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The Effect of Integrated Firm's Reporting on Firm's Performance

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Abstract

This study investigates the effect of integrated firm's reporting on firm's performance. The integrated financial reporting contains of financial, good corporate governance (GCG) and sustainability reporting that shows company's responsibility to capital providers, environment and social. The important question is whether more disclosure indicates more informative for decision maker. Therefore, it is important to identify which reporting useful for primary users. This study examines 108 public comphanies that granted ISRA (Indonesia Sustainability Reporting Award) from 2013-2017 for firm's performance, GCG index, and sustainability index. The result shows that information for capital providers can be used for investment and credit decision. This finding indicates company faces agency conflict, so company's disclosure dedicates for primary users, namely creditor and shareholder. This finding also indicate that earnings more informative than good corporate governance and sustainability reporting. It may show the concentrated ownership in Indonesia encourages management to behave less aggressive.

Keywords: Tobin's Q, integrated firm's reporting, good governance, sustainability reporting, earnings

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1. Introduction

The development of information and communication technology affects many changes in all aspects of living. Business entity or corporation is required to conduct changes in its reporting report. Financial report is considered only reporting financial activities, while investors need a whole and comprehensive report. Internationally standardized institutions compete in presenting reporting concept that is not only presenting financial report, but also environmental and social aspects. The presence of integrated reporting is the solution of this issue. The concept of integrated reporting is a new concept is initiated by IIRC - International Integrated Reporting Council. Integrated Reporting is a brief communication on how strategy, governance, organizational performance, and prospect, in the context of external environment, lead to the creation of value in short, medium, and long terms (IIRC, 2013). Nurim and Asmara (2019) reveal that company deploys sustainability report to communicate the company's strategy to users.

The main purpose of integrated report is to explain to capital provider on how an organization creates value as time goes on. Integrated report is useful for all stakeholders who are interested in ability of an organization to create value from time to time, including the employee, customer, supplier, business partner, local community, legislator, regulator, and policy maker (Adam et all, 2016).

An integrated report covers eight elements which are organizational purpose and external environment, governance, business model, risk and opportunity, strategy and resource allocation, performance, outlook, preparation base and presentation, general reporting guidelines (IIRC, 2013). Those elements are fundamentally connected one to another. Each element is not reported sequentially because the element does not function as a standard structure in integrated report (de Villiers et all, 2017).

Contrary, the information in integrated report is reported in the way that makes the relation among elements clear. The organizational review and external environment discuss what is done by organization and the condition where the company is operating. Governance discusses how the structure of organizational governance supports the ability of company to create value in short, medium, and long terms. Business model discusses the business model of organization. The risk and opportunity discuss the risk and specific opportunity that affect the ability of organization to create value in short, medium, and long terms, and how organization overcome it.

Strategy and resource allocation discuss the strategic purpose of organization in short, medium, and long terms, existing strategy, or will be applied, to achieve the strategic purpose, resource allocation that plans to implement its strategy, benchmarks of achievement and result target for short, medium, and long terms. Performance discusses the extent to which the organization has achieved its strategic purpose for the period and what the result is in the effect on corporate capital. Outlook discusses the challenge and uncertainty that might be faced by organization in its strategy implementation and potential implication for business model and the performance in the future. Preparation base and presentation discuss how the organization determines what is needed to be included in integrated report and how those are quantified and evaluated. General reporting guidelines discuss the disclosure of material matter, disclosure of corporate capital, the time framework for short, medium, and long terms, aggregation and disaggregation (Lee et all, 2016).

Integrated reporting is a management tool. Companies operate in a multi-dimensional world, the global economy, the environment, and the society on which business relies to create value (KrZus, 2011). This Integration Report is expected to be able to create added value for shareholders and society, so they are able to compete in long term. Integrated reporting and thinking are promoted as a practice aimed at helping companies address pressing environmental, social, and governance issues in ways that enable them to prosper over the long term to the benefit of both their shareholders and society (Eccles *et al.*, 2015).

The studies on integrated reporting in Indonesia are still few (Setiawan, 2016). It is because the reporting has not been mandatory. Integrated reporting of companies in Indonesia still has variation form mostly. Kustiani (2018) studied on the elements of integrated reporting in the companies listed in IDX. The result reveals the presentation and disclosure of integrated reporting elements of companies listed in IDX is varied and the disclosure were voluntary.

The current trend is that the existing corporate financial report is considered not presenting the whole description of a company. The financial report does not present other information that is also underlying the financial information such as social, environmental, governance, risk and prospect information, as well as the business continuity of the company. Therefore, it is necessary that a report can describe intangible value of company and the effect of sustainable strategy that are applied by the company on society and also the description of how the effect of strategies of the company on long-term shareholder value is needed.

Integrated reporting is an evolution from the existing reporting of company. The evolution was started from financial reporting, management reporting, green reporting, sustainability reporting and the last which was integrated reporting (Owen 2013). The virtue of integrated reporting is consisting relevant information and complex information that becomes one document that is able to create value. This study will analyze the presentation and disclosure of integrated report in Indonesia, in accordance with the evolution of corporate reporting.

2. Literature Review

According to The International Integrated Reporting Committee (IIRC), integrated reporting (IR) is a process of information communication of an organization, especially reflected in “integrated report”, to stakeholders on the creation of value from time to time. Integrated report is a brief and integrated communication on how strategy, governance and remuneration, performance and prospect of an organization to produce value creation in short, medium, and long terms (IIRC, 2013).

Integrated report incorporates a number of reports (financial, managerial records, governance and remuneration, and sustainable reporting) into a package of reporting to explain the ability of an organization in creating value and maintaining its value in long term (Sent et all, 2015). Integrated report simultaneously presents material information on strategy, governance and remuneration, performance, risk and prospect of an organization reflecting commercial, social, and environmental contexts where the organization is operating. Meanwhile, the output of Integrated Reporting is integrated report that is the main report of an organization.

Integrated reporting is an evolution from the existing corporate reporting. The evolution is started from financial reporting, management reporting, green reporting, sustainability reporting and the last which was integrated reporting (Owen, 203). There are some problems related to the evolution (KrZus, 2011).

1. Financial reporting has weakness that is fundamental and misleading the uses in economic decision making and others because FR only presents information of financial items (financial position and performance) and financial indicators. Meanwhile, other information underlying financial information (social, environmental, governance, risk and prospect, business continuity, etc.) is ignored in the reporting.

2. Management Reporting, although presenting financial information and other information related to company, it does not present how commitment, concern and responsibility of company toward social and environmental issues that are the basic pillar of business. It causes the low of corporate concern toward social and environmental issues, the increase of social and environmental crisis escalation, as well as the increase of the risk of business sustainability and harms the interest of stakeholders.

3. Green Reporting, beside presenting financial report, it also focuses on CSR reporting or Environmental Reporting). This reporting has limitation: (1) Financial Reporting and CSR/Environmental Reporting is mostly stated in the form of separated reporting, so it confuses user; (2) lack of integration between financial reporting and CSR/Environmental reporting as well as corporate management; (3) mostly stated in annual report.

4. Sustainability Reporting initiated by Global Reporting Inisiatives (GRI) in 1999 presents social, environmental, and financial information reporting integrally in one package of corporate reporting. This reporting does not present information on strategy, governance and remuneration, performance and prospect of an organization that can cause value creation in short, medium, and long terms.

As the result, the information in SR is not whole and incomplete for considering decision of stakeholders.

5. In 2011, the International Integrated Reporting Committee (IIRC) and was supported by GRI developed new corporate reporting model known as INTEGRATED REPORTING.

   "*Integrated Reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing*" (IIRC, 2013).

An integrated reporting covers eight elements which are organizational purpose and external environment, governance, business model, risk and opportunity, strategy and resource allocation, performance, outlook, preparation base and presentation, general reporting guidelines. Fundamentally, those elements are related. Each element is not reported sequentially because the element does not function as standard structure in integrated report. Contrary, information in integrated report is presented with the way that makes relation among those elements clear (Pistoni, 2018). The eight elements are stated below:

1. Organizational review and external environment discuss on what is done by organization and the condition where the company is operating including: culture, ethics and values, ownership structure and operation, main activity and market, competitive landscape and market position, as well as significant factors that affect external environment and organization response.

2. Governance element discusses how the governance structure of organization supports the ability of company to create value in short, medium, and long terms. This element consists of: leadership structure of organization, specific process used to make strategic decision, strategic direction of organization and its approach toward management risk, how culture, ethics, and values of organization reflected in the use and their effect, how remuneration and incentive are related to value creation in short, medium, and long terms.

3. Business model element discusses the business model of organization. This element consists of: input, output, business activities, and outcome.

4. Risk and opportunity elements discuss about risk and specific opportunity that affect the ability of organization to create value in short, medium, and long terms, and how organization overcome them. These elements consist of risk source and specific opportunity, that can be internal or external or, usually, combination of both, assessment of organization toward the possibility that the risk or opportunity would produce result and the size of effect if it happens, specific steps that are taken to reduce or manage the risk.

5. Strategy and resource allocation elements consist of: short, medium, and long-term organization's strategic purpose, the existing strategy, or will be applied, in order to achieve the purpose, resource allocation that plans to implementation its strategy, benchmark of achievement and result target for short, medium, and long term.

6. Performance element discusses the extent to which the organization has achieved its strategic purpose for the period and what its result in the effect on corporate capital. This element consist of: quantitative indicator related to target, risk ad opportunity, material effect on its increase decreasing value chain, the relation among major stakeholders and how the organization has responded the needs and interest of major stakeholders and the relation between performance in the past and present, and between current performance and organizational view.

7. Outlook element is about the challenge and uncertainty the might be faced by organization in implementing its strategy, and potential implication for business model and the performance in the future are discussed. This element consists of: the expectation of organization on external environment that might be faced by organization in short, medium, and long terms, how the organization currently is prepared to face the critical challenge that might appear.

8. Preparation base and presentation element are about how organization determines what needs to be included in integrated report and how those are quantified or evaluated. These elements consist of; process summary of organization's materiality determination, framework summary and significant method used to measure or evaluate material matters.

9. General reporting guideline element consists of: material matters disclosure, disclosure on corporate capital, time framework for short, medium, and long terms, aggregation and disaggregation.

3. The Method

This study is an empirical study using secondary data. Population in this study is all companies are winning ISRA in 2013-2017. Sampling technique used in this study is purposive sampling, with the criteria: the companies present annual report openly and the available data are complete. Data in this study are secondary data. The data needed in this study are the data of annual report of companies winning ISRA obtained from www.idx.co.id.

Variable in this study consists of 2 variables, which are dependent variable and independent variable. The dependent variable in this study is performance that is proxied with Tobin's Q. Meanwhile, the independent variables in this study are performance of financial report, corporate governance, and performance of sustainability report. Performance of financial report is measured using variable dummy: 1 if the company produces profit and 0 if the company produces loss. Corporate governance is measured using GCG Index. Performance of sustainability report is measured using the number of economic, environmental, and social disclosures.

The data in this study will be analyzed using the instrument of multiple linear regression analysis, and processed using SPSS software. The model of this study is as the following:

$$Q = \beta_0 + \beta_1 L + \beta_2 G + \beta_3 SRE + \beta_4 SRL + \beta_5 SRS + \varepsilon$$

In this matter: (Q): Tobin's Q, (G): GCG Index, (SRE): the number of sustainability report disclosures on economic factor, (SRL): the number of sustainability report disclosures on environmental factor, (SRS): the number of sustainability report disclosures on social factor, (e): *error term.*

After the data processing is done, the testing toward hypothesis would be done. The hypotheses of study will be supported if the t value significance from the result of regression process shows the significance value of less than 5%.

4. Result

Population in this study is all companies that won ISRA from 2013 to 2017. The number of sample data in this study is 108. Based on the descriptive analysis, the average value of each studied variable is stated as table 1. The average value of performance and SRI disclosure is low, which is below 0.70. It might be no statutory obligations in sustainability disclosure and its standardized format. The average of companies that

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have disclosed GCG fully is above 0.70. Most of sample companies are the companies with positive profit with the average of 0.89.

Table 1: Descriptive Statistic.

Variable	Mean
Tobin's Q	0,44
Economic Performance	0,40
Environment Performance	0,34
Social Performance	0,37
Good Corporate Governance (GCG) Score	0,82
Earnings	0,89

Data in this study are tested using the instrument of multiple linear regression analysis. After classic assumption tests are done, the data in this study are free from the problems of classic assumption. The value of significance F from the regression analysis obtained the value of 0.036 (below 0.05). It means that the model of this study is feasible to do further testing. Meanwhile, based on the testing partially, only variable profit significantly affects company's performance. Variable profit is measured by using variable dummy, where 1 is when the companies result profit, and 0 is when the companies result loss. The performance of company in this study is measured by using Tobin's Q. Tobin's is the measurement of company's performance that is superior than ROA and ROI-based performance measurement. It is because Tobin's Q is the comparison between the market value of company and its recorded value. This performance measurement describes accounting performance and reflects market expectation so that it is relatively free from the possibility of financial report manipulation by management. Based on descriptive analysis, the performance of sample companies in average is undervalued. The companies are having undervalued if the value of Q from the calculation of Tobin's Q is less than 1.

Table 2: Regression Analysis.

Variable	Significancy Level	t value
Economic Performance	.290	1.064
Social Performance	.827	.219
Environment Performance	.809	.242
Good Corporate Governance (GCG) Score	.227	1.215
Earnings	.010	2.620

Variable profit is the variable that significantly affects performance of company. Most of sample data of this study are the companies that have profit. The companies that received profit show that they have good performance. Profit is a component of financial report that has been the source of information to make decision (Barth, 2018). Accounting standard to make financial report has had some changes along with the development of business and technology. It shows that the attention on financial reporting is very significant. However, along with business requirement, the information in financial report has not been adequate for making decision.

Financial information must be supported by other information for more accurate decision. Information about corporate management or known as GCG will be very useful for decision makers. The report of corporate GCG implementation has been a mandatory report and is a qualitative report. The companies that have applied the governance (GCG) well will increase the performance of company entirely. It will affect the market response toward the share of those companies. However, the result of this study is unable to support the existing theories.

Sustainability report in Indonesia has not been a mandatory report, still as a voluntary disclosure and is qualitative information. Thus, the delivered information is still varied. All this time, the sustainable information delivery uses the reference issued by GRI-4. Sustainability report consists of 3 indicators, which are economic, environmental, and social indicator. The result of this study does not support the previous studies. It is because there has been no uniformity in information delivery because it is only a voluntary disclosure and it is qualitative.

Based on the data analysis and discussion, the component of financial report is able to reflect its effect on company's performance. It might be because the financial report is quantitative and the firm size used is also the information from financial information, while other variables such as GCG report and SR report does not significantly affect. It might the information is stated more qualitative.

5. Conclusion

This study tests the effect of integrated report of company toward company's performance. Integrated report of company consists of financial report, GCG report and sustainability report of companies consisting of 3 indicators, which are economic, environmental, and social. Financial report is made referring to the Accounting Standards, and has been mandatory disclosure. GCG report is made referring to the regulations issued by OJK or other standardized agencies. It is similar to the sustainability report.

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Based on the data analysis result, only variable profit significantly affects company's performance measured from Tobin's Q of company. The performance measurement with Tobin's Q is said able to predict performance better by some experts. Meanwhile, other variables of corporate governance and sustainability report are unable to be the predictor of company's performance.

The result of this study is unable to support the existing theory. There are some factors among others are the sustainability reporting that is still voluntary, so the information delivered is still varied. The measurement of performance using Tobin's Q tends to use financial information, so the measurement of corporate governance and corporate sustainability tend to deliver qualitative information. It is only a disclosure. The suggestion for the next study is to dig whether the implementation of governance implementation and activities related to corporate sustainability disclosure has been delivered in the form of qualitative information.

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