Integrated Reporting Disclosure Scores and Explanatory Factors: Case in Indonesia Context

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Abstract---*This study aims to analyze the company disclosure level based on the IIRC's integrated reporting framework and also to explore its determining factors, namely stand-alone sustainability report, sustainability index and sustainability or corporate social responsibility committee. This research investigates the integrated reporting disclosure level of annual reports, websites and sustainability reports from 87 companies' websites in Kompas 100 index. This study is quantitative study and employs multivariate ordinary least squares regression to test the hypothesis. The results show that the corporate organizational overview, external environment and governance as the highest scores of integrated reporting disclosures index. On the other hand, the company outlook and business models as the lowest scores. This study shows that stand-alone sustainability report has a significant influence on an integrated reporting disclosure score.*

Keywords---*Reporting, Disclosure, Integrated reporting framework*

I. INTRODUCTION

In the new strategic paradigm, the market has forced the companies to be more focused in providing information regarding their ethical conducts, the impact of business activities on their social and environmental concerns as well as their responsibilities to all stakeholders (Pistoni, et al., 2016). Implicitly, the companies need to be more openness not only in economics but also social and environmental issues which are described in their objectives, actions, activities, initiative and mechanisms. Therefore, International Integrated Reporting Council (IIRC) explains that the most investors have interests to the information regarding company's value creation process. However, many companies have not perfectly provide the reports about all the information in which that they can produce or control in the large number of intangible assets.

Hence, there is an information gap between information that is provided by the company and what is the investor need it. This is a weakness of the common company reporting system. Therefore, integrated reporting (IR) can be an effectively solution for companies to explain for the capital market related to what is the matters of investors' needed it in their value creation process (KPMG, 2014). In addition, IR not only provides the investors with a report on the company's short-term results, but also allows them to have a clearer view of how long-term value is created (KPMG, 2014).

The non-financial issues are the other things that must be communicated by the company (Adams, 2017). Therefore, the company voluntarily provides separately reports relating to company's social and environmental issues through a sustainability reports. The sustainability reports produce a segregated "silo" approach of information sustainability communication (Robertson & Samy, 2015). Blasco and King (2017) revealed that almost all of the world's 250 largest companies have released sustainability reports in 2017. According to Domingues, et al.

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(2017) the sustainability reporting process can affect the organization's management to change its business towards more concern about sustainable practices. Whereas, Brusca, et al. (2018) states that it can increase the company's legitimacy and reputation.

Currently, the effort to integrate the company's information about strategy, governance, performance, and social and environmental impacts in the financial statements narrative section which are being provided by the specialist experts and professionals (Melloni, et al., 2016). The integrated reporting explains what it is important of value creation process in the companies to expand their reporting by inputting all of the resources are being used in their business activities. The company's support to provide the integrated reporting into business activities reporting for its stakeholders is very important as a form of organizational accountability (De Villiers, et al., 2017).

Although, the integrated reporting is a relatively new area of policy and practice, it has attracted a great deal of academic attention and the bodies of literatures have started to be developed. This study provides a broader understanding of integrated reporting using the formation of IIRC. The IIRC has become a globally dominant body in developing the policies and practices around integrated reporting (Chen, et al., 2014). This study also empirically investigates how the company's sustainability characteristics based on the level of compliance of company disclosures which affect the key of the IIRC framework.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

II.I. Integrated Reporting

Generally, the publication of the non-financial performance reports is being released separately by companies in sustainability and social reports. These reports contain social and environmental issues. Ioana and Adriana (2014) explained that the separation of non-financial reports from the financial reports have resulted in perplexity among stakeholders. Therefore, a single report which can describes the relationship between financial and non-financial issues is what the company needs to be prepared (Chen, et al., 2014).

According to Oliveira, et al. (2010), one of issues behind the reasons why companies have to integrate their reporting is to increase their transparency in order to meet the expectations of their stakeholders. In addition, García-Sánchez, et al. (2013) added that companies actually promote themselves through the publication of integrated reports because stakeholders can assess the company's long-term prospects clearly and concisely. Furthermore, the companies can develop strategically the integrated reporting to incorporate their finances and non-financial performance for their self-legitimacy and reputation purposes (Ioana & Adriana, 2014), optimization of the corporate resources uses (Oliveira, et al., 2010) and reduction of capital costs (Frias-Aceituno, et al., 2014).

Furthermore, Steyn (2014) states that the integrated reporting must explain what are the company's plans, how to achieve the company's future goals, and what are challenges and obstacles that might be encountered on the way to achieve the goals. Moreover, the integrated report also describes how organizations anticipate change over time and provides information on the company's short, medium and long-term expectations of the external environment and its impact on the organization's current readiness to respond to the critical challenges and uncertainties which may occur (IIRC, 2013). In short, the integrated reports must explain the possibilities of short, medium and long term opportunities and challenges and how the company's financial and non-financial performance can be affected by them. The IIRC was established in 2010 by GRI which consists of various accounting professions such as investors, managers, regulators, and others (Abdul Hadi et al., 2019).

Table I: *The IIRC integrated reporting framework*

Content elements	**Definition**
Organizational overview and external environment	What organization does and the circumstances under which it operates?
Business model	What is the organization's business model?
Governance	How does the organization's governance structure support its ability to create value in the short, medium and long term?
Strategies	Where does the organization want to go and how it intend to get there?
Risk and opportunities	What the key risks and opportunities that affect the organization's

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	ability to create value ?
Outlook	What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what the implications for its business model and future performance?
Performance	To what extent has the organization achieved its strategies objectives for the period and what are its outcomes in terms of effect on the capitals?

Source:(IIRC, 2013)

II.II. Sustainability Reporting and Integrated Reporting Disclosure Score (IRS)

It is common known that companies also issue social and sustainability reports in covering their non-financial performance that relates to social and environmental issues. A non-financial report as a corporate social responsibility report will be biased information and confused to the stakeholders when its separately published is compared to release an integrated report (Ioana & Adriana, 2014). This can be overcome by preparing and publishing a single report that covering clearly the correlation of financial and non-financial issues (Chen, et al., 2014)

The stronger of internal communication can be generated by implementing the integrated reporting so that inter-departmental information barriers can be overcome strategically and carried out effectively among financial and non-financial teams (Saudi, 2018). In addition, the path of value creation can be clarified through the integrated reporting for each internal function and also acts as a medium to communicates various functions among the top management (Mio, et al., 2016). However, several internal operations are not significantly affected by integrated reporting. Higgins, et al. (2014) found that adopters who assume that integrated reporting practices have extended the sustainability reporting.

According to Mervelskemper and Streit (2017), companies that have published stand-alone reports tend to switch into integrated reporting because it affects market valuations to be higher without additional cost with regard to environmental, corporate governance and social performance. Similarly, Lueg, et al. (2016) revealed that the success of integrated reporting can be achieved through the implementation of CSR standards and guidelines. Thus, it is clear that the level of compliance of company disclosures towards the IIRC framework is strongly influenced by sustainability reporting.

H_1. Sustainability reports that are published separately affect the IRS significantly and positively.

II.III. Sustainability Index and Integrated Reporting Score (IRS)

The triple bottom line is the cornerstone of the company's consideration to become a "green economy". Sustainability has become an important mission in reports of around 4,000 organizations worldwide. This is still a small part of the whole organizations which should carry out the sustainability reports. Hawser (2011)) asserts that companies which only publish the financial reports have risks to lose of future opportunities and defeated by their competitors. Sustainability reporting is defined as the practice of measuring, disclosing and being accountable to internal and external stakeholders for an organizational performance toward the organization’s goal of sustainability performance including both positive and negative contributions (GRI, 2013).

The main reference of the sustainability framework which is not include in the integrated reports. IIRC (2013) is a report prepared in accordance with the IIRC’s framework. The main motivation of the bodies that established the IIRC was to improve sustainability reporting as aforementioned. In this case, the integrated report would cover sustainability without using the terms. The increase and decrease in the several of value of capital types of can be used as a legitimate way of sustainability reporting. In this context, the integrated report will cover sustainability, but it is not mentioned.

H_2. Sustainability indexing affects the IRS significantly and positively.

II.IV. Sustainability (or Corporate Social Responsibility) Committee and Integrated Reporting score (IRS)

In the early stages, an integrated report only contains stories about institutional expectations and could not stimulate a great change or an innovation in the process of reporting. This situation has made a number of directors’ doubt whether integrated reporting was indeed capable to make changes in the organization's operations. Adams (2017) found examples of fake integrated reports which might have resulted from failed integrated reporting implementations in the companies. Ironically, these reports contained disintegrated information, but they still called them 'integrated'. Lodhia (2015) found that managers generally connect integrated reports with corporate reputation

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and the stakeholders' relations improvement, and reduction in reputation risks. In addition, Melloni, et al. (2016) added that involvement of managers in integrated reporting can build the impression of management.

H_3. The existence of a sustainability committee affects the IRS significantly and positively.

III. RESEARCH DESIGN

III.I. Sample

The primary samples are based upon market capitalization and good performance of 100 largest companies in Kompas 100 Index, which were also listed in Indonesia Stock Exchange as of 31 December 2017. This study eliminates insurance and financial companies from the sample, because their financial reporting practices are different. Hence, the final samples are comprised of 87 companies. The data were retrieved from annual reports, websites and sustainability reports during 2017.

III.II. Dependent and Independent Variables

This research constructed a disclosure index based on seven guiding principles of 50 items of index disclosure of an integrated reports based on the IIRC framework (see Appendix). Framework presents the contents element in a form of questions for the organizations for the organization, including:

1. organizational overview and external environment
2. performance
3. governance
4. strategy and resource allocation
5. business model
6. outlook
7. risk and opportunities

Integrated reporting is measured by assigning a score of 1 if the organization disclosed certain content at least once and 0 otherwise. The IRS was calculated by dividing the items disclosed to a maximum number of items that a company could disclose. The formulation to calculate IRS is:

$$\text{IRS} = \frac{\sum_{i=1}^{t} IRi}{t}$$

where:

IRi = 0 or 1, as follows:
IRi = 0 if the disclosure item was not found;
IRi = 1 if the disclosure item was found; and
t = the maximum number of integrated reporting disclosure items a firm could disclose (i.e. 50 items).

Table II shows the operational definitions of the independent variables and this research controlled of the influence of profitability, the firm size and the type of industry.

Table II: *Independent variables*

Variables	Operational definition
Sustainability reporting (SR)	1 if a company produces stand-alone sustainability report, 0 otherwise
Sustainability committee (SC)	1 if a company has a corporate social responsibility or sustainability committee , 0 otherwise
Sustainability index (SIL)	1 if a company lists on the sustainability index (NCRS), 0 otherwise
Profitability (ROA)	The percentage of net profit to total assets
Firm size (SIZE)	The natural logarithm of total assets
The type of industry (IND)	1 if a firm operates in manufacturing industry, 0 otherwise

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In Indonesia context, sustainability reporting's development and measurement are managed by independent organization, the National Center for Sustainability Reporting (NCSR). Companies which are member of NCSR have published sustainability reporting.

III.III. ResearchModel

To investigate the relations proposed in the research hypotheses, we use multivariate ordinary least squares regression. The following a model is represented as:

$$\mathbf{IRS} = \beta 0 + \beta 1\mathbf{SR} + \beta 2\mathbf{SIL} + \beta 3\mathbf{SC} + \beta 4\mathbf{SIZE} + \beta 5\mathbf{IND} + \beta 6\mathbf{ROA}\ .$$

IV. RESULTS AND DISCUSSIONS

Table III shows that 45 per cent of firms were operated in manufacturing and 42 per cent in services companies. Companies that issued stand-alone sustainability reports were 35 per cent, while 52 per cent of companies disclosed sustainability information in annual reports. Out of 87 companies, 20 companies had a sustainability or corporate social responsibility committee.

In this study, to determine companies listed as sustainability index were registered at the National Center of Sustainability Reporting (NSCR) and winners in quality of sustainability reports during 2017 were 30 per cent. The profitability ratio (ROA) ranged from -0.28 to 5.85 with a mean 0.13. In addition, the average of percentage of firm size was 0.30 with minimum of 0.23 and a maximum of 0.34.

IRC's integrated reporting framework consists of 7 elements, namely organizational overview and external environment, business model, performance, governance, strategy and resource allocation, outlook, risk and opportunities. As can be seen in Table IV, elements with high scores of the IIRC's IR index are organizational overview and external environment and governance with 97.7 per cent and 94 per cent respectively. The high scores of these two elements are due to the element which must be presented in their reports based on a regulation from Bapepam-LK (currently known as OJK), the capital market regulator. The regulation concerning on the presentation and disclosure requirements was made by publicly listed entities in Indonesia.

Table III: *Descriptive Statistics*

Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ROA	87	-.28	5.85	.13	.62
Size	87	.23	.34	.30	.18
Variables				**N**	**(%)**
IND					
a. Services				42	48.3
b. Manufacturing				45	51.7
SR					
a. Non-exist				52	59.8
b. Exist				35	40.2
SC					
a. Non-exist				67	77.0
b. Exist				20	23.0
SIL					
a. Non-exist				57	65.5
b. Exist				30	34.5
Total				**87**	**100**

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Table IV: *Integrated reporting index item*

No	Disclosure item	N	%
1	Organizational overview and external environment	85	97.7%
2	Governance	82	94.3%
3	Business model : Inputs	54	62.1%
	Outputs	57	65.5%
	Outcomes	72	82.8%
4	Risks and Opportunities	69	79.3%
5	Strategy and resource allocation	71	81.6%
6	Performance	62	71.3%
7	Outlook	52	59.8%

Table IV shows outlooks and business models especially information about inputs and outputs which are low scores in the disclosure of integrated reporting item index. A business model is an element which a company system describes as inputs through company activities which will be produced by output and outcomes. The low level of this element may be caused by the level of confidentiality for companies, because this information is voluntary disclosure in annual report, so the information is still limited.

In the items of index of organizational overview and external environment indexes, all companies have disclosed information about the company's vision and mission. In addition, companies disclosed information about culture, codes of conduct and countries in the organization. The scores ranged between 94.3 per cent and 97.7 per cent. In terms of information related to external environment, 94.3 per cent of companies have revealed legal factors, social factors and key of stakeholders with 92 per cent and 86.2 per cent, respectively.

One of the lowest score indicators in governance is compensation policies. The result presents the board of director list, the board experience or skill, the culture ethics and the values score with a ranges of around 92 per cent and 96 per cent. Information on the business model consists of 94.3 per cent of input, output; and outcome scores are 54 per cent, 65.5 per cent and 62 per cent, respectively. The 69 out of 87 companies have disclosed information about risk and opportunities. Only 18.4 per cent of companies have disclosed information about short, medium and long-term strategic objectives with time frames, while 79.3 per cent without time frame.

In addition, 19.5 per cent of companies have reported about KPIs that combine financial measures with other components (i.e. the ratio of greenhouse gas emissions to sales), whereas 95.6 per cent of companies have provided KPIs that presents high percentage of financial measures. The outlook is the lowest IR item index, at least 52 per cent of the companies have revealed future explanations about uncertainties, forecast about KPIs and assumptions related to those forecast.

The hypothesis was tested by a logistic regression analysis; omnibus test was used to test the effect of all independent variables together on the dependent variable. The omnibus variable shows the X_2 value of the goodness of fit test of 11.204 with a significance level of 0.062. When compared with the 5 per cent of significance level, the significance value obtained is greater so that it indicates that not all independent variables have an effect on the dependent variable.

Table V: *Regression analysis results*

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
								Lower	Upper
Step 1[a]	SR	-1.607	.701	5.261	1	.022	.200	.051	.791
	SIL	.641	.709	.819	1	.366	1.899	.473	7.621
	SC	-.344	.718	.230	1	.632	.709	.174	2.894
	IND	-.025	.608	.002	1	.968	.976	.296	3.215
	Size	.081	.173	.218	1	.641	1.084	.772	1.522
	ROA	.065	.040	2.701	1	.100	1.067	.988	1.153
	Constant	-.833	5.158	.026	1	.872	.435		

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Table V indicates that the variable stand-alone sustainability report has a significant influence with the integrated reporting disclosure score (P value = 0.022 < α = 0.05). This study presented that companies publish stand–alone sustainability reports which are more disclosed integrated reporting item index. In line with previous research showing that companies always publish sustainability reports have higher scores in integrated reporting disclosure (Frias-Aceituno, et al., 2014). Idowu and Towler (2004) found that sustainability reporting and integrated reporting are interrelated in element and principles, although the structure of reporting guidelines seems different.

The sustainability committee variable is not significant in our model for integrated reporting disclosure score (P value = 0.366 > α=0.05). This study presented that only 23 per cent of companies had a sustainability or corporate social responsibility committee, so that it might be not affecting the integrated reporting score. Previous research shows that if a company has a sustainability or corporate social responsibility committee it will affect in determining the extent of disclosure (Tejedo-Romero, et al., 2017). According to the regression result, sustainability index was not significant with integrated reporting disclosure score (P value=0.632 > α=0.05), just 34 per cent of comapnies that registered in National Center for Sustainability Reporting. The results also indicated that firm size, Return on Assets and type of industry had no significant impact on the integrated reporting score.

V. CONCLUSIONS

The integrated reporting is a new way of corporate reporting to maintain an updates and friendly communication channel with stakeholders. It explains the interconnection between social, environmental, and economic dimensions of an organisation. The integrated reporting purposes to improve the quality of information provided to stakeholders and to promote sustainable business practices

This research contributes to prior academic work on integrated reporting score based on IIRC's framework to measure disclosure level and also explore the link between the level of disclosure of integrated reporting score with stand-alone sustainability report, sustainability or corporate social responsibility committee and sustainability index (NCSR). The integrated reporting index is composed of 50 items to related principles and elements of content of the IR content.

The result shows that the highest IR scores is organizational overview and external environment, these elements describe what a mission and visions, organization culture, ethics or value, ownerships or operating structure, competitive landscape and market positioning and the number of employees. On the other hand, the lowest scores are about outlook regarding the expectations about future or explanations about uncertainties, the forecast and the linkages between current performance and the organization's outlook. In addition, the result for hypothesis testing supports the conclusion that stand-alone sustainability reporting has a significant association with integrated reporting score. However, the sustainability or corporate social responsibility committee and sustainability index (NCSR) are not significant to integrated reporting score.

For further empirical research, it is suggested to explore with another variables such as corporate variables and disclosure patterns. By extending the IR principles and contents of measured items in the index, further research could also extend both additional explanatory power and practical relevance. In addition, extending sample will surely help academics and practitioners to increase their knowledge of evolving IR score trends.

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Appendix

Integrated Reporting items:
Business Model

- Key inputs
- Product differentiation
- Delivery channels and marketing
- After sale service
- Innovation
- Employee training
- Key products and service
- GHG emissions
- Water waste
- Employee morale
- Organizational reputation
- Revenue, cash flows
- Customer satisfaction
- Increase in capitals (create value)
- Decrease in capitals (diminish value)

Governance

- Board of directors list
- Board experience or skills
- Culture, ethics and values are reflected in its use of and effects on the capitals
- Actions taken to monitor strategic direction
- Compensation policies

Organizational overview and **External environment**

- Mission and vision statement
- General explanations about organization culture, ethics or values
- Code of conduct
- Ownership or operating structure
- Competitive landscape and market positioning
- The number of employees
- Countries in which the organization operates
- Legal factors
- Political factors
- Social factors
- Market forces
- Key stakeholders
- Environmental factors

Performance

- KPIs that present financial measures
- KPIs that combine financial measures with other components (i.e. the ratio of greenhouse gas emissions to sales)
- The linkages between past and current performance
- The comparison between regional/industry benchmarks
- Financial implications of significant effects on other capitals

Risks and opportunities

- Internal or external risks
- Internal or external opportunities

Strategy and resource allocation

- Short-, medium- and long-term strategic objectives (without time frame)
- Short-, medium- and long-term strategic objectives (with time frames)
- Strategies it has in place, or intends to implement, to achieve those strategic Objectives
- The measurement of achievements and target outcomes
- An understanding of the organization's ability to adapt to change to achieve goals
- The link between strategies and key capitals

Outlook

- Expectations about future or explanations about uncertainties
- Forecast about KPIs
- Assumptions related to those forecasts
- The linkages between current performance and the organization's outlook

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