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Integrated Reporting Disclosure and Performance of Banking Companies on the Indonesia Stock Exchange

Marita, Sri Astuti, Sucahyo Heriningsih

Universitas Pembangunan Nasional Veteran Yogyakarta,
E-mail address Marita.azaria@gmail.com

Abstract

The purpose of the research to test the disclosure of integrated reporting and performance of the banking company in the Indonesia stock exchange. The population of this research is banking companies listed on the Indonesian Stock Exchange in the 2017 2019 year. This study using the financial industry because the financial sector may be regarded as one of the risky investments. So this study is expected to provide more information and revealing, especially information on integrated reporting elements. Based on the results of the statistic shows that element 1 (a summary of external environmental organizations and companies) and elements 3 (business model) are an effect on the company performance. While the other variables 6 elements: elements 2 (governance); elements 4 (risks and opportunities); elements 5 (strategy and resource allocation); elements 6 (performance); elements 7 (outlook); and elements 8 (Presentation and disclosure), are not affect the company Performance. This means not all components reporting integrated can affect the company performance. The contribution of this research can inform related integrated reporting in detail and the value of the enterprise.

Keywords: Integrated Reporting; Performance.

I. INTRODUCTION

The International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard setters, accountant profession, and non-governmental organizations, releases the Integrated Reporting framework (IIRC, 2013). Integrated reporting presents it integrally to make it easier for stakeholders to obtain information. Based on this new paradigm, the needs of investors and stakeholders for reports that present in an overall picture of the company must be fulfilled.

Some researches on integrated reporting are being done, as this is new. As done by Owen (2013) investigated the changes in the accounting curriculum, along with the development of integrated reports. Humphrey et al. (2015) studied the relevance and value of integrated reports in the long run. Serafeim (2015) shows the usefulness of integrated reports as a basis for decision making by shareholders. Chew (2015) stated that companies that submit integrated reports have more value than if they do not. Adams (2015) studied the importance of integrated reporting being able to change corporate thinking in corporate strategic planning and decision making. Stubbs and Higgins (2014) stated that integrated reporting is a report that is more incremental than rational. This is because of transformative changes due to the lack of comprehensive standards. Morgan (2016) provided insights into the issues and aspects of integrated reporting that require further development and require strong evidence to help inform improvements in policy and practice.

The purpose of this study is to describe the extent to which banking companies in the Indonesia Stock Exchange in submitting integrated reports and analyzing value creation from integration reports submitted by companies. We chose the financial industry because the financial sector can be considered as one of the riskiest sectors for investment. This is because the financial industry is easily influenced by the economic cycle. Therefore, when the economy grows, the demand for financial products increases, and when the economy is in decline, these companies are the first to be affected (DePersio, 2015).

II. LITERATURE REVIEW

The application of integrated reporting is part of the company's legitimacy strategy (Beck, Dumay, & Frost, 2015; Haji & Anifowose, 2016) and through a stakeholder approach. Based on the theory of legitimacy, company management will pay attention to the community's need for the company. By showing the existence of institutions in the eyes of society, this is a form of legitimacy theory (Dosinta, Brata, & Heniwati, 2017).
Based on stakeholder theory, all stakeholders have the same right to be treated fairly by the company so that the company will submit disclosures related to multiple capitals in an integrated report (Deegan, 2007). Disclosure of multiple capitals, according to the IIRC framework, consists of financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital (IIRC, 2013). Multiple capitals disclosure in an integrated report provides an overview of the company's performance from a financial and non-financial perspective (Haji & Anifowose, 2016). This disclosure illustrates how companies create value creation for companies and stakeholders (Coulson, Adams, Nugent, & Haynes, 2015).

Broadly speaking, the evolution of corporate financial reporting starts with financial reports, management reports, green reporting, sustainability reports, and finally, integrated reporting.

Based on the theories stated above, the hypotheses in this study are:
H1 = The organization and the external environment of the company significantly affect firm value.
H2 = Corporate governance significantly affects firm value.
H3 = The company's business model significantly affects firm value.
H4 = Company risks and opportunities significantly affect firm value.
H5 = The strategy and allocation of company resources significantly affect firm value.
H6 = Company performance significantly affects firm value.
H7 = Company information outlook significantly affects firm value.
H8 = Basis for presentation and company disclosure significantly affects firm value.

III. RESEARCH METHODOLOGY

This study is an empirical study using secondary data. The population in this study is all banking companies listed on the IDX in 2017-2018. The population in this study is the financial industry. The sampling technique used in this study is purposive sampling, with the following criteria:

1. The company publishes a sustainability report in the year of observation.
2. Complete available data.

The data in this study are secondary data. The data needed in this study are company disclosure, corporate governance, and corporate financial data in 2017-2018. The data will be downloaded from the web www.idx.co.id and the websites of each sample company.

The variables in this study consist of 2 variables, namely the dependent variable and independent variable. The dependent variable in this study is firm value. This variable is measured using the Tobin'Q. The formula for calculating Tobin's Q is as follows:

$$Q = (EMV + D) / (EBV + D)$$

Information:

EMV: Equity Market Value

D (Debt): The book value of total debt

EBV: Book value of total assets

If the market value solely reflects the listed assets of a company, Tobin's Q will be equal to 1. If Tobin's Q is greater than 1, the market value is greater than the listed asset value of the company. This indicates that the stock is overvalued. If Tobin's Q is less than 1, the market value is less than the carrying value of the company assets. This indicates that undervalued stocks can also be interpreted as potential investment growth.

Meanwhile, the independent variables in this study consist of eight main categories of integrated reporting according to the integrated reporting guidelines, and the measurement is by adding up the disclosures made by the company. The independent variables are as follows:

1. Element 1 is the organization and the company's external environment, measured by whether there is a disclosure of the company's vision, mission, objectives, and qualitative information.
2. Element 2 is corporate governance, measured by looking at the presence or absence of disclosure of management structure, strategic management, audit committee (internal audit), and governance policies in company activities.
3. Element 3 is the company's business model, measured by viewing the disclosure of the Business Model Description whether the company's business model is easy to understand, there is a picture of minimizing the complexity of the business process.
4. Element 4 is risks and opportunities, measured by looking at whether there is the disclosure of the company's main risk information, there is information on the opportunities for the risks mentioned, their guidelines in dealing with risks.
5. Element 5 is the strategy and resource allocation, measured by using the disclosure of information about resource management strategies, resource allocation information, and the creation of resource value.
6. Element 6 is performance, measured by using whether there is the disclosure of performance indicator information, both qualitative and quantitative, information about organizational effectiveness in achieving its goal, the existence of regulations, rules, laws governing company performance.

7. Element 7 is Outlook, measured by using the disclosure of information about change anticipation, information on future financial performance implication, information on the comparison between target and actual performance, information on companies in taking opportunities to compete.
8. Element 8 is the Basis for presentation and disclosure measured by looking at the presence or absence of information about the process of materiality determining. There is information about the limitations of the company in conveying materiality risk, opportunity risk, determining attributes that must be submitted to stakeholders; there is information on guidelines for evaluating non-financial reporting.

All of those elements, if there is disclosure, are given a value of 1, and if not, then it is given a value of 0. Then, the value of each element is the percentage. The data in this will be analyzed using multiple regression analysis with the following model:

$Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \beta_5 X5 + \beta_6 X6 + \beta_6 X7 + \varepsilon$

In this case:

Y = Tobin's Q; X1 = Element 1; X2 = Element 2; X3 = Element 3; X4 = Element 4; X5 = Element 5; X6 = Element 6; X7 = Element 7; X8 = Element 8; ε = *error term*

The study hypothesis will be supported if the t significance value of the regression processing results shows a significance value of less than 5%.

Data and Sample Population

The data of this study are corporate disclosure, corporate governance, and corporate financial data for 2017-2019. The data are obtained from the web www.idx.co.id and the web of each sample company. The population is all banking companies listed on the IDX in 2017-2019, namely the financial industry. The sampling technique used is purposive sampling, based on the following criteria: the company publishing a sustainability report in the year of observation, and all data were completely available. Then, the sample results are obtained as follows:

Table. 1 Research Sample Data

No	Description	2019	2018	2017
1	Banking companies listed on the IDX	44	44	44
2	Incomplete data	22	23	23
3	Data processed	22	21	21

Coefficient of Determination (R^2)

The coefficient of determination can be used to measure the regression model in explaining the variables used. The value of the coefficient of determination (R^2) is 0 to 1. If the adjusted R^2 value gets closer to 1, the effect of the independent variable on the dependent variable is getting stronger. If the coefficient of determination = 1, the independent variable can explain the dependent variable. However, the coefficient of determination has a value of = 0, so the independent variable cannot explain the dependent variable at all in this study. The table below shows the results of the determination coefficient test:

Table 2 The Result of Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. An error of the Estimate
1	.784[a]	.614	.559	.06311

a. Predictors: (Constant), E8, E2, E7, E6, E5, E1, E3, E4

Source: The Secondary Data processed, 2020

From the table above, the results show the *Adjusted R Square* value of 0.614. This shows that 61.4% of the variation in changes in the integrity of financial statements can be explained by organizational variables and the company's external environment, corporate governance, the company's business model, risks and opportunities, strategy and resource allocation, performance, Outlook, and the Basis for presentation and disclosure, while the remaining 38.6% is influenced by other variables that are not explained in this study.

Before evaluating the results of the hypotheses, it is to analyze the value of the F test results using ANOVA, which is equal to 0.000 (Table 3). This shows that the significance value of F is less than 0.05 (Sig < 0.05). The analysis that can be identified related to the regression model of this study is acceptable or goodness of fit. Thus, the regression model for testing with multiple regression models is feasible to use, and the hypothesis is feasible to be tested in the next analysis, which is a t-test.

Tabel 3. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.355	8	.044	11.133	.000[b]
	Residual	.223	56	.004		
	Total	.578	64			

a. Dependent Variable: Q

b. Predictors: (Constant), E8, E2, E7, E6, E5, E1, E3, E4

Hypothesis Testing

The main integrated reporting on the dependent variable firm value is partially tested using the t statistical test, with a significance level of 0.05. The results of statistical testing are in Table 4 below:

Table 4. Hypothesis Testing

Model	Sig.
(Constant)	.000

E1 (Organization and external environment)	.000
E2 (Corporate governance)	.995
E3 (Company's business model)	.017
E4 (Risk and opportunity)	.368
E5 (Strategy and resource allocation)	.340
E6 (Performance)	.235
E7 (Outlook)	.652
E8 (Basis of presentation and disclosure)	.790

Based on the results of statistical tests in Table 4, which is a test of the effect of the eight main categories of integrated reporting, and the dependent variable in the form of firm value. The results of the analysis from the hypothesis testing are as follows:

1. Element 1 of the organization and the external environment of the company shows a significance value of 0.000. It can be concluded that there is an effect of the organization and the external environment of the company on the firm value of the banking entity.
2. Element 2 of corporate governance as measured by the presence or absence of disclosure of management structure, strategic management, audit committee (internal audit), governance policies in company activities obtain a significance value of 0.995.
3. Element 3 of the company's business model, measured by looking at whether there is a disclosure of the business model, whether the company's business model is easy to understand, there is a picture of minimizing the complexity of the business process. From the results of the statistical test showing a significance of 0.017, this indicates that variable has an effect on firm value.
4. Element 4 of risk and opportunity shows a significance value of 0.368. This means that variable risk and opportunity has no effect on firm value.
5. Element 5 of strategy and resource allocation, measured by using the disclosure of information about resource management strategies, resource allocation information, there is the creation of resource value, obtained a significance value of 0.340, which means that there is no effect of resources on firm value.
6. Element 6 of performance, the results of statistical tests show the number 0.235, which means that the performance is measured by using the disclosure of performance indicator information both qualitative and quantitative, information about organizational effectiveness in achieving its objectives, the existence of regulations, rules, laws governing company performance, the company does not affect the value of the company.
7. Element 7 of Outlook, the significance test results show number 0.652; thus, it can be concluded that Outlook has no effect on firm value.
8. Element 8 of Basis for presentation and disclosure has a significant result of 0.790. This shows that the Basis for presentation and disclosure has no effect on firm value.

Overall, the results of this study hypothesis testing can be explained that the eight elements of financial statement integrity that have significant results affecting firm value are element 1 of the organization and the external environment of the company and element 3 of the business model. This can be explained that the measurement of organizational variables and the company's external environment as measured by disclosing the company's vision, mission, objectives, and qualitative information becomes something that is mandatory and turns out that the results of statistical testing can affect firm value. Likewise, with the element business model that has an influence on firm value, it can be interpreted that the description of an entity's business model is, of course, the main thing for the company.

Meanwhile, for the six elements out of 8 elements in integrated reporting according to the IIRC, which are element 2 of governance; element 4 of risks and opportunities; element 5 of strategy and resource allocation; element 6 of performance; element 7 of Outlook (challenges and uncertainties); and element 8 of the Basis for presentation, those are the integrated reporting elements that are not significant to firm value. This can be explained that if there is no information on good governance, risks and opportunities, strategy and resource allocation, performance, outlook information (challenges and uncertainties), and the Basis of presentation, the firm value does not change, or it can be said that it cannot be affected by those variables.

IV. CONCLUSION AND FURTHER RESEARCH

The eight elements in integrated reporting according to the IIRC, which are (1) an overview of the organization and its external environment; (2) governance; (3) business model; (4) risks and opportunities; (5) strategy and resource allocation; (6) performance; (7) outlook (challenges and uncertainties); (8) the Basis of presentation, are expected to affect firm value. Based on the results of statistical tests, it shows that two elements of the eight elements can affect firm value, thereby affecting the performance of the entity. The element of an overview of the organization and the external environment, as well as elements of the business model, affect firm value. Meanwhile, six other elements which are element 2 of governance; element 4 of risks and opportunities; element 5 of strategy and resource allocation; element 6 of performance; element 7 of the outlook (challenges and uncertainties); and element 8 of the Basis of presentation, statistically do not affect firm value. This means that not all components in integrated reporting can affect firm value.

Limitations

The limitations of this study include the low influence of the elements of integrated reporting on firm value/company performance. There are several things that cause this value to be small, including that the measurement of integrated reporting elements used percentage and only calculated the main elements, not the details, and it is the first limitation. This is due to the diversity of information disclosed by the sample companies. The second limitation is that measuring company performance / firm value variables used an economic indicator measurement, which is Tobin's Q, which refers to several opinions that Tobin's Q can describe the response to non-financial information. The third limitation is that the data source used is company sustainability reports because there are only a few companies that submit integration reports.

Suggestions for the Next Study

Suggestions for future research to improve the limitations of the study include not only non-financial but also financial reports that can be added as an integrated reporting variable. Meanwhile, the dependent variable can also use other company performance proxies such as measuring the performance of value for money or balanced scorecard, and related to data collecting of study sample can use all company information from various sources, both public and non-public entities.

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