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The Effect of Implementation of Integrated Reporting on Company Value

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ABSTRACT: This study aims to find out how the effect of the application of integrated reporting elements on the reporting of LQ 45 companies listed on the Indonesia Stock Exchange in 2018 on company value in the period after the implementation of the integrated reporting element. Measurement of disclosure of integrated reporting elements using content elements developed by the International Integrated Reporting Committee in 2013. The content element of integrated reporting is identified through annual reports, sustainability reports, and information on the company's website. The samples in this study were selected using the purposive sampling method and 34 companies were selected.

The results showed that the implementation of integrated reporting elements in company reporting affected the increase in company value in the period after the implementation of integrated reporting. The coefficient of determination of this study shows a value of 38.2% which means that the company value variable (Tobin's Q) can be explained by 38.2% by the disclosure of the integrated reporting element, while the remaining 61.8% is explained by other factors.

KEYWORDS: Integrated Reporting, Tobin's Q, Element Integrated Reporting, Company Value

1. INTRODUCTION

Increasing the value of the company is the main goal of any company. High company value can increase prosperity for shareholders, so shareholders will invest their capital in the company. The company's value will be guaranteed to grow sustainably if the company pays attention to economic, social, and environmental dimensions. Financial reporting and disclosure are important tools that have the potential for management to communicate company performance and company governance to outside stakeholders. Initially, financial statements tend to contain quantitative information but along with business and technological developments, financial statements do not only contain quantitative information but contain qualitative information and other information related to economic, social, and governance (KPMG, 2010; Krzus, 2011).

In 2011, the International Integrated Reporting Committee (IIRC) and supported by GRI developed a new corporate reporting model called Integrated Reporting. Integrated reporting combines several reports (finance, management records, governance and remuneration, and continuous reporting) into one reporting package to explain an organization's ability to create value and maintain its value in the long term and present comprehensive and integrated information about all aspects and dimensions of the company to stakeholders (Lako, 2013). In December 2013 the IIRC released the International Framework Integrated Reporting followed by three months of consultation, resulting in more than 350 responses globally, most of which supported integrated reporting. IIRC managed to get the attention of entities around the world, such as the United States, Spain, Austria, the United Kingdom, the Netherlands, Australia, India, and South Africa to implement Integrated Reporting taking into account the benefits that will be achieved afterward (Prickett, 2014). However, until now Indonesia has not required the implementation of Integrated Reporting for entity reporting. The purpose of the company issuing integrated reporting is to attract investors to buy the company's shares. With the increase in the number of shares outstanding and the increase in the company's share price, the company hopes to increase the value of the company proxied with Tobin's Q. The increase in stock prices was caused by significantly increased demand from investors but the existing supply was limited. The value of the company gives management an idea of investors' perceptions of the company's past performance and prospects for the future.

2. LITERATURE REVIEW & HYPOTHESIS

Agency Theory

This agency theory was developed by Jensen and Meckling (1976). Agency theory is a theory related to the relationship between the principal and the agent. This agency theory creates a model of a contractual relationship between the manager (agent) and the owner (principal). Agency theory comes into force when there is a contractual relationship between the owner of capital (principal) and the agent. Principals who are unable to manage their company hand over the operational responsibilities of their company to agents by employment contract. The management as an agent is morally and professionally responsible for running the company as well as possible to optimize the company's operations and profits. There are several possible conflicts in the relationship between the principal and the agent (agency conflict), conflicts that arise as a result of the desire of the management (agent) to carry out actions by its interests that can sacrifice the interests of shareholders (principals) to obtain returns and long-term value of the company. Healy et al. (2001) in Termeulen (2011) offer several ways to reduce agency problems: contracting, disclosing, corporate governance, information intermediary, and corporate control contests. Information intermediary is one of the solutions to reduce agency problems that can occur through company reporting. Disclosure of company information must be adequate for all types of company stakeholders so it is expected that there will be integrated reporting disclosures for all stakeholders.

Stakeholder Theory

Stakeholder theory is a theory that describes which parties the company is responsible for (Freeman, 1984). Companies must maintain relationships with stakeholders by accommodating existing wants and needs, especially stakeholders who have the power to the availability of resources used for the company's operational activities (Ghozali and Chairiri, 2007). Therefore the survival of the company depends on the support of the stakeholders.

Legitimacy Theory

The theory of legitimacy asserts that companies are constantly striving to ensure that they operate within the frames and norms that exist in the society or environment in which the company is located, where they seek to ensure that their (the company's) activities are accepted by outsiders as "legitimate" (Deegan, 2004). Ghozali and Chairiri (2007) state that what underlies the theory of legitimacy is the "social contract" that occurs between the company and the society in which the company operates and uses economic resources.

Integrated Reporting

According to The International Integrated Reporting Committee (IIRC) in 2013, integrated reporting is a process of communication of information of an organization, especially reflected in "integrated reports" to stakeholders about value creation over time. An integrated report is a concise and integrated communication about how the strategy, management, and remuneration, performance, and prospects of an organization produce value creation in the short, medium, and long term. IIRC (2013) provides guiding principles for disclosing company information through integrated reporting. The principles of integrated reporting include strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, consistency, and comparability. The integrated reporting elements based on the Integrated Reporting Framework that must be met for a company report to be referred to as an integrated report are organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, and outlook.

Corporate Value

Company value is a value that shows a reflection of the equity and book value of the company, both in the form of equity market value, book value of total debt, and book value of total equity. One of the ratios that are considered to be able to provide the best information is Tobin's Q because this ratio can explain various phenomena in the company's activities, such as the occurrence of cross-sectional differences in investment decision-making and the relationship between management share ownership and company value (Onwioduokit, 2002). Tobin's Q can be known as the market value of the company which reflects the future profit of the company. Tobin's Q includes all elements of the company's debt and shares capital, not just elements of ordinary shares. Brealey and Myers (2008) mentioned that companies with high Tobin's Q usually have a very strong corporate brand image.

Development of Hypothesis

In the 21st century, issues regarding environmental management, social responsibility, and corporate governance (environmental, social, and governance) as part of the responsibility of entities are increasingly being discussed. In addition, currently, the value of a company is not only seen from the economic aspect but also the social aspect. Companies are not only required to pursue profits but must also pay attention to the continuity of the company's business. The big challenge for companies today is how to combine the economic and social values that the company achieves to achieve the company's business continuity. A report is needed that describes the intangible value of the company and the impact of sustainable strategy on long-term shareholder value. Integrated reporting is here to answer these challenges because integrated reporting combines several reports consisting of financial statements, management records, governance, and remuneration, as well as continuous reports into one report to explain the company's ability to create value and maintain it for the long term. Integrated reporting is an innovation in sustainability reporting, but that does not mean that Integrated Reporting is the next generation of sustainability reporting (Stubbs et al., 2014). Integrated reporting provides solutions to the shortcomings of sustainability reporting in connecting information on social, environmental, and economic impacts. Integrated reporting consistently develops financial reporting and other reporting that not only combines financial statements with non-financial statements. Navi (2014) stated that integrated reporting provides several benefits for companies including showing that companies are serious about including sustainability in their core business, identifying cost savings with analysis of financial and non-financial metrics, and increasing company value and customer loyalty. Integrated Reporting berfokus pada usaha menyajikan informasi terkait evaluasi resiko yang luas dan potensi pertumbuhan nilai masa yang akan datang sehingga mampu menarik penyedia modal dan investor yang potensial (de Viliers et al., 2014).

The hypotheses of this study are:

H_0 : Disclosure of Integrated Reporting does not affect increasing the value of the company

H_a : Disclosure of Integrated Reporting affects the increase in company value

3. RESEARCH METHOD

Population and Sample

The population in this study is all companies with the LQ-45 stock index listed on the Indonesian Stock Exchange in 2018-2019. The samples in this study were selected using the purposive sampling method with the following criteria:

1. Companies that are consistently listed in the LQ 45 stock index of the Indonesia Stock Exchange in 2018-2019
2. Disclosing elements of integrated reporting in 2018 reporting and the company published an annual report in 2019.
3. Have completeness of data needed in this study

Variable Measurement

1. Independent Variable

The independent variable in this study is the disclosure of integrated reporting elements. Integrated Reporting measurement in this study uses Content Elements contained in the Integrated Reporting design developed by IIRC (2013). The content element consists of an overview of the organization and business model (seven items), operating context (nine items), strategic objectives and strategies to achieve it (seven items), governance (eight items), performance (ten items), future outlook (seven items). The content element of Integrated Reporting in this study was identified from reports and information published through annual reports, sustainability reports, and information presented on the company's website.

$$\text{Content Element} = \frac{\text{Total items disclosed}}{\text{48 items}}$$

2. Dependent Variable

The dependent variable used in this study is the value of the company. Company values were measured using Tobin's Q. Modifications to Chung and Pruitt's (1994) version of Tobin's Q formula have been used consistently as they are simplified on various simulations. The formulations of Tobin's Q formula used in this study are:

$$\text{Tobin's Q} = \frac{MVS + D}{TA}$$

Information :

Tobin's Q: Corporate Values

MVS: Market Value of all Outstanding Shares obtained from the multiplication of the number of shares outstanding by the stock price (Outstanding share x Stock Price)

D: Market Value of Debt obtained from the results (current liabilities – current assets + long-term liabilities)

TA: Total Assets of the Company

Hypothesis Testing

The research hypothesis will be tested by regression equation, namely :

$$\text{Tobin's Q} = a + b \text{ Element Integrated Reporting} + \varepsilon$$

Information :

Element Integrated Reporting = disclosure element integrated reporting

Tobin's Q = corporate value (Tobin's Q) a = Constanta b = koefisien regresi ε = Error

4. RESULT AND DISCUSSION

Descriptive Statistic

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TobinsQ	34	1.070	4.870	2.00324	.944527
Element Integrated Reporting	34	.542	.917	.73485	.121551
Valid N (listwise)	34				

The SPSS test results showed that the number of samples was 34 companies with a minimum value for the company value variable measured by Tobin's Q showing a value of 1,070 and a maximum value of 4,870. The integrated reporting variable measured by the content element of the integrated reporting disclosure in the LQ 45 company shows a minimum value of 0.542 and a maximum value of 0.917

Classic Assumption Test

- Normality Test. A normality test is performed to see whether the regression model independent and dependent variables are normally distributed or not. The normality test can be analyzed with the Kolmogorov-Smirnov non-parametric statistical test, namely by comparing the asym values. sig (2-tailed) obtained from the non-parametric statistical test table with a predetermined alpha value of 0.05 (Ghozali, 2016). Asymp Value. The sig (2tailed) in this study was 0.427 > 0.05. These results show that the residual data is declared normally distributed.
- Heteroscedasticity Test. The heteroskedasticity test is done by looking at a scatterplot chart pattern. The results of the scatterplot chart indicate that the data points are scattered in the area between 0 -Y and do not form a certain pattern, then the regression model formed is not identified heteroscedasticity. Because the treated data does not contain heteroscedasticity, the simple linear regression equations obtained can be used for the study.

Hypothesis Testing

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.610	.792		-2.033	.050
	Elemen Integrated Reporting	4.917	1.064	.633	4.622	.001

a. Dependent Variable: TobinsQ

Koefisien Determinasi

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.633[a]	.400	.382	.742734

a. Predictors: (Constant), Elemen Integrated Reporting

b. Dependent Variable: TobinsQ

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Based on the results of the analysis above, the value of the coefficient of determination (adjusted r square) was obtained by 0.382. These results show that the company value variable (Tobin's Q) can be explained by 38.2% by the disclosure of the integrated reporting element, while the remaining 61.8% is explained by other factors.

Simple Linier Regression

Coefficients[a]

From the test results of the simple linear regression analysis, the regression equation in this study becomes:

$$\textbf{Tobin's Q} = -1{,}610 + 4.917 \textbf{ Elemen Integrated Reporting} + \varepsilon$$

The results of hypothesis testing, namely the effect of integrated reporting disclosures on company values, show a significance value of 0.001. Significance values indicate values smaller than 0.05 or α (5%) then this proves H_0 is rejected and Ha is accepted. This shows that disclosure of integrated reporting affects increasing the value of the company. This means that on average, the benefits of disclosing integrated reporting elements are greater than the costs that must be incurred by the company. Integrated reporting focuses on efforts to present information related to broad risk evaluation and potential future value growth to attract capital providers and potential investors (de Viliers et al., 2014). The reputation value of the company's shares will increase when the company is judged to show the existence of social responsibility. Disclosure of integrated reporting elements can be used as a tool to improve a company's reputation. The company's goal in revealing the integrated reporting element is to attract investors to buy company shares. With the increase in the number of shares outstanding and the increase in the company's share price, the company hopes to increase its value of the company. The results of this study are in line with the results of Lee and Yeo (2016) who conducted a similar study on companies listed on the stock exchange in the South African country.

5. CONCLUSION AND RECOMMENDATION

Conclusion

The purpose of this study is to empirically test how the effect of the application of integrated reporting elements in company reporting can increase company value in the period after the implementation of the integrated reporting element in LQ-45 companies listed on the Indonesia Stock Exchange in 2018. Sampel penelitian yang terpilih menggunakan metode purposive sampling sebanyak 34 perusahaan. The selected research samples used the purposive sampling method in as many as 34 companies. The results of the analysis carried out, show the results that the significance value of hypothesis testing shows a value of 0.001 (less than 0.05 or α (5%)) which means that the application of integrated reporting elements in company reporting can increase company value in the period after the implementation of integrated reporting.

Recommendation

The recommendation for future research is expected to:

- Extending the research period because the longer the observation interval time, the greater the opportunity to provide a maximum picture of research results
- For subsequent research that uses content analysis measurement, they can use existing software to be more accurate and minimize the influence of the level of foresight and subjectivity when reading the annual report. In addition to using content analysis for integrated reporting disclosure elements, you can also use Guiding Principles so that the results become more valid.

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