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IMPLEMENTATION OF INTEGRATED REPORTING ON MARKET PERFORMANCE OF SOE COMPANIES IN INDONESIA

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Abstract: This study aims to examine the implementation of IR elements which are still voluntary on market performance as measured using the Price earning ratio and stock prices. The sample used in this research is 20 state-owned companies which issue annual reports from 2018 to 2020. This study uses a multiple regression analysis tool by testing two research models, namely the first to test the implementation of IR on the price earning ratio, the second model to test the implementation IR on stock prices. The results in this study indicate that market performance as measured by stock prices is influenced by the disclosures of companies that implement IR. These results indicate that disclosure through IR causes investors to be better able to see and assess the company's prospects in the future so that the risks that must be borne by investors are reduced. Thus, a company's stock price can increase followed by an increase in information disclosure made by the company through the implementation of IR.

Keywords: IR Implementation, Price Earning Ratio, Stock Price, Market Performance, SOE

Abstrak: *Penelitian ini bertujuan untuk menguji implementasi elemen IR yang masih bersifat sukarela terhadap kinerja pasar yang diukur dengan menggunakan Price earning ratio dan harga saham. Sampel yang digunakan dalam penelitian ini adalah 20 perusahaan BUMN yang menerbitkan laporan tahunan mulai tahun 2018 sampai dengan 2020. Penelitian ini menggunakan alat analisis regresi berganda dengan menguji dua model penelitian yaitu yang pertama untuk menguji implementasi IR terhadap price earning ratio, model kedua untuk menguji implementasi IR terhadap harga saham. Hasil dalam penelitian ini menunjukkan bahwa kinerja pasar yang diukur dengan harga saham dipengaruhi oleh pengungkapan perusahaan yang mengimplementasikan IR. Hasil ini menunjukkan bahwa pengungkapan melalui IR menyebabkan investor menjadi lebih mampu untuk melihat dan menilai prospek perusahaan di masa mendatang sehingga risiko yang harus ditanggung investor menjadi berkurang. Sehingga, harga saham suatu perusahaan dapat meningkat diikuti dengan peningkatan pengungkapan informasi yang dilakukan oleh perusahaan melalui implementasi IR..*

Kata Kunci: *Implementasi IR, Price Earning Ratio, Harga Saham, Kinerja Pasar, BUMN*

INTRODUCTION

There is concern that traditional corporate reporting is insufficient to meet the information needs of various stakeholders (Adams & Simnett, 2011). Many companies have attempted to increase the information available in decision-making by stakeholders by complementing their traditional financial reporting with reporting of non-financial information (Cohen et al., 2012). This non-financial information is usually reported in various reporting mechanisms, such as sustainable reporting, corporate social responsibility (CSR) reports, or in annual reports (Sìmnett et al., 2009). Additional information in the form of non-financial information is proven to have relevant value and can be used by stakeholders as a consideration in terms of decision making (Dhaliwal, Tsang, & Yang, 2011). However, these financial and non-financial reports are disclosed in a separate report format, so they are not provided to facilitate the understanding of company stakeholders. Thus, the benefits of the information provided is reduced.

The need to fulfill information in decision making makes the scope of financial reporting increasingly growing. Currently, the trend of corporate reporting formats is starting to develop into integrated reporting (IR). This phenomenon emerged as a result of the global financial crisis that hit America in 2008 (Azam et al., 2011). One of the factors that caused the crisis was criticism of the annual report which was considered not to cover all useful aspects for assessing the company's performance as a whole (Krzus, 2011). This makes it difficult for users of financial statements to make business decisions.

In this regard, although IR is considered a solution to overcome the problem of misleading information in annual reports and overcome criticism of sustainability reporting, not many companies have reported financial and non-financial information in the form of IR. For example in the S&P 500 index, only seven companies report in IR form, although 499 provide some sustainability disclosures (Investor Responsibility Research Center Institute (IRRCI), 2013).

Researchers focus on the relationship between IR implementation and market performance. It is important to examine the relationship between disclosure and market performance which is an important part of the financial accounting literature (Botosan, 1997; Francis et al., 2005; Hail, 2002). The basic idea of this relationship is that a higher level of disclosure will contribute to a decrease in information asymmetry between managers and investors, and consequently can improve a company's market performance.

In Indonesia there are still many problems related to information asymmetry, this is evidenced by the fact that many investors do not use published financial information as a basis for making investment decisions (Darmadi, 2013). Levi and Zhang's (2008) study confirms that an increase in information asymmetry causes an increase in spread. This is because the market views with high information asymmetry will potentially experience high investment risk, then changes in stock returns can be described as a function of information asymmetry. The more information disclosed in IR, it will be able to reduce the uncertainty of company information, so that the smaller the investment risk, this will increase investment returns (Botosan & Plumlee, 2012). Gelb and Zarowin (2002) and Lundholm & Myers (2002) found that current stock returns reflect information about future earnings when the quality of information disclosure is more. This result is called "bringing the future forward".

In this regard, researchers are motivated by issues related to IR and the capital market, particularly on the effect of IR implementation on market performance. IR is a mechanism proposed by the International Integrated Reporting Council (IIRC) that encourages companies to be able to produce reports that integrate company financial and non-financial information. IR has the benefit of increasing transparency in company operations, with increased transparency it will increase stakeholder trust (Azam et al., 2011; Cheng et al., 2014; Serafeim, 2015). Disclosure through IR is expected to improve the quality of company reporting, because better reporting quality can have an impact on improving market performance.

Previous research has tested the determinants of companies to disclose information through IR, but there has been no research that tests empirically the disclosure of companies that adopt IR and market performance. Cheng et al. (2014a) argues that financial information is not sufficient to inform the capital market regarding the organization's "true" value creation potential. Therefore, it is important to test empirically related to whether IR can affect market performance. Disclosure of companies adopting IRs is basically still voluntary, because not all countries have established mandates for IRs, except in South Africa which made it mandatory for all companies in 2010 to issue IRs. Therefore, this study focuses on the implementation of IR elements which are still voluntary on market performance as measured using the Price earning ratio and stock prices.

LITERATURE REVIEW

Integrated Reporting Issues

Sustainability information in the form of environmental and social data is a relatively new development which has been increasingly reported by a large number of companies around the world. Not only the number of companies reporting sustainability information but also the number of investors using this information has increased. Investor interest in sustainability data is also evidenced by the large number of investors accessing sustainability data on the Bloomberg database (Eccles, Krzus & Serafeim, 2011).

While the availability of sustainability data has increased, there has been some criticism of their decision usefulness for investors. Perhaps, the most important criticism is the lack of placing data in the context of a company's strategy and business model, as a result of which the relationship between sustainability and financial performance is unclear (Eccles et al., 2011). Closely related to this criticism is the absence of an assessment of the materiality of different sustainability issues. Surveys from institutional investors show that 73% of them do not agree that sustainability reporting is related to business strategy and risk, and 93% do not agree that sufficient information has been provided to assess financial materiality (IRRCI, 2013).

The lack of linkages to financial matters is also reflected in the creation of the Sustainability Accounting Standards Board (SASB) whose mission is to develop materiality guidelines for industry specifications. Another criticism relates to the credibility of the data, since separate sustainability reports often obtain a 'Limited' not 'Fair' belief. Industry observers point out that auditing sustainability data is less expensive than financial data, due to the lower level of assurance it provides. In addition, it is related to timeliness, because sustainability reports are usually published after the company's financial statements (Serafeim, 2015).

IR was first introduced in 2010 by the International Integrated Reporting Council (IIRC). IR is a concise and integrated communication process on how strategy, governance and remuneration, performance and prospects of an organization generate value creation in the short, medium and long term (IIRC, 2013). IR emerged as a response to criticisms of financial and sustainability reporting that were not effective in describing long-term value creation processes within organizations.

Proponents of IR argue that companies should supplement their financial information reported in accordance with accounting standards with other non-financial information of interest to shareholders, such as information about consumers, employees, and the environment. The general reason cited by them is that financial information is considered a lagging indicator or a "rear view mirror" of company performance. Meanwhile, non-financial information can provide insight into the future financial performance expected by the company, and can provide information about intangible assets that are not reflected in the company's balance sheet (Serafeim, 2015).

IR proponents also argue that although separate sustainability reporting may provide relevant information for several stakeholders, such reporting is unlikely to be an effective mechanism for communicating company performance with investors related to environmental and social issues, and how they relate to financial performance (Eccles & Saltzman, 2011; Serafeim, 2015).

IR is a new form of reporting that tries to eliminate all the drawbacks of sustainability reporting. Investors seem to support IR, because based on survey results, 80% of investors believe that IR will be useful or very useful for increasing the reliability and relevance of sustainability information (The value of extra-financial disclosure What investors and analysts said, 2012). However, IR has a short history, or is still under development and guidance for companies is outlined in the new international IR framework developed by the IIRC in 2013. The first company to issue an IR was the Danish enzyme company Novizymes (in 2002), the company cosmetics Natura in Brazil (in 2003), and pharmaceutical company Novo Nordisk in Denmark (in 2004). Starting in 2010, all South African companies listed on the Johannesburg Stock Exchange are required to issue an IR or explain why they are not issuing an IR.

IR can place a company's sustainability activities in the context of the organization's strategy and business. Therefore, IR issues can affect an organization's ability to create value in the future. IR can increase the credibility of sustainability data because the information presented is part of regulatory filings that are scrutinized by regulators and to a greater extent by auditors (Eccles & Saltzman, 2011). Based on the survey results, 92% of investors agreed or strongly agreed that sustainability, financial and other information should be more integrated (IRRCI, 2013).

Agency Theory and Disclosure

Information asymmetry occurs when certain parties in a transaction have more information than other parties. Thus, it is possible that those with more information can take advantage of those who are less informed (Embong et al., 2012). Problems related to information asymmetry are inseparable from conflicts that occur between managers and owners or better known as agency theory (Agency theory) (Jensen & Meckling, 1976).

Agency theory explains the relationship between the owner of the company and its agents, namely the management who plays a role in running the company's operations. Healy & Palepu (2001) shows that to overcome the agency problem can be overcome by entering into a compensation agreement agreed between the management and the owner of the company. One of the contents of this compensation is to disclose relevant information by managers, so that company owners are able to evaluate whether their funding is being managed properly or not by management.

In this regard, to overcome agency problems, companies must also have good corporate governance (CG), where CG is a way for company management to be responsible to company owners or shareholders (Claessens, 2003). The principle of CG that is closely related to disclosure is the principle of transparency. This principle relates to openness in conveying information submitted by the company. In this case, investors are very dependent on the information submitted by the company. Therefore, companies are required to provide clear, accurate, timely and comparable information with the same indicators, as well as disclose and convey this information to all interested parties.

Disclosure in this study uses company disclosure that uses IR which integrates information related to the company's financial and non-financial performance. Disclosure through IR is expected to have better information quality compared to other reporting such as sustainability reporting. Better information quality can be seen from the company's level of transparency through disclosure which is a way that can be used to monitor management performance and can reduce information asymmetry. Diamond & Verrecchia (1991) found that disclosure can reduce information asymmetry which results in reduced special components of the cost of capital, such as reducing the cost of equity, operating costs, and reducing risk estimates. Reduced information asymmetry due to disclosure, has an impact on reducing agency risk (agency risk) faced by investors which will ultimately affect investors to reduce the expected return expected of the company.

In this study, researchers focused on company disclosure in IR which can improve market performance.

IR Implementation and Market Performance

Return is the result (profit or loss) obtained from a stock investment. Stock returns can be positive or negative. If it is positive, it means getting a profit or getting a capital gain, while negative means suffering a loss or capital loss. Return is one of the factors that motivates investors to invest and is also a reward for the courage of investors to bear the risks of the investments made. Return is the result obtained from the investment. Returns can be in the form of realized returns that have occurred or expected returns that have not occurred but are expected to occur in the future. Return realization (realized return) is a return that has occurred. Realized return is calculated based on historical data. Return realization is important because it is used as a measure of the company's performance. This historical return is also useful as a basis for determining expected return and risk in the future. Return expectations (expected return) is the return expected to be obtained by investors in the future. In contrast to the realized return which has already occurred, the expected return has not occurred. Total return is the overall return of an investment in a certain period.

Several studies, both theoretical and empirical, have examined the impact of disclosure and market performance. From a theoretical point of view it has been argued that disclosure can reduce information asymmetry, and consequently can improve the market performance of firms (Diamond & Verrecchia, 1991). From a theoretical perspective, the relationship between disclosure and market performance is supported by two streams related to the theoretical literature (Botosan, 1997). The main argument of this stream from the existing literature is that companies that provide more information about their activities can reduce information asymmetry in the capital market. The first stream shows that better disclosure will increase the liquidity of the stock market and have an impact on improving market performance. This flow is represented by Amihud & Mendelson (1986) and Diamond & Verrecchia (1991). The second stream of research shows that better disclosure can reduce the cost of capital by reducing the non-diversifiable risk estimate. This flow is represented by Barry & Brown (1985), Handa & Linn (1993), Coles et al. (1995).

Based on the arguments and results of previous research, the research hypothesis is:
H1: disclosure of companies that implement IR has an effect on the price earning ratio.
H2: disclosure of companies that implement IR has an effect on stock prices

The following is a picture of the framework in this study:

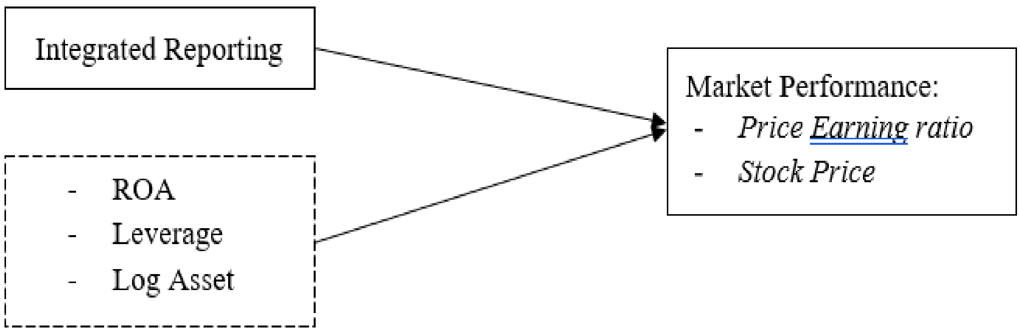

Figure 1. Research Framework

RESEARCH METHODOLOGY

This research was conducted on state-owned companies in Indonesia which are listed on the Indonesia Stock Exchange. The sample selection was carried out by purposive sampling with the aim of obtaining a sample that could represent the criteria specified as follows:

1. SOE companies listed on the Indonesia Stock Exchange
2. SOE companies that publish annual reports for 2018 – 2020
3. SOE companies that report financial and non-financial information either in the form of sustainability reports or integrated reports during 2018 – 2020

This study uses secondary data which consists of data on companies that issue IRs as well as data to calculate stock returns and price earning ratios. The dependent variable in this study is market performance as measured by stock returns and price earning ratios. The independent variable in this study is the disclosure of companies that implement IR, the control variables used are firm size, profitability, financial leverage.

This study examines the relationship between the disclosures of firms implementing IR and market performance. This study was tested using multiple regression analysis. Before the regression analysis was carried out, the researcher tested the classical assumption which is a requirement that the regression model used meets the BLUE (Best Linear Unbiased Estimator) requirements.

This research model consists of two models that have been adapted to the research hypothesis. In the first hypothesis which aims to test the effect of disclosing the implementation of IR and the stock price is included as the first model (1), while the second model is to test the disclosure of the implementation of IR and the price earning ratio. The model equation is:

$$PER_{i\,t} = \alpha + \beta_1 \boldsymbol{IR}_{it} + \beta_2 LASSET_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \varepsilon_{it} \ldots\ldots \quad \textbf{Model 1}$$

$$SP_{i\,t} = \alpha + \beta_1 \boldsymbol{IR}_{it} + \beta_2 LASSET_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \varepsilon_{it} \ldots\ldots \quad \textbf{Model 2}$$

Information:

PER_{it} = price earning ratio for company i in year t;

SP_{it} = closing share price of company i in year t;

IR_{it} = disclosure through IR based on the GRI G4 disclosure index for company i in year t, as measured by a score of 1 if disclosed and 0 if not disclosed;

ROA_{it} = return of assets from company i in year t.

$LASSET_{it}$ = natural log of total assets of company i in year t;

LEV_{it} = ratio of short-term and long-term debt to the total assets of company i in year t;

RESULT AND DISCUSSION

The population in this study are all state-owned companies in Indonesia. The sample companies were selected with the criteria of SOE companies listed on the Indonesia Stock Exchange. The data used in this study were obtained from the websites of each state-owned company used as the sample in this study. In addition, data on SOE companies in the form of annual reports published during 2018 – 2020.

With regard to data on state-owned companies that have published their annual reports in the form of integrated reports, there are limitations to the research sample that publishes integrated reports. Based on the results of observations of the research sample, there are 20 state-owned companies listed on the Indonesia Stock Exchange. During the 2018 – 2020 period, 3 state-owned companies have issued integrated annual reports in 2018, 4 companies in 2019, and 3 companies in 2020. In general, all companies have issued annual reports in the form of sustainability reports. his research focuses on the implementation of integrated reporting components using the GRI G4 index (Global Reporting Initiative G4 content index) which was developed in accordance with the international IR framework published by the IIRC in 2013.

Descriptive statistics aim to describe the distribution of statistical data that can be used as a reference in explaining the results of the analysis of the research hypothesis testing. Table 1 below presents the results of descriptive statistics for all research variables in each regression equation model.

Tabel 1. Description of Statistics

Variabel	*Min*	*Max*	*Mean*	*Std. Dev*
PER	-76,45	70,11	1,244	28,48
SP	298	12.425	3.203	2.929
IR	33	142	69,75	23,05
LASSET	3,12	5,96	4,96	0,62
ROA	-23,12	44,24	1,67	9,00
LEV	-27,47	86,98	38,42	25,34
N		60		

Descriptive statistics for the PER variable have a minimum value of -76.45 and a maximum value of 70.11 with an average value of 1.24 . These results indicate that there is a fairly high difference between the smallest value as the minimum value and the largest for the maximum value. Furthermore, the IR, SP, LEV, ROA and Log Asset variables also have minimum and maximum values with quite high differences.

Following are the results of the regression analysis for testing the effect of company disclosures that implement integrated reporting on market performance as measured by price earning ratio and stock price.

Tabel 2. Regression Analysis Results

	Model 1. PER			***Model 2. Stock Price***		
	Koef (B)	**t Stat**	**Sig**	**Koef (B)**	**t Stat**	**Sig**
IR	0,124	0,820	0,416	32,002	1,994	0,050
LASSET	-10,846	-0,237	0,046	1642,38	2,849	0,006
ROA	1,587	0,501	0,000	45,834	1,160	0,251
LEV	0,425	0,378	0,008	-7,280	-0,438	0,663
N	60			60		
F (Sig)	6,253 (0,000)			4,189 (0,005)		
Adj R^2	0,263			0,178		

Based on the results of the regression analysis in table 4.7, it shows that the disclosure of companies that implement IR has an effect on market performance as measured by stock prices. This is indicated by the significant IR of the stock price (B = 32.002; Sig < 0.05). This means that the disclosure of companies that implement IR can increase the company's share price. Meanwhile, market performance as measured by the price earning ratio is not affected by the disclosure of the implementing company (B = 0.124; Sig > 0.05.

Table 4.7 also shows the results for the control variable Log Asset which has a significant effect on market performance, both as measured by the price earning ratio and by the stock price. Meanwhile, other control variables such as ROA and LEV only affect market performance as measured by the price earning ratio.

The results of the regression analysis show that the disclosure of companies implementing IR has an effect on market performance as measured by the stock price, but has no effect on market performance as measured by the price earning ratio. Based on the results of the analysis, it means that the higher the disclosure of companies that implement IR, the higher the stock price of a company. Thus, these results support the proposed hypothesis 2, while hypothesis 1 in this study is not supported.

In connection with the results of analysis and findings from previous studies, the quality of disclosure in the form of IR, which is said to be better than other forms of disclosure such as sustainability reports and CSR, may not necessarily have a direct impact on increasing market performance as measured by the price earning ratio in the short term. This is due to the complexity of disclosures to IRs that integrate financial and non-financial performance into one reporting format, causing companies to readjust what information must be disclosed so that it can be displayed in one reporting format that can describe the company's financial and non-financial performance. Lopes & de Alencar (2010) stated that there is a weak relationship between disclosure and the price earning ratio due to the necessity to make mandatory disclosures which results in lower variations in disclosure levels.

The research findings showing that there is a significant and positive effect between the disclosure of companies that implement IR and market performance as measured by stock prices are in line with previous research (Sayar & Topdemir, 2018) which states that disclosure through IR can affect market performance by increasing a company's stock price. . These results indicate that the information available in the company's IR can be utilized by investors to consider investment decision making, so that the expansion of information in the IR with information in the previous reporting by the company is valued and becomes the main concern of market players in the capital market. Through these disclosures, investors are better able to see and assess the company's prospects in the future so that the risks that must be borne by investors are reduced. Thus, a company's stock price can increase followed by an increase in information disclosure made by the company through the implementation of IR.

CONCLUSION

This study aims to provide evidence related to the effect of company disclosures that implement IR on market performance as measured by the price earning ratio and stock price. The results in this study indicate that market performance as measured by stock prices is influenced by the disclosure of companies that implement IR. These results indicate that disclosure through IR causes investors to be better able to see and assess the company's prospects in the future so that the risks that must be borne by investors are reduced. Thus, a company's stock price can increase followed by an increase in information disclosure made by the company through the implementation of IR.

This study has several limitations that may affect the results of this study. The first limitation is related to the use of a research sample that is relatively very small and limited to companies that disclose IR during the 2018 - 2020 period. This is due to the relatively new implementation of IR in the corporate reporting format, so there are still not many companies that have adopted IR as reporting. its annual. The second limitation, this study uses a disclosure index based on GRI G4 which has been adjusted to the IR framework. This index is used because it has some similarities in content with the IR framework, this is because there is no index that is directly used to measure disclosure in IR. In addition, disclosures in GRI G4 still have a lot to do with sustainability reporting compared to IR. Thus, some of the hypotheses in this study are not supported due to variations in the disclosure index which are different from the content contained in the IR framework.

Future research can examine disclosure and market performance by comparing companies that disclose IR and sustainability reporting with a cut off before and after the company adopts IR. With the aim, in order to know the reporting of companies that have better quality information for stakeholders. In addition, future research can test the disclosure of companies that adopt IR mandatory, such as South African companies listed on the Johannesburg Stock Exchange, in relation to market performance.

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