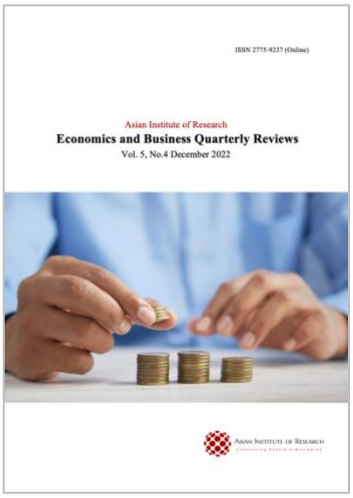

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Good Corporate Governance and Integrated Reporting Implementation of Rev. 4.0

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Abstract
This study aims to analyze the implementation of integrated reporting associated with corporate governance. The research method used is quantitative with a total sample of 20 companies listed on the Indonesia Stock Exchange during the 2018-2020 period and uses a multiple regression analysis tool to test the hypotheses in this study. The results of the study show that corporate governance, which consists of indicators on the size of the board of directors, the number of audit committees and gender diversity, has an effect on the implementation of integrated reporting. Companies that have implemented integrated reporting in their annual reports show good corporate governance, so that governance can improve when companies implement integrated reporting in their annual reports. The results of this study can be used as input for the relevant regulators as a material consideration in making decisions regarding the implementation of the integrated reporting framework in Indonesia.

Keywords: Implementation, Integrated Report, Governance, Value of the Company

1. Introduction

The Industrial Revolution 4.0 (Rev. 4.0) requires companies to quickly keep up with technological and social changes. In Rev.4.0 it indicates that the scope of financial reporting is getting wider and the need for information is increasing. Integrated reporting (IR) emerged as a result of the global financial crisis in 2008/2009 which caused an increase in demand for non-financial reporting (Utami, 2016). IR plays a key role in management control and stakeholder relations. As a consequence of "integrated thinking" IR combines traditional financial accounting with sustainability and issues related to corporate governance to increase the decision usefulness of modern business reporting (Velte & Stawinoga, 2017). Transparency over disclosure is becoming increasingly important, as a result of demands for higher accountability in the context of corporate governance and non-financial information (Wulf et al., 2014).

South Africa as the first country that implemented IR as mandatory disclosure for companies listed on the Johannesburg Stock Exchange since 2010. In 2013 the International Integrated Reporting Council (IIRC) supported by the Global Reporting Initiatived (GRI) issued an Integrated reporting framework as a guide in preparing reports IR-based annual. With the publication of these guidelines, it has led to an increase in the number of companies that have implemented reporting in the form of IR (Velte & Stawinoga, 2017). This provides evidence that it is time for companies to switch from traditional financial reporting to integrated reporting. However, regulations vary from country to country regarding the application of IR in corporate reporting. Thus, this raises the question of whether IR is required as mandatory or voluntary disclosure.

Integrated Reporting (IR) emerged as the latest approach in corporate reporting which is used as a new accounting practice that can help companies understand the value creation process and communicate effectively to external stakeholders (Cooray et al., 2020; Perego et al., 2016). IR involves reporting financial and non-financial, environmental, social and governance information in a single reporting document and explains company performance based on a broader concept of integration (Pistoni et al., 2018). Although IR is considered as a solution to overcome the problem of misleading information in company annual reports, not many companies have reported financial and non-financial information in the form of IR (Utami, 2016). This could be due to regulations in each country related to the application of company reporting in the form of IR, which are mandatory and voluntary. However, until now there has been an increase in the application of corporate IR in several countries (Churet & Eccles, 2014; Havlová, 2015; Velte & Stawinoga, 2017). This indicates a positive signal from stakeholders that reporting is needed in the form of an IR.

Related to previous research, Ivan (2019) revealed that corporate reporting is one of the main topics discussed by academics and professionals. Scientific debates are fueled by events and the resulting changes at the global socioeconomic level. The global economic crisis in recent years has prompted regulators to raise questions about the relevance and reliability of the conceptual framework used to prepare financial reporting. In this regard, several studies have documented the relationship between corporate governance and the application of IR in corporate reporting (Ahmad & Sari, 2017; Cooray et al., 2020; Roxana-Ioana & Petru, 2017; Suttipun & Bomlai, 2019; Wulf et al. al., 2014; Zambon et al., 2019).

Cooray et al., (2020) investigated governance mechanisms in influencing IR quality. This study is the first to develop an index to assess the quality of IR in public companies in Sri Lanka. Based on agency theory, the results of this study indicate that there is limited support from corporate governance systems to provide quality information to stakeholders about value creation processes through IR, except for the size of the board and the availability of a separate risk management committee. These results suggest that directors pay limited attention to providing quality information through voluntary disclosure practices such as IR. Other research also shows that the quality of the resulting IR is low, this is due to the scarce information disclosed on aspects of capital, business models, and strategic priorities that companies do not disclose in IR (Pistoni et al., 2018). Havlová, (2015) states that companies that adopt IR early are more likely to have a lower number of IR disclosures. This is in line with the requirements of the IIRC which tries to reduce the volume of disclosure by publishing more information which is primarily focused on future technological developments.

Several theoretical approaches have explained the link between governance and IR. Legitimacy theory is one of the clearest theories in explaining this relationship, by assuming that voluntary disclosure is intended to model conformity with public values and expectations, legitimacy theory offers great potential in explaining the relationship between corporate disclosure strategies and factors such as public disclosure. information in corporate reports, strategic implications and capital markets (Kannenberg & Schreck, 2019). In addition, if it is related to agency theory, disclosures made by companies can be used as a solution in dealing with agency problems. With the application of IR in company reporting, it can integrate all adequate information for all stakeholders (Perego et al., 2016; Pistoni et al., 2018).

In accordance with the explanation of the theory and the results of previous research, this study focuses on indicators on corporate governance that can affect the quality of IR implementation in state-owned companies in Indonesia. The indicators used are the size of the board of directors, the size of the board of commissioners, the independence of the audit committee, gender diversity, gender of CEO, independent ownership, institutional ownership.

2. Literature Review

Related to the previous research, Ivan (2019) revealed that corporate reporting is one of the main topics discussed by academics and professionals. Scientific debates are fueled by events and the resulting changes at the global socioeconomic level. The global economic crisis in recent years has prompted regulators to raise questions about the relevance and reliability of the conceptual framework used to prepare financial reporting. In this regard, several studies have documented the relationship between corporate governance and the application of IR in corporate reporting (Ahmad & Sari, 2017; Cooray et al., 2020; Roxana-Ioana & Petru, 2017; Suttipun & Bomlai, 2019; Wulf et al. al., 2014; Zambon et al., 2019).

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In addition, Wulf et al., (2014) found that the proper implementation of IR will affect some traditional structures and business processes which means it can assist companies in meeting governance requirements which can pose new challenges to address the main principles of IR. This is consistent with (ahmad & Sari, 2017; Suttipun & Bomlai, 2019) who found that internal governance has a positive impact on the implementation of IR. This shows that IR gives a positive signal to the company from stakeholders regarding the information disclosed in IR.

Havlová, (2015) states that with the application of IR, information technology (IT) will be more widely used. Companies that adopt IR at the beginning, still have low quality and low number of disclosures. From these results, Havlová, (2015) concluded that integrated reporting changes the volume and extent of disclosure and use of information technology. This means bringing benefits to adopters as it makes reporting easier. It is also an opportunity for IT companies to gain higher profitability connected with tailor-made IR solutions, for users who can more easily orientate reports. Apart from that, Auditors can also increase profits as there will be more work related to the new way of reporting, they ask for higher fees and advisors as they can offer services related to IR adoption.

Several theoretical approaches have explained the relation between governance and IR. Legitimacy theory is one of the clearest theories in explaining this relationship, namely by assuming that voluntary disclosure is intended to model conformity with public values and expectations, legitimacy theory offers great potential in explaining the relationship between corporate disclosure strategies and factors such as public disclosure. information in corporate reports, strategic implications and capital markets (Kannenberg & Schreck, 2019). In addition, if it is related to agency theory, disclosures made by companies can be used as a solution in dealing with agency problems. With the application of IR in company reporting, it can integrate all adequate information for all stakeholders (Perego et al., 2016; Pistoni et al., 2018).

In accordance with the explanation of the theory and the results of previous research, this study focuses on indicators on corporate governance that can affect the quality of IR implementation in state-owned companies in Indonesia. The indicators used are the size of the board of directors, the size of the board of commissioners, the independence of the audit committee, gender diversity, independent ownership and institutional ownership. The hypothesis in this study consists of the following:

Hypothesis 1: The size of the board of directors has an effect on the implementation of integrated reporting
Hypothesis 2: The size of the board of commissioners has an effect on the implementation of integrated reporting
Hypothesis 3: The audit committee independence affects the implementation of integrated reporting
Hypothesis 4: Gender diversity affects the implementation of integrated reporting
Hypothesis 5: The Independent ownership affects the implementation of integrated reporting
Hypothesis 6: The Institutional ownership affects the implementation of integrated reporting

3. Method

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

This study uses quantitative methods to analyze and answer research questions. The use of quantitative data is obtained by calculating the disclosure scoring of IR elements in company reports as well as data related to corporate governance indicators.

The variables used in this study consist of independent and dependent variables. The independent variable used in this study is good corporate governance (GCG). The dependent variable in this study is the application of integrated reporting. The measurement of each of these variables can be explained in detail in the following description, and briefly can be seen in table 1 below.

3.1. Integrated Reporting

Integrated reporting is a form of communication between the company and all stakeholders that is formed in a financial report. Integrated reporting is a communication tool between company management and stakeholders regarding the process of creating corporate value. Integrated reporting quality refers to how much information is disclosed by the company in its financial reporting in accordance with the integrated reporting framework issued by IIRC (2013) with eight (8) reporting element content.

The integrated reporting measurement instrument used in this study refers to the integrated reporting framework formulated by IIRC (2013). The integrated reporting framework classifies integrated reporting information into eight (8) categories, namely Organizational overview and external environment, governance, business model, risk, opportunities and internal controls, strategy and resource allocation, performance, outlook and basis of preparation and presentation. The total items of integrated reporting disclosure will be different for each company, depending on the information presented in its annual report. The total information that must be disclosed in the annual report according to the integrated reporting framework is 150.

The approach used to calculate integrated reporting is a dichotomous approach. Each integrated reporting item in this research instrument is given a value of 1 if the company discloses the information referred to in the annual report. Information presented in the moderate category will be given a value of 2 and information disclosed in detail will be given a value of 3. Information that is not disclosed at all will be given a value of 0. The score of each item will be added together to get the overall integrated reporting score and divided by the total information which should be disclosed according to the integrated reporting framework issued by the International Integrated Reporting Council (IIRC).

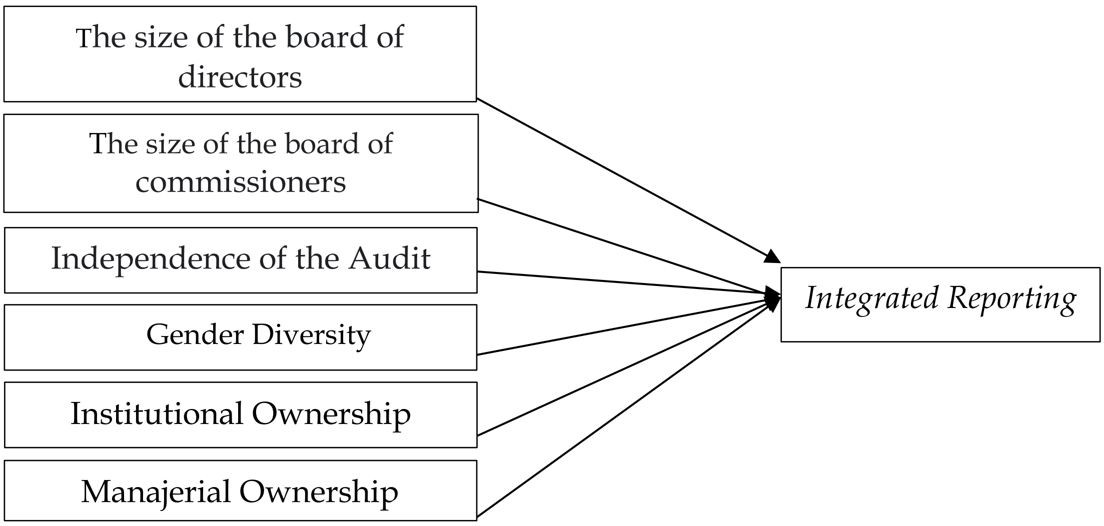
3.2. Good Corporate Governance

Good corporate governance mechanism is the implementation of corporate governance mechanism in a company. The implementation of good corporate governance mechanisms can be divided into two types, namely with a single measure and a checklist of corporate governance indicators that apply within the company. Various studies have used various approaches to measure this corporate governance quality variable with a single measure, for example the number of audit committees, the number of boards of directors, the number of committees under the board of commissioners and the number of independent commissioners. Another measure used is content analysis on the indicators of good corporate governance disclosed in the company's annual report. This study uses indicators of good corporate governance consisting of the size of the board of directors, the size of the board of commissioners, the independence of the audit committee, gender diversity, independent ownership and institutional ownership.

Table 1: Definition of Variable Operational

No		**Variable**	**Operational Definition**	**Formula**	**Measuring scale**
1	**Y**	***Integrated Reporting* (IR)**	Financial report of company that is related with *integrated reporting framework*	*Integrated reporting* index is the total of item disclosed by the company in the annual report in accordance with *integrated reporting*.	Ratio
2	**X_1**	***Good Corporate Governance (GCG)***	The elements of supervisiion that must be owned by the company and disclosed in the annual report as a form of protection for the interests of all *stakeholders*	- Number of directors (SDD) - Number of commissioners (SDK) - Number of auditor committee (IKA) - *Gender diversity* (GD) - Manajerial Ownership (KM) - Institutional Ownership (KI)	Ratio

The analytical method used to answer research questions uses 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. The results of the classical assumption test on all models in this study indicate that the entire model meets the BLUE requirements. The following is a picture of this research model which explains the direction of the relationship between good corporate governance and integrated reporting.



Picture 1: Model of the study

3. Results and Discussion

Testing the hypothesis in this study is to test empirically the effect of good corporate governance and corporate value on the application of integrated reporting. The test results can be seen in the following table.

Table 2: The Hypothesis Result Test (IR as Dependent Variable)

	Coefisien (B)	**t Statistics**	***P-*** $_{value}$
Const	41.351	4.367	0.000
SDD	5.748	2.155	0.036
SDK	3.338	.887	0.379
IKA	8.559	3.315	0.002
GD	-22.693	-3.640	0.001
KI	-12.438	-1.451	0.153
KM	41.071	0.970	0.336
N	60		
F (Sig)	4.993 (0.000)		
Adj R^2	0.289		

Source: the data processed

Description: IR: Application of integrated reporting company I in year t; SDD: Size of company I board of commissioners in year t; SDK: size of company I board of commissioners in year t; IKA: Independence of the Audit Committee I company in year t; GD: Gender Diversity company I in year t; KI: Institutional Ownership of company I in year t; KM: Managerial Ownership of company I in year t.

Based on the results of the multiple regression analysis shown in table 2, it shows that Good Corporate Governance (GCG) as measured by indicators of board size, audit committee independence, and gender diversity as a whole has a significant influence on the implementation of IR which can be seen from the P-value value is smaller than 0.05, except for indicators of institutional ownership, managerial ownership and board size. Thus the hypothesis which states that GCG has a significant effect on the implementation of IR in BUMN companies is acceptable.

3.1. Good Corporate Governance on applying IR

Good corporate governance is expected to be able to encourage management to apply all applicable rules so that companies will carry out financial reporting in accordance with what is required by the regulator. The results of this study indicate that good corporate governance influences integrated reporting. In line with agency theory, the results of this study indicate that good corporate governance can improve the quality of financial reporting in accordance with the framework created by the regulator in the form of implementing integrated reporting. The results of this study are in line with the results of research conducted by Stacchezzini, et.al. (2016) which shows that good corporate governance tries to always encourage management to carry out financial reporting according to the format made by the regulator.

The board of directors indicator has a positive effect on the implementation of integrated reporting, this shows that the existence of a board of directors in a company has a major role in carrying out corporate governance. The board of directors can play a role in determining company policy and providing security for investors in the future (Agyei-Boapeah et al, 2019). OJK Regulation Number 33 of 2014 which regulates the existence of a board of directors in a company is an executor in a company that has authority and responsibility in a public company for its own benefit. This study also supports the research of Setia et al. (2015) which states that the size of the board of directors influences the implementation of integrated reporting.

The audit committee independence indicator also has a significant effect on the implementation of integrated reporting, which means that the higher the independence of the audit committee, the larger the company is to implement integrated reporting. The audit committee has the duty to provide advice to the company's commissioners, especially matters related to financial reporting prepared and submitted by the directors to the commissioners. That is, the existence of an audit committee can support companies in publishing integrated reporting. Based on its duties the audit committee can support management to disclose and improve company reporting disclosures, including in integrated reporting disclosures. In line with research by Agyei-Boapeah et al. (2019) that the audit committee can influence annual reports that use an integrated reporting pattern.

The results of the study also show that the application of an integrated reporting framework in companies is information that must be disclosed to the public immediately and this is the basis of signaling theory. Companies feel the need to immediately show stakeholders that they are following the development of information in the world. Good corporate governance is considered to be a booster for corporate financial reporting in accordance with existing developments and in line with legitimation theory. Company legitimacy can be maintained and improved when the good corporate governance mechanism succeeds in encouraging management to carry out financial reporting in accordance with what is required by stakeholders. The results of this study are in line with the results of research conducted by Frias-Acetuino (2012) where the main goal of companies to carry out financial reporting is mainly to maintain their legitimacy, so that the board of directors will try to encourage management to report their annual reports in accordance with the integrated reporting framework.

4. Conclusion

Based on the results of the analysis and explanations made in this study, a concept of good corporate governance is generated which can be influenced by integrated reporting. Special attention is paid to management in preparing financial reports that follow an integrated reporting framework. Implementation of the mandatory integrated reporting framework also puts pressure on management to prepare annual reports in accordance with the integrated reporting framework, this is what is meant by integrated reporting implementation. The choice of implementation, whether mandatory or voluntary, of a rule in a country will make company management have different considerations. The results of this study can be used as input for the relevant regulators as a material consideration in making decisions regarding the implementation of the integrated reporting framework in Indonesia. The results show that integrated reporting is influenced by indicators of board size, audit committee independence, and gender diversity which are indicators of good corporate governance. It is necessary to pay attention to the integrated reporting framework in the preparation of annual reports so that all stakeholders can read the entire process of establishing corporate value.

The limitation in this study is that there are other variables that are not included in the research model which are expected to have a greater influence on the implementation of IR, for example intellectual capital and internationalization. In addition, the results of this study only focus on state-owned companies in implementing IR, so they cannot be generalized to other types of companies. Subsequent research can classify the application of IR in companies separated by type of industry, so they can find more diverse results based on the type of industry in applying IR in their annual reports. This research has implications for researchers who wish to conduct further research on firm value in annual reports. It is recommended to use market capitalization data, with a larger number of samples and use institutional share ownership in companies, stock returns, company size and dividend policy as research variables. The addition of research variables in this research model is expected to increase the R-square value so that the model becomes better. In addition, future researchers can compare the implementation of IR in Indonesia which is still voluntary with other countries whose annual reporting regulations have implemented mandatory IR, such as countries in Europe.

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