Ownership and Size Drive Integrated Reporting in Indonesian Listed Companies

Zuhrohtun(✉), Indah Kartika Sandhi, and Gita Astyka Rahmanda

UPN Veteran Yogyakarta, Yogyakarta, Indonesia
{zuhrohtun,indahkartika,gitaastyka}@upnyk.ac.id

Abstract. This research aims to identify the factors that influence integrated reporting in mining and manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. The study focuses on the impact of Good Corporate Governance and company characteristics on integrated reporting, using institutional ownership, managerial ownership, audit committee, board of commissioner, profitability, and company size as independent variables. The study uses Warp PLS to test the hypotheses, with integrated reporting as the dependent variable. The results of the study show that institutional ownership, managerial ownership, and company size have a significant influence on integrated reporting. These findings suggest that companies can improve their integrated reporting by implementing good corporate governance practices, increasing institutional ownership, and improving their management structures. The implications of the study are relevant to companies, regulators, and other stakeholders interested in promoting transparency and accountability in corporate reporting.

Keywords: Integrated Reporting · Ownership · Size · Indonesian Listed Companies · Corporate Governance

1 Introduction

Financial statement is a structured presentation of the financial position and performance of business entity [1]. An entity prepares financial statements to provide a complete information regarding financial position, financial performance and entity's cash flows. This information is useful for the users in constructing decisions. Financial statements are management's responsibility for the use of managed resources. The company reports its performance in the form of various reports, including financial reports, management reports, sustainability reports, and integrated reports. Integrated reporting was developed in 2011 by the International Integrated Reporting Council (IIRC) and supported by Global Reporting Initiative [2].

International Integrated Reporting Council published the Integrated Reporting Framework - based annual reports integrated reporting in 2013 [3]. The annual report with the integrated reporting combines matters related to financial statements, corporate governance, management records, remuneration and reports on social and environmental activities into one integrated report. Integrated reporting is constructed integrated

H. Ku et al. (Eds.): ICARSE 2022, ASSEHR 748, pp. 203–211, 2023.
https://doi.org/10.2991/978-2-38476-048-0_23

thinking and encourages emphasis on internal processes to understand the needs and interests of different investors/stakeholders. Integrated reporting provides connectivity between financial information and non-financial information. The presentation of integrated reporting is a way of transparency carried out by the company to show the company's performance in financial and non-financial terms. Companies that implement integrated reports gain better way to communicate the information of business performance, generate and maintain long-term sustainable value.

Manufacturing and mining company industry sector are the main industry sector which have direct exploitation and produce pollution to the planet as well as to the people around the business. Those two-industry sector have a big responsibility to the planet and people surround as a fringe of benefit their taken away. Giving any corporate social responsibility action is the way of the company to show their responsibility for having sustainable environment. The urgency of providing such integrated reporting is that deliver not only financial information but also managerial information as well as corporate social responsibility disclosure that have been done by the company. This information stated in the report will give beneficial not only for the company but also the stakeholder as the report's user.

The application of integrated reports in Indonesia is still diverse. This condition as an impact of the reporting basis to perform an integrated reporting in their annual report is still part of voluntary disclosure. However, it is permissible for companies to use the integrated reporting framework as a reference in preparing annual reports. This is in line with the regulations issued by the Financial Services Authority, namely the Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Based on these regulations, it is hoped that sustainable development with stability and harmony from various economic, social and environmental aspects can be realized. The regulation involves financial service institutions, issuers and public companies to conduct a sustainable finance pattern by being required to prepare a sustainable financial action plan and prepare a separate sustainability report [4].

Supervision of company management is one of the activities to ensure that management is carried out according to procedures and implementation of corporate governance is achieved. Good governance will facilitate the company in achieving good performance. Good performance in a company can be reflected in the level of profitability and company size. Various studies on integrated reporting have been carried out, but have not shown the level of connectivity of corporate governance and the company's ability to support companies to immediately carry out transparent reporting with an integrated reporting system. Meanwhile, the implementation of good corporate governance is one of the important elements of integrated reporting elements. Based on this background, this study will analyse the influence of corporate governance elements and company characteristics to integrated reporting in Indonesia, especially in mining and manufacturing company listed in Indonesian Stock Exchange.

2 Literature Review

2.1 Integrated Reporting

Integrated reporting is a mechanism in presenting information on strategy, governance, performance and prospects that are interrelated with one another in a single report [3]. The International Integrated Reporting Council (IIRC) as the forum that initiated the formation of integrated reports issued a guideline for the preparation and implementation of integrated reporting. These guidelines are known as the IIRC Framework. IIRC Framework contains guiding principles and content elements that regulate the overall content of the integrated report, and explain the fundamental concepts that underlie it. Purpose of Integrated reporting are expected to (1) improve the quality of information for the benefit of capital providers financial management, so that capital allocation becomes more efficient and productive, (2) encourages company reporting to be more integrated and efficient, (3) encourages accountability, and (4) supports integrated thinking, decision making and actions that focus on value creation, both in the long term, medium or short sustainable value.

Based on the IIRC Framework, Integrated Reporting includes eight main elements [3], there are: 1. Organizational overview and operating context 2. Governance 3. Business model 4. Risk and opportunities 5. Strategy and resource allocation 6. Performance 7. Outlook 8. Base of Presentation Corporate Governance Corporate Governance (CG) is an important component in the company including the balance of relations between the company's stakeholders. Corporate governance is a structure and process used to manage businesses to achieve corporate progress and corporate accountability with the ultimate goal of creating corporate value and shareholder wealth in a sustainable manner by taking into account the interests of stakeholders [5]. Optimal implementation of CG and supervision is needed to increase public confidence in the company's performance. Corporate governance is part of integrated reporting that rebuilds stakeholder trust and creates a sense of trust that the interests of managers are in line with the interests of owners. Corporate governance can be seen from the elements in the company, which are institutional ownership, managerial ownership, audit committee and board of commissioners.

This research's result is likely to be useful for the advance of accounting knowledge related to the implementation of Integrated Reporting in Indonesia. In addition, this research is projected as a reference to evaluate the performance of corporate governance as well as corporate awareness of the importance of a culture of transparency and disclosure of integrated reporting. In the end, the findings of this study are expected to be a reference for the development of further research.

2.2 Institutional Ownership

Institutional ownership can be defined as company' ownership shares by financial institutions such as insurance companies, banks, pension funds and asset management. Institutional investors can play a role in company supervision so as to reduce fraud and managers to be more effective in decision making. High supervision from the institution as the largest company's shareholder puts pressure on the company's management to disclose comprehensive reports. Institutional ownership affects the extent of Corporate Social Responsibility in the sustainability reports of manufacturing companies listed on the IDX [6]. Likewise, the results show that institutional ownership has a positive effect on the readiness of companies in Indonesia to implement integrated reporting [7].

H1: Institutional ownership has a positive effect on the disclosure of Integrated Reporting

2.3 Managerial Ownership

Managerial Ownership defined as a company's ownership shares preserved by management, both managers and the board of directors. The existence of managerial ownership raises the tendency of management to be more productive in maximizing the value of the company. This can affect management awareness in terms of the transparency of integrated corporate information disclosure.

H2: Managerial ownership has a positive effect on the disclosure of Integrated Reporting

2.4 Audit Committee

The Audit Committee is defined as a group of people consist of one or more members from Board of Commissioners and also outsiders who have specific skills, various experience, and other abilities desired to accomplish its aims [5]. According to the Minister of State-Owned Enterprises Number: Kep-117/M-MBU/2002 explains that audit committee role to support the board of commissioners, giving supervisory board in confirming the effectiveness of the internal control system and the effectiveness of the external and internal auditors [8]. Based on the duties and roles of the audit committee, the presence of the audit committee plays an important role for establishing good corporate governance. Audit Committee affect to the alignment of annual reports with integrated reporting [9]. The audit committee is able to provide encouragement to the company's management to be able to work more effectively and efficiently so as to encourage the disclosure of company information, including the company's annual report in accordance with integrated reporting. The audit committee has a significant positive influence on the readiness of integrated reporting in Indonesia [7].

H3: The Audit Committee has a positive effect on the disclosure of Integrated Reporting

2.5 Board of Commissioners

Board of Commissioners is one of the important components in the concept of implementing corporate governance. Independent Commissioners are commissioners who are not affiliated or have no intention with the controlling shareholders, members of the board of directors and the board of commissioners. According to the Financial Services Authority Regulation Number 57/PJOK 04/2017 article 19, the board of commissioners consists of more than two people, then it must be at least 30% (thirty percent) from the total members of the board of commissioners. The main duties of the independent commissioner are described in the Financial Services Authority Regulation Number 57/PJOK 04/2017 article 23. The main duty of independent commissioner is supervising and delivering debtors, creditors and other stakeholders' interest [4]. In the interest of the company, independent commissioners are appointed by the company based on their level of professionalism. The existence of independent commissioners in corporate governance is able to increase company awareness in realizing GCG principles, namely the responsibility to disclose company information in the form of integrated reporting [9].

H4: The Board of Commissioners has a positive effect on the disclosure of Integrated Reporting

2.6 Company Characteristics

Company characteristics can reflect the extent of company's conditions and achievements during business management. The characteristics of the company determined by the profitability and the size of the company that is able to reflect the achievement of the company's condition.

Profitability

Profitability is the company's ability to earn a profit in terms of sales [10]. Meanwhile, "Profitability is the end result of a number of policies and decisions made by the company" [11]. Profitability is a factor that makes management free and flexible to disclose non-financial reports to stakeholders. So that the more profit of the company, the greater the financial information disclosed. Companies with a high level of profitability charm institutional investors to invest in the company. Profitability had a positive and significant effect on integrated reporting [12].

H5: Profitability has a positive effect on the disclosure of Integrated Reporting.

Company Size

Company size is the total value of assets owned by the company. Company size is a measure of any company welfare consist of total assets, total sales, total share value, etc. Company size significantly affect to the implementation of integrated reporting [9, 12]. In addition, other research shows that company size positively affects to capability of company in carrying out integrated reporting [13].

H6: Company size has a positive effect on the disclosure of Integrated Reporting

3 Methodology

This research is a quantitative study using secondary data. Secondary data is obtained from the annual reports of listed companies on the Indonesia Stock Exchange (IDX). The population of this research are manufacturing and mining company listed on the Indonesia Stock Exchange in 2018–2020. The research sampling technique is purposive sampling method. The following are the criteria for the research sample:

(1) Manufacturing and mining companies that are listed and publish Annual Reports on the IDX in 2018–2020.

Table 1. Research Population

Research Population	Total Population
Manufacturing Companies	513
Mining Companies	147
Total Population	660

Table 2. R2 Result

R2	Adj. R2	R^2 Cont. Ratio
0.364	0.358	0.798

(2) Complete data available.

The population consist of 660 that meet the criteria. Research variable consisted of the dependent variable and the independent variable. The dependent variable is Integrated Reporting. Integrated Reporting consists of elements of integrated report disclosure. These elements consist of 8 elements in the International Integrated Reporting Council (IIRC) Framework, namely Organizational overview and External Environment, Governance, Business model, Risks and opportunities, Strategy and Resources allocation, Performance, Outlook, and Basis of presentation [3]. This dependent variable is a dummy variable. Measurement technique exist if there is disclosure of each element, it will be valued by 1, and valued by 0 if it is not disclosed. The independent variables are corporate governance and company characteristics. Corporate governance consists of institutional ownership, managerial ownership, audit committee, and the board of commissioners. Meanwhile, the company's characteristics consist of profitability and company size. The data will be tested by using Warp PLS.

4 Result and Discussion

Research population are manufacture and mining companies listed in IDX 2018–2020. Based on Table 1, total population used are 660. Data from manufacturing companies are 513, while from mining companies are 147. Since this research analyze the data by using WarpPLS, there is only 100 sample being used.

Table 2 show the result of R^2. The R^2 value is 0.364. It inferred that Integrated reporting can be explained by the independent proposed variable by 36%. While the rest are explained by other variables which not analyzed in this research.

This research develops six hypotheses. Those hypotheses are tested by using warpPLS. Figure 1 show the hypothesis result.

Figure 1 show that there are three hypotheses accepted. There are H1, H2, and H6.

H1: Institutional ownership has a positive effect on the disclosure of Integrated Reporting

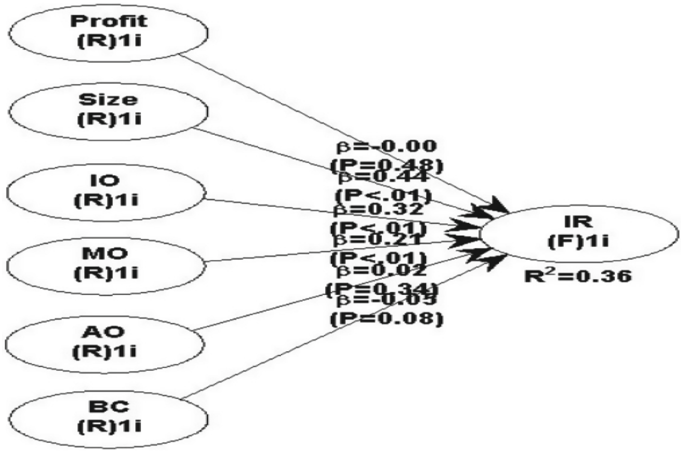

Fig. 1. Research Hypotheses Result

Hypotheses result show the β is 0.32 with p-value < 0.01. This H1 is accepted. So, Institutional ownership has a positive effect on the disclosure of Integrated Reporting. This means that the high number of institutional ownerships can stimulate the disclosed of Integrated Reporting. This result support the previous result [6] and [7].

H2: Managerial ownership has a positive effect on Integrated Reporting

Hypotheses result show the β is 0.21 with p-value <0.01. This H2 is accepted. So, Managerial ownership has a positive effect on the disclosure of Integrated Reporting. This means that the high number of managerial ownerships trigger the disclosed of Integrated Reporting.

H3: The Audit Committee has a positive effect on the disclosure of Integrated Reporting

Hypotheses result show the β is 0.02 with p-value = 0.34, p-value >0.01. This H3 is rejected. So, Audit Committee does not affect to the disclosure of Integrated Reporting. The existence of Audit Committee in a company is stated in a regulation. So, the number audit committee does not affect to the disclosure of Integrated Reporting. The main duty of Audit Committee is supervising the company to run business inline with the procedure, so they don not have any intention to force the management in disclosing their performance on Integrated Reporting. It is contrary with the previous research which found that audit committee has a significant positive influence on the readiness of companies in Indonesia to implement integrated reporting [7].

H4: The Board of Commissioners has a positive effect on the disclosure of Integrated Reporting

Hypotheses result show the β is -0.05 with p-value = 0.08, p-value > 0.01. This H4 is rejected. So, Board of Commissioners does not affect to the disclosure of Integrated Reporting.

H5: Profitability has a positive effect on the disclosure of Integrated Reporting

Hypotheses result show the β is 0.00 with p-value = 0.48, p-value > 0.01. This H5 is rejected. So, Profitability does not affect to the disclosure of Integrated Reporting. Gaining any profit does not affect to the disclosure of Integrated Reporting for mining and manufacture company since they need to do corporate responsibility disclosure as a fringe of benefit of their exploitation to the planet and people.

H6: Company size has a positive effect on Integrated Reporting

Hypotheses result show the β is 0.44 with p-value < 0.01. this H6 is accepted. So, Company size has a positive effect on the disclosure of Integrated Reporting. This means that huge of company size affect the disclosed of Integrated Reporting. This result support the previous result which found company size has a positive effect on the implementation of integrated reporting [12] and [13].

5 Conclusion

The results of the analysis show that institutional ownership, managerial ownership, and company size affect integrated reporting. It implies that the existing of institutional and managerial ownership has strengthening a company to disclose elements of integrated reporting in their reports.

Acknowledgment. This research conducted and funded by LPPM UPN Veteran Yogyakarta.

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