektor jasa, ada perilaku manajemen yang memiliki kebiasaan mengatakan lebih banyak kata meskipun labanya positif.

Kata kunci: kinerja keuangan, annual readability reporting, bahasa pelaporan, kinerja buruk

INTRODUCTION

The International Standards Board (IASB) began to organize discussion forums to survey the preparation and use of annual financial reports to obtain input. This survey found that the preparation of financial information was the main problem of over-disclosure of information. This finding is in line with the results of research by experts, such as Li (2008), who found that unstructured textual narratives in financial statements show managerial irregularities, ambiguity, and opportunism. Then the research of Iannoconi and Sinnet (2011) found that pages and footnotes of financial statements increased, there were repetition, and things that were ineffective.

The results of the survey and the findings of previous experts emphasize the legibility of the disclosure of narrative information in the annual financial statements and whether it affects the decision-making of external parties, in this case, investors and shareholders, against the company. Therefore, examining the factors that can influence it (Gu et al., 2020) is imperative.

Readability is vital for external parties as it is easy to read and understand a financial report, and various factors can influence this, such as sentence length, wording, and word layout in financial statements. A benchmark used to understand financial statements for external parties' assessment of company performance. UNESCO states that Indonesia ranks second from the bottom in world literacy (writing and reading) which is still low at 0.001%. Management should consider the legibility of the report to make it easier to understand (Bacha and Ajina, 2019). But according to Bloomfield (2012), most of the information conveyed by management is one of their ways to change investor perceptions. This difference of opinion result between consideration of the ease of understanding the report or the ways to change investor perceptions makes management behavior being less consistent.

This research is interesting because in Indonesia with the Circular Letter of the Financial Services Authority NUMBER 30/SEOJK.04/2016 part III regarding the contents of the annual financial report point b, which states that the annual financial report can present information in the form of pictures, graphs, tables, and diagram by including a clear title and description so that it is easy to read and understand. It means that the company already presents an annual financial report that should have readable criteria to reflect that an article can be read and understood (Bacha and Ajina 2020). In addition, studies published in reputable international journals show the importance of studying and testing the legibility of this narrative information for the decision-making of various parties. Research by Subramanian et al. (1995) stated that companies use simple language that is easy to understand when delivering good news, while Lo et al. (2017) argue that telling the truth is more straightforward than lying. Managers tend to use convoluted language when telling lies (Hancock et al., 2007; Bonsall et al., 2017).

The service company sector is a supporting part of the national economy, and this sector has continued to experience rapid growth since 2012 until now. In 2018, the service company sector contributed 59% to the Gross Domestic Product (GDP). It is due to the increasing number of investments in the service sector. Besides that, the service sector is no longer dependent on the domestic government, so the development of technology and digitalization will further increase the traded service sector. In addition, the costs used will decrease in trading services because the convenience of digital technology supports it. A service Company does not have inventory so that expenses can control are controlled appropriately. In short, service companies should be able to maximize their financial performance

This company's annual financial report can be a benchmark and parameter in assessing the success of company management and intense company performance. Company performance is something the company produces in a certain period and follows the standards set to achieve company goals (Li, 2008). The performance of this company can measure through non-financial information and financial information, and this non-financial information can be in the form of satisfaction with the services provided by the company. However, the company's performance measures financial ratios. The main contribution of this study is, it adds to the previous literature on firm performance and annual report readability adopting diverse perspective of analysis particularly in the case of sector of service companies listed on the Indonesia Stock Exchange from 2018-2020.

The company's performance can show the value of the success or failure of the company business in running a business (Pusung, 2014). Regarding the Readability of financial statements, company performance affects how companies convey information (Habib and Hasan, 2018). This study examines the effect of financial performance measured by assets and earnings on the Readability of annual financial statements (Annual Report Readability).

Referring to the Big Indonesian Dictionary, Readability is a condition where discourse can scan, easily remembered, and understood. The quality of the letters determines the level of Readability in terms of quantity, how good the writing is, and how easy it is to read. Mismatches in using narratives can lead to a lack of ease in reading a description of the information presented in a visual communication design that seems less clear. Several experts have also expressed opinions about this Readability, as DuBay in 2004 defined Readability as easy to understand or comprehensive because of the writing style that makes it easy to read words and sentences. Readability is the ease with which the reader can understand written texts (Ajina et al., 2016). Based on the developed theory, Readability affects the individual's understanding of the disclosure, which will impact the considerations and decisions made.

Readability is the degree of ease of writing to understand its meaning. This legibility, among others, depends on vocabulary, sentence structure, and other things in the writing. In natural languages, the Readability of a text depends on its content (vocabulary and syntactic complexity) and presentation (such as typographical aspects such as font size, line height, and line length) (Baker & Kare, 1992). It reveals that Readability is the level of discourse difficulty, namely the measurement of a discourse.

Two factors affect the discourse's Readability: complicated words and sentence length. In this case, the Readability of an annual financial report is how to assess the narrative of a financial report that is easy to read and understand and contains information that will impact considerations in economic decisions. In other words, Readability is a term used to describe ease or problems in understanding reading. Writing can understand the reader influenced by the structure of the content in the sentence, vocabulary, typography, and illustrations used.

The reliability of the annual financial report narrative is measured using various formula measuring tools, but in this study, the author uses Gunning's FOG Index or Fog Readability formula. The Readability of this annual report can provide a homogeneous, simple, and easy effect to convey information to all investors (Adhariani & du Toit, 2020). The Gunning Fog Index is a measure of text readability invented by Robert Gunning, an American book publisher who graduated from Ohio University. According to Robert Gunning, most of the problems in reading are in writing, and the Gunning Fog Index can be used to ensure the reader can understand the text; this index assesses the ease of a text or reading to read and understand. The value contained in this index is a number where the lower the index value of the reading, the easier the reading is to understand (Ajina et al., 2016).

Several studies on the effect of firm performance on readability by Hongkang Xu et al. (2020) discuss the effect of cash ratio, ROA, cast per claw, MA score, and discretionary accuracy on the gunning fog index for the period 2006-2014. The results show that all variables simultaneously significantly positively affect the annual report. Readability. The research conducted by Baker and Kare (1992), show that NPM significantly affects annual report readability. Jayasree and Sethe (2020) concluded that net operating income negatively affected annual report readability, indicating that management had difficulty conveying matters that could negatively affect investors.

A service Company is a company whose primary revenue comes from services, meaning that the company does not have inventory so that expenses can control are controlled appropriately. This study choose service company sector listed on the IDX a research update or gap from this study.

The gunning fog index chooses in this study by considering the relevance where the gunning fog index focuses more on the complexity of the reading by considering a large number of difficult words and the large number contained in the reading. This study uses the report of the company's directors as research data by calculating the level of readability of the company's directors' report.

Signaling Theory

Signaling theory presented by Spence in 1973 that stated signal form the sender (owner of the information) tries to provide relevant pieces of information that can be utilized by the recipient. Signaling theory assumes that the accuracy of information known to company managers is better, which is inversely proportional to rumors known by outsiders. This is what causes news asymmetry between interested parties (Bergh et al, 2018) Information asymmetry can be descried as a lack of appropriate information influenced by company performance so that stakeholders obtain incomplete information.

Return on Asset as Measurement of the Company's Financial Performance

Return On Assets (ROA) is the ratio between net income, which is inversely proportional to the overall assets to generate profit (Winarno, 2019). This ratio shows how the value of its assets measures much net profit the company will get. This ROA analysis is often translated into Indonesian as economic profitability to measure the company's development in generating profits in the future. ROA is a ratio that shows the results of the total assets used in the company. In addition, ROA provides a better measure of the company's profitability because it shows the effectiveness of management in using assets.

Thus ROA is one of the profitability ratios that can assess the company's ability to earn profits from the activities used. ROA will assess the company's ability based on past profits so it can utilize them in the next period or period. The company obtains assets from its capital or outside parties that have been conserved in various company activities so that the company remains alive.

ROA can also evaluate whether management has received appropriate compensation based on its assets. This ratio is valuable when evaluating how well the company has used its funds. For this reason, management uses ROA to evaluate various business units in a multinational company. To calculate ROA, one can use a calculation by dividing the company's net profit, where usually the annual income with its total assets will be displayed as a percentage. In calculating this ROA, there are two events: calculating the total assets on a specific date or the average total assets (Jewell & Mankin, 2011).

ROA has a positive relationship with annual report readability. This can be explained that increase in firm performance leads to more decrease in the readability of annual reports on the average. A high ROA indicates that the company's profitability is also high. When profitability is high, this indicates good news for investors, and of course, the company will deliver good news straightforwardly and concisely. Conversely, if the profitability is low, the company will convey it in complex language to avoid investor judgment. Hongkang Xu et al. (2020) discuss the effect of cash ratio, ROA, cast per claw, MA score, and discretionary accuracy on the gunning fog index using a sample of 12,742 companies for the period 2006-2014. The results show that all variables (cash ratio, ROA, cast per claw, MA score, and discretionary accuracy) simultaneously significantly positively affect the Readability of the annual report (gunning fog index). It indicates that companies are operating in countries where law enforcement is low (civil law) was the case. Corruption is pervasive and tends to reveal illegible financial reports and obscure information in annual financial reports. Likewise, the results of a study by Ertugul et al. (2017) about discussing tone ambiguity, bank loan funds, and the accident rate ratio of Annual Report Readability showed that partially the control variables showed positive results and significance to Annual Report Readability.

The results of research by Hassan et al. (2018) show that ROA harms Annual Report Readability, while Courtis et al. (1995) findings show a significant relationship between ROA and the Readability of financial statements. This study is not in line with Gu et al. (2020), which shows a positive relationship between ROA and Annual Report Readability, which means that the hypothesis does not support the statement that ROA affects Annual Report Readability. Meanwhile, Tarjo et al. (2022) tested the effect of ROA on Annual Report Readability, where there was no significant effect on the two variables.

ROA calculates dividing net income by the company's assets as a whole, where the calculation results display in the form of a percentage; the more significant the percentage means, the more productive and efficient the company is, while the Gunning Fox Index calculates the AAR calculation where the higher the readability score, the more difficult it is to understand. In other words, if the higher the percentage of ROA while the ARR readability score is low, the ROA negatively affects ARR and vice versa. Based on the explanation above, the following hypothesis can formulate:

H1: Company performance, as reflected by Return On Assets (ROA), has a negatively effect on Annual Report Readability (ARR)

Net Profit Margin as a Measurement of Company Financial Performance

Net Profit Margin is a ratio that compares the company's profits with the total amount of money generated, and this ratio uses to provide an overview of the company's financial stability. NPM is different from ROA when measured by the divisor, where NPM obtain from net income divided by total sales, while ROA obtains from net income divided by total assets. It shows that NPM is a measure of a company's ability to earn profits by selling it, while ROA is a company's ability to profit by utilizing its assets. It is a significant difference because sales is a form of company performance in one period (nominal account). At the same time, ROA is a form of company performance with continuity because total assets can increase yearly (real account).

Companies can be more efficient if they generate profits more significantly than sales value. Net profit margin can show how well the company converts sales into a profit. On the other hand, this ratio can also show the amount of lost revenue through business-related expenses and expenses. It can help analyze whether a business should focus on spending (Ida & Dwiridotjahjono, 2021). The correlation between Net Profit Margin and Annual Report Readability it appears The managements of more profitable firms tend to be more verbose in their letters to the stockholders than their counterparts with lower profitability (Baker and Kare, 1992).

Several studies on the effect of Net Profit Margin on readability, such as the research conducted by Baker and Kare (1992), show that Net Profit Margin significantly affects annual report readability. The study of Jayasree and Sethe (2020) concluded that net operating income negatively affected annual report readability, indicating that management had difficulty conveying matters that could negatively affect investors.

NPM is the level of profit of a company from sales after deducting various costs; this NPM is usually expressed as a percentage where the higher the percentage value indicates, the greater the profit the company earns. In ARR, the higher the readability score, the more difficult it is to understand. by NPM has an effect if there is a negative relationship with ARR. Based on the explanation In other words, the company's performance calculated above, the following hypothesis can formulate:

H2: Company performance, as reflected by Net Profit Margin (NPM), negatively affects Annual Report Readability (ARR).

RESEARCH METHODS

This study try to analyze the relationship and influence of Annual Report Readability on company performance by assessing the readability of the company's annual financial statements. This study uses the Gunning Fox Index's analysis to assess the readability of the annual report (Boubaker et al., 2019). The Gunning Fox Index is a measuring tool invented by Robert Gunning. Then through descriptive research by measuring the value of Return On Assets and Net Profit Margin, it will be able to assess the relationship between company performance and Annual Report Readability.

The population chosen in this study is the entire sector of service companies listed on the Indonesia Stock Exchange from 2018-2020. The reason for choosing the service company sector listed on the IDX is to determine the effect of the level of readability of annual reports on company performance and as a research update in the sector. A service Company is a company whose primary revenue comes from services, meaning that the company does not have inventory so that expenses can control are controlled appropriately. In short, service companies should be able to maximize their financial performance. The independent variable of this study is firm performance measuring with ROA and NPM. ROA has a positive relationship with annual report readability explained that increase in firm performance leads to more increase in the readability of annual reports on the average. Net Profit Margin and Annual Report Readability it appears The managements of more profitable firms tend to be more verbose in their letters to the stockholders than their counterparts with lower profitability. Based on the data selected in this study, the data sources from the official IDX website, namely, www.idx.co.id on the IDX website, data regarding the service company sector with a population of 452 companies.

The sampling method used in this study is purposive sampling, which means that the population that will use as a research sample is a population that meets the criteria used as research samples. The sample not used is a service sector company not listed on the Indonesia Stock Exchange in the 2018-2020 period and does not issue an annual report. The results of sample reduction are 430 companies that do not meet the criteria, so only 66 sample years of observation.

The data in secondary research contained in this study is in the form of quarterly financial statements of service sub-sector companies listed on the IDX for the 2018-2020 period, obtained through the IDX official website. The data used in this study is panel data, where the Data observe over a certain period, and there are many objects in the study. Data collected through content analysis looks at the contents of the annual report of each sample company.

Annual Report Readability will be measured using the Gunning Fox Index as a measure of readability chosen in this study. The Fog Index (Gunning Fog Index) method chooses in this study by considering the relevance, whereas the Fog Index focuses more on the complexity of reading by considering a large number of words that are difficult to read and the number of words that exceed one syllable in a reading (Rahman, 2020). The Gunning Fox Index (FOG) is a legibility measure used in dissecting researchers' financial sub-reports. The gunning fog of the annual report, which should be legible, is at 12-14. The formula for the gunning fog index is:

$$0{,}4\ \{(\frac{number\ of\ words}{number\ of\ sentences}) + 100(\frac{difficult\ word}{number\ of\ words})$$

According to Li (2008), the relationship between the fog index and the readability of reading defined as follows:

> Fog 18 = Unreadable reading
Fog 14-18 = Reading is difficult to read
Mist 12-14 = Ideal reading
Fog 10-12 = Generally acceptable reading
Fog 8-10 = Readings classified for young children

It can say that this is the Fog index of a company's report, so it will be more challenging to read the report.

Return On Assets (ROA) is a ratio that becomes an illustration or benchmark in showing management's ability to obtain profitability.

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

Net Profit Margin (NPM) is a ratio that shows the level of profit earned by the entity compared to the income received by running operations; the better because it shows a significant profit.

$$NPM = \frac{Revenue - Cost}{Total\ Revenues}$$

This study will use multivariate analysis (multiple regression) to determine the independent effect variable on the dependent variable—many equations of regression analysis for hypothesis testing in this study.

Multiple regression is an analytical method that uses one or more independent variables estimated to have a relationship with a dependent variable (Yamin and Kurniawan, 2014). Multiple regression describes a model with one dependent variable and more than one independent variable. The multiple regression equation models based on this research are as follows:

$$ARR = \alpha + \beta_1 ROA_1 + \beta_2 NPM_2 + \beta_3 SIZE_3 + \beta_4 GROWTH_4 + + \beta_5 NI_5 \ldots e$$

Where:
ARR = Dependent Variable (Annual Report Readability)
α = Constant
b_1,b_2 = Regression coefficient of each variable
ROA = Independent Variable 1 (Return On Assets)
NPM = Independent Variable 2 (Net Profit Margin)
SIZE = Firm size (control variable)
Growth = Sales growth (control variable)
NI = Ln Net income (control variable)

RESULTS

Table 1 Panel A presents the results of descriptive analysis where the average value of the dependent variable as measured by the FOG Index is 17.29. The results show that the ARR variable is in the difficult-to-read category where this value is the same as the findings of previous studies such as Bacha et al. (2019), where the FOG Index result is 22.26, as well as research by Hassan et al., (2018), Jayasree and Shette (2020) and Levahy et al. (2011), yielded values more than the threshold for the criteria for reports that were difficult to read. The ROA variable shows the profit value compared to total assets, where the average value is 2.88, and the NPM variable is 24.43, indicating that the performance is below average. Meanwhile, Panel B is the result of Pearson's correlation test between the dependent and independent variables.

Table 1 Results of Descriptive and Correlation

Panel A: Statistic Distributions

Variable	Mean	Minimum	Maximum	SD
ARR	17.29	13.96	24.05	2.15
ROA	2.88%	1.85%	26.88%	7.66
NPM	0.23%	-1.11%	1.29%	32.43
Size	19.17	13.64	29.32	3.65
Growth	40.27	-0.85	3.46	13920.23
LnNI	13.99	-14.10	25.46	

Panel B: Pearson Correlation

	ARR	ROA	NPM	Size	Growth
ARR	1				
ROA	0.196	1			
NPM	-0.193	0.430**	1		
Size	0.172	0.201	0.083	1	
Growth	-0.221	0.05	0.257**	0.735**	1
LnNI	0.474**	0.451**	0.117	0.933**	

Notes: ** significant level at 0,01, * significant level at 0,05
Source: processed by the author

The correlation value between ARR with ROA and SIZE is positive and insignificant, while the NPM variable found a significant negative correlation at the 0.01 level. Meanwhile, the Growth variable has a negative correlation with ARR. These results indicate a non-linear relationship between ARR and ROA, NPM, and Size. It means that the lower the financial performance, as reflected by ROA and NPM, the more difficult it is to read financial statements and size. However, found a positive correlation between the Growth variable and ARR, which was not consistent with the results of the study by Lehavy et al. (2011), which also showed a positive relationship between Growth and ARR.
Results of Multiple Regression Analysis (OLS)
Table 2 shows the results of the independent variable regression analysis on the dependent variable. The table shows that the ROA coefficient value is 0.201, which significantly

positively affects the readability of financial statements. It means that the better the financial performance reflected by the ROA, the easier it is to read. This result is not in line with the research of Xu et al. (2020), and Tarjo et al. (2022), where ROA has a significant negative effect which indicates that in companies with good performance (high ROA), their financial statements tend to be easier to read. Thus, this study not supported Ha1. Bloomfield (2012) said that management tries to add sentences that are not important if the performance is not suitable where ROA is one of the measurements.

Table 2 Results of OLS

Independent Variable	ARR		
	Coefficient	**t-Values**	**Prob.**
ROA	α_1=0.201	2.847804	0.0061
NPM	α_2=-0.021	-2.283046	0.0262
Size	α_3=-0.066	-0.284623	0.7770
Growth	α_4=0.122	2.025172	0.0475
NI	α_5=0.366	1.511492	0.1362
Adjusted R2	0.461		
F Statistic	11.615		
Prob. (F Statistics)	0.000		
D-W	1.5069		
Sample Size	66		

NPM shows a coefficient value of -0.021 or has a significant negative effect on ARR; namely, companies with good financial performance measured by NPM are likely to be easier to communicate with than companies with poor performance. They convey financial reports in a concise and easy for investors to understand. Thus, the results of this study supported the Ha2 hypothesis. NPM is a variable that compares net income to net income. Based on descriptive analysis, the minimum NPM value is negative. Its means that companies still report performance correctly without using additional sentences. The results show that management tries not to be pragmatic. The study of Bacha et al. (2019) is in line with this study, but the results are not in line with the study conducted by Baker and Kare (1992), which proves there is no positive relationship between NPM and ARR. They use the Flesch RE Index to measure ARR. As control variables, SIZE or company size and NI (Net Income) have no significant effect on ARR, while GROWTH, as measured by sales growth for the current and future periods, has a significant positive effect on ARR.

ROA is used to measure the effectiveness of the company in generating profits by utilizing its assets. ROA is one of the profitability ratios to measure the company's ability to generate profits using the total existing activities and after the capital costs erase from the analysis. Besides that, the return on investment shows the productivity of all company funds, both from loan capital and own capital. The ratio uses to measure the effectiveness of the company's overall operations. ROA identifies the value of the company determined by profits and the company's activities. The test results that show a positive influence mean that the higher the profit, the higher the level of active turnover efficiency. So it has an impact on increasing public interest in investing.

An overview of management efficiency in utilizing activities to generate income as measured by net income divided by total company assets makes ROA can use as an analysis for investors in making investment decisions. Companies with a relatively large ROA value can fundamentally make public judgments because they can generate profits efficiently. One of the company's goals is to obtain the maximum profit and increase the prosperity of its stakeholders; ROA is one of the ratios used in reviewing the company's ability to carry out its business activities. The company's ability to generate profits efficiently is a reference for stakeholders in making investment decisions. It shows how the information presented by the agent who manages the management in the company to the principal, in this case, the stakeholder, can be well received, where the principal can understand the information presented narratively in the annual financial statements regarding the condition of the company.

NPM is also part of the profitability ratio, which measures the company's ability to seek profit, which illustrates the profits generated by the company from its business operations, such as interest income in the service sector. The NPM ratio uses to assess a company's management effectiveness level so that if the NPM produced by a company tends to be significant, the level of management effectiveness of a company is more optimal. The effectiveness of a company's management in generating profits is increasing yearly. NPM can be an indicator of the level of effectiveness of a company's management which calculates through net income divided by company income; it has not become massive information used by investors and the public in analyzing the company's performance ability in making investment decisions. The NPM value is less good if the NPM shows a value of less than 5%. In this study, most companies have described the average NPM value as quite good; it is just that the company PT Indo Straits Tbk describes a poor NPM; this is because the company has not been optimal enough to generate profits through its business activities in the 2020 period. ROA and NPM depict a decline from 2019 to 2020; the average ROA in 2019 was 4.23 and decreased in 2020 to 0.43. The NPM where 2019 stood at 29.82 to 17.33 in 2020. This decline may have occurred due to the economic downturn in 2020 when BPS officially declared a decline in the Indonesian economy 2020 by 2,07 percent.

The economic downturn in 2020 impacts COVID-19 that has occurred since 2019; the service sector, which relies on mobility and interaction between consumers and producers, is greatly affected during the pandemic and culminates with large-scale restrictions. Indonesia is entering a recession, although not as bad as initially thought. Several service sectors showed a rebound trend, where at the beginning of the second quarter of 2020 recorded growth of -7.5% to 1.05%, and in the fourth quarter of 2020, it had rebounded to -3.64% to 2.37 percent. The rebound phenomenon in the services sector is essential, considering that it can become a momentum for Indonesia's economic recovery. The service sector continues to experience favorable growth with the rapid adaptation of society to the online-based service sector; its indicated by the increase in the number of digital consumers in Indonesia. The digitization in the service sector is expected to be an opportunity for the service sector and can continue to increase Indonesia's economic growth in the future.

CONCLUSION

This study aims to determine the effect of financial performance indicators on annual report readability in service sector companies listed on the Indonesian stock exchange. ROA is proven to have a positive and significant effect on ARR, while NPM is proven to have negatif effect and significance to ARR. This research is limited to measuring financial performance, namely profitability ratios that include ROA and NPM in service sector companies. In this study, we use the Gunning Fog Index to measure Annual Report Readability, which is still a simple form of measuring the readability of financial statements. Next, use the Flesch Kincaid proxy, which is more detailed in categorizing the readability criteria of financial statements (Muhamad and Rahman, 2006), or you can also use the BOG Index, which is easier to use to read text-based financial reports such as HTML, XML or PDF (Habib and Hasan, 2007).

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