International Journal of Economics, Business and Management Research

Vol. 8, No.01; 2024

ISSN: 2456-7760

The Influence of Institutional Ownership, Composition of Independent Commissioners, and ROA on Integrated Reporting (Empirical Study of Food and Beverage Companies Listed on the Indonesian Stock Exchange in 2020-2022)

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doi.org/10.51505/IJEBMR.2024.8107 URL: https://doi.org/10.51505/IJEBMR.2024.8107

Received: Dec 14, 2023 Accepted: Dec 22, 2023 Online Published: Jan 11, 2024

Abstract

The purpose of this research was to obtain empirical evidence regarding the influence of the elements of Good Corporate Governance on Integrated Reporting. The elements of Good Corporate Governance were proxied to be Institutional Ownership, Composition of Independent Commissioners, and ROA on Integrated Reporting. The data tested is secondary data. This type of research is quantitative with multiple linear regression data analysis techniques using the SPSS 29 application. The population of this research are companies engaged in Food and Beverage listed on the Indonesia Stock Exchange for the period 2020-2022. A purposive sampling method was used to obtain a sample of 10 companies. The result of this research indicates that Institutional Ownership, Composition of Independent Commissioners, and ROA had a significant effect on Integrated Reporting.

Keywords: Institutional Ownership, Composition of Independent Commissioners, ROA, Integrated Reporting

1. Introduction

1.1 Integrated Reporting

Financial reporting has developed massively to a global level in this modern era. Digitalization support requires a company to make thorough financial reports. Every company generally must make a year-end report as regulated in PP No. 24 of 1998 Article 2 concerning the obligation of companies to report their financial reports to the government, and these reports are of a general nature that can be known to the public. Regulations regarding the obligation to submit Company

Annual Financial Reports (LKTP) are also regulated in Minister of Industry and Trade Decree No. 121 of 2002 concerning Provisions for Submitting Company Annual Financial Reports. As time goes by, company financial reports are no longer considered to provide a complete and in-depth picture of a company. Financial reports are considered to only contain information about the company's financial condition and do not provide much-needed non-financial information such as governance, environment, social, prospects, and risks as well as the sustainability (ongoing concerns) of the company's business. To reveal the real condition of a company, a report is needed that can explain or describe the company's immeasurable (non-financial) value and the impact of sustainable strategies that the company can implement on society. This report should also provide stakeholders with an overview of the company's resolutions and strategies. Joint International Integrated Reporting Committee (IIRC). Global Reporting Initiatives (GRI) which initially initiated the creation of integrated reporting (Integrated Reporting). IIRC (2013) states that integrated reporting is a form of short communication about how governance, performance, organizational prospects, and strategy relate to its external environment to create short and long-term value. Integrated reporting is a form of the latest innovation in financial reporting to increase the usefulness of financial reporting effectively and efficiently. Integrated Reporting is also believed to be a form of high-quality corporate reporting. High-quality Integrated Reporting will have the potential to attract foreign investors and support the flow of capital into a country, thus indirectly affecting economic and social welfare (Dosinta and Brata 2020)

1.2 Urgency of Research

(Iredale, 2019) revealed that the country of South Africa was one of the countries that pioneered the presentation of Integrated Reporting where the Johannesburg Stock Exchange (BEJ) required companies to create and present integrated reporting in March 2010. South Africa obtained satisfactory results by showing a success index in presenting Integrated Reporting. (Kustiani, 2016) stated that although it is still voluntary, the implementation of Integrated Reporting elements in Indonesia has begun to be carried out by several companies. In his research. Kustiani (2016) shows that an average of 50% of Integrated Reporting elements have been implemented in Indonesia. Kustiani's research selected companies operating in the mining sector as the second highest sector that implemented Integrated Reporting elements by disclosing issues regarding the impact of company operations related to corporate responsibility towards nature and social issues. Sustainability Report or sustainability report is a form of non-financial reporting that has begun to be implemented in several companies in Indonesia. Sustainability reporting in Indonesia is still voluntary (Kustiani 2016), so the NCSR (National Center for Sustainability Reporting) held the ISRA (Indonesia Sustainability Report Award) to encourage companies to present not only their financial reporting but also corporate sustainability reporting. After implementing ISRA, it was proven that there was an increase of 6-10 companies presenting sustainability reporting each year. Even though Indonesia is the country that provides the most sustainability reporting compared to neighboring countries, sustainability reporting in Indonesia does not fully follow the GRI guidelines. Therefore, the creation of integrated reporting (Integrated Reporting) is expected to encourage companies listed on the Indonesia Stock Exchange to prepare themselves regarding the delivery of non-financial information required in

Vol. 8, No.01; 2024

ISSN: 2456-7760

integrated reporting. Research conducted by Wijaya and Agustina (2021) tested the elements of Good Corporate Governance (GCG), namely constitutional ownership, composition of independent commissioners, board of directors, and audit committees in mining companies listed on the Indonesia Stock Exchange regarding integrated reporting. The results of this research show that GCG elements have a significant influence on Integrated Reporting (Wijaya and Agustina 2021). Other research was also conducted by Soegiarto et al., (2022) with the variables tested, namely ROA, leverage, board size, gender diversity, and ownership structure for Integrated Reporting. The research results show that only leverage influences Integrated Reporting, while the other variables do not have a significant influence (Soegiarto, Novianti, and Delima 2022).

1.3 Literature Review

Agency Theory

Agency theory describes the relationship between the agent and the principal and how the agent acts on behalf of the principal. An agency relationship is a bond where there is a contractual agreement between the agent and the principal. Jensen and Meckling (1976) stated that in this relationship the agent is responsible for providing services to the principal. In 1976, Jensen and Meckling proposed agency theory which states that the different roles that exist between ownership and management in a company cause agency problems. Agency theory explains that the principal is the entity that gives trust to the agent in the form of carrying out duties and responsibilities and the agent is the individual who is responsible for carrying out the responsibilities and tasks that have been mutually agreed upon. Agency theory explains that the larger an organization or corporation, the more agency costs will also increase. An example of agency costs is audit or inspection fees charged to monitor management activities or activities. One action that companies can take to minimize agency costs is to require information through Information Intermediaries. Information Intermediaries are another alternative to reduce agency conflict by providing more information about the company. By presenting integrated financial and non-financial reporting, companies can retain old investors and attract new investors to invest, thereby minimizing imbalances in company information and increasing the value of a company.

Stakeholder Theory

Robert Edward Freeman is the figure who initiated stakeholder theory in 1984. This theory explains that companies are not only responsible for carrying out their operations but also provide feedback to stakeholders. Stakeholder theory is a theory that explains which parties, both internal and external to the company, are responsible. A company is responsible to stakeholders who are groups or individuals who can gain or lose from the business. Freeman (1938) and Ginting (2012) explained that companies must be able to understand the interests of stakeholders who can influence the achievement of company goals. Companies will be more careful when selecting stakeholders who have the potential to take the most effective actions to improve relations between the company and its stakeholders. Chairi and Ghozali (2014) stated that companies must always try to maintain good relationships with stakeholders, especially those who influence the need for resources used in the company's operational activities, such as

consumers and workers. Efforts to maintain relationships with related parties can be made through preparing a Sustainability Report or Integrated Report. Shareholders have a big influence on the policies implemented by company management so that related parties also have rights to the company. Therefore, companies must be able to provide broad information regarding the company's financial condition and company activities including strategy, governance, social, and environmental in the form of integrated reporting to increase the value and image of the company.

1.4 Conceptual and Research Hypothesis

This research uses the Integrated Reporting variable as the dependent variable and the Institutional Ownership, Independent Commissioner Composition, and ROA variables as independent variables. The relationship between these variables is shown in the image below:

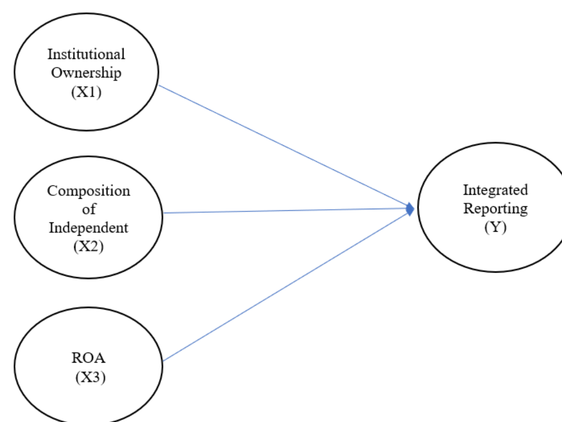

Figure 1. Conceptual Framework

Research Hypothesis

The Influence of Institutional Ownership on Integrated Reporting

Institutional ownership encourages close monitoring of management performance. This is done because ownership is considered a fairly effective control mechanism for managerial decision-making. One of the company's internal management mechanisms is institutional ownership. Jensen and Meckling (1976) stated in agency theory that the greater the proportion of constitutional ownership of the company, the higher the level of control exercised by the agent. Management responded to increased investor supervision and voluntarily disclosed information to avoid problems between the agency and the principal (Baroko, 2007). Research conducted by Sari *et al.,* (2007) explains that integrated reporting is a type of voluntary reporting, therefore institutional ownership may influence integrated reporting in annual reports. The research results show that constitutional ownership influences integrated reporting. (Sari and Sukoharsono, 2013)So the resulting hypothesis formulation is as follows:

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H1: Institutional Ownership Influences Integrated Reporting.

The Influence of Independent Commissioner Composition on Integrated Reporting

Hartojo (2007) said that the greater the composition of independent influence, the more objective the ability to make the composition of the independent commissioner. The presence of independent commissioners in the corporate governance system can suppress wider reporting disclosures based on GCG principles, one of which is accountability (Wijaya and Agustina, 2021).In agency theory, the independent board of commissioners acts as a supervisor who can monitor the performance of directors and management in achieving company goals. This is in line with research by Ahmad (2017) which revealed that the greater the proportion of independent commissioners in a company, the more open financial and non-financial information is expected to be through integrated reporting. So the resulting hypothesis formulation is as follows:

H2: The composition of Independent Commissioners influences Integrated Reporting.

The Influence of ROA on Integrated Reporting

Profitability also affects integrated reporting. Profitability is one of the company's maximum efforts to increase profits from the company's operating activities. Kasmir (2019) explains that profitability ratios are ratios used by companies to assess the company's ability to generate profits in a certain period. One indicator measuring profitability is Return on Assets (ROA). ROA shows how the company's performance increases company profits by using company assets effectively and efficiently. This condition motivates companies to disclose more information to demonstrate management performance to stakeholders. Novianti et al., (2022) explained that ROA has a significant effect on integrated reporting. So the resulting hypothesis formulation is as follows:

H3: ROA influences Integrated Reporting.

2. Method

This research is a type of quantitative research with a sample of manufacturing companies in the Food and Beverage subsector. Companies that meet the criteria are companies listed on the Indonesia Stock Exchange in the 2020-2022 period. The data analysis technique used in this research is multiple linear regression with the SPSS 29 application using secondary data. The data collection technique uses a purposive sampling technique where the company is listed on the Stock Exchange and has complete data related to the variables used. This research obtained 30 samples from 10 companies that met the criteria and then multiplied them by 3 periods. Researchers carried out descriptive statistical tests as the initial stage of testing, then carried out classical assumption tests consisting of normality, multicollinearity, and heteroscedasticity tests. Finally, the researcher carried out a hypothesis test consisting of the t-test, F-test, and coefficient of determination test.

Research Model

$$IR = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$$

α = Regression Constants

β_1-β_3 = Model Regression Coefficients

X1 = Constitutional Ownership

X2 = Composition of Independent Commissioners

X3 = ROA

e = Error

Integrated Reporting

IIRC (2013) states that integrated reporting is a form of short communication about how governance, performance, organizational prospects, and strategy relate to its external environment to create short and long-term value (Kılıç and Kuzey 2018). The measurement method for this variable uses content analysis based on a measurement index taken from research by Herath&Guarathne (2016) which refers to the IIRC Framework. Each indicator disclosed in the company's annual report will be assessed according to the score stated in the index (Gunarathne and Herathn.d). The Integrated Reporting measurement index used includes an overview of the organization and external environment, business model, risks and opportunities, strategy and resource allocation, governance, performance, and business prospects.

Institutional Ownership

Institutional ownership is the proportion of share ownership owned by institutions or institutions such as insurance companies, banks, foreign companies, cooperatives, foundations, limited liability companies, mutual funds, pension funds, and others. Jensen and Meckling (1976) stated in agency theory that the greater the proportion of constitutional ownership of the company, the higher the level of control exercised by the agent. Institutional ownership is measured by dividing the number of shares owned by the institution by the total shares outstanding (Riduwan and Sari 2013)

Composition of Independent Commissioners

An independent board of commissioners is a company board that is not affiliated and has no family relationship with members of the board of directors, controlling shareholders, or company commissioners. Independent commissioners as part of corporate governance encourage wider disclosure and reporting through the implementation of GCG elements, including accountability principles. Nagesware (2019) stated that as independent shareholder representatives, independent commissioners uphold the principle of accountability and are responsible for carrying out operations and making decisions. This variable is measured by calculating the number of independent commissioners to the total members of the company's board of commissioners.

ROA *(Return on Assets)*

ROA shows how the company's performance increases company profits by using company assets effectively and efficiently. This condition motivates companies to disclose more information to demonstrate management performance to stakeholders. A high Return on Assets shows the

company's ability to generate greater profits from the assets it owns, whereas a low Return on Assets shows that the company has not been able to generate profits from the use of its assets. This variable is measured by dividing net profit by the company's total assets.

3. Results

3.1 Statistics

Descriptive statistical tests presented in Table 1 show that the integrated reporting variable (Y) has a minimum value of 86 and a maximum value of 100 with a mean value of 95.80. The institutional ownership variable (X2) has a minimum value of 36 and a maximum value of 92 with a mean value of 68.47. The independent commissioner composition variable (X3) also shows a minimum value of 33 and a maximum value of 50 with a mean value of 42.90. The last statistical test on the ROA variable (X3) shows a minimum value of -2 and a maximum value of 22 with a mean value of 10.67.

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
KI	30	36	92	68.47	18.345
KKI	30	33	50	42.90	7.631
ROA	30	-2.00	22.00	10.6667	6.08748
IR	30	86	100	95.80	6.525
Valid N (listwise)	30				

Source: Secondary data processed using SPSS 29

3.2 Normality

The normality test is one of the classical assumption tests using the KS (Kolmogorov-Smirnov) test. So that the data is known to be normally distributed, the multiple linear regression equation must exceed 5% or 0.05. From the test results using one Kolmogorov-Smirnov sample on 30 data samples, a significance value of 0.049 was obtained, this shows that the data is normally distributed.

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			30
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		4.92697879
Most Extreme Differences	Absolute		.118
	Positive		.068
	Negative		-.118
Test Statistic			.118
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		.343
	99% Confidence Interval	Lower Bound	.330
		Upper Bound	.355

Source: Secondary data processed using SPSS 29

3.3 Multicollinearity

The second classic assumption test is the multicollinearity test, which is proven by looking at the tolerance values produced by all variables which are greater than 0.10 and the VIF values for all variables are smaller than 10 which proves that there are no symptoms of multicollinearity.

Table 3. Multicollinearity Test Results

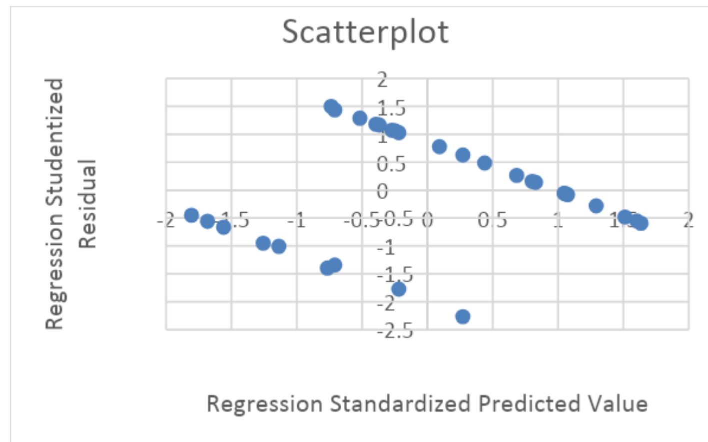
Tolerance	VIF
.727	1.375
.749	1.335
.760	1.316

Source: Secondary data processed using SPSS 29

3.4 Heteroscedasticity

The final classical assumption test is the heteroscedasticity test, which shows that all points in the scatterplot are spread evenly both above and below the number 0 on the Y axis so it can be concluded that there are no symptoms of heteroscedasticity.

Table 4. Heteroscedasticity Test Results



Source: Secondary data processed using SPSS 29

3.5 R–Square

The coefficient of determination for the variables institutional ownership, composition of independent commissioners, and ROA was obtained at 0.430. This means that 43% of integrated reporting can be explained by the independent variables in the model while the remaining 57% is explained by other variables.

Table 5. Coefficient of Determination Test Results (R-square)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.656[a]	.430	.364	5.203	.813

Source: Secondary data processed using SPSS 29

3.6 Hypothesis Results

Simultaneous Test (F Test)

Based on multiple linear regression testing, the count results are 6.535>2.97 with a significance value of 0.002, meaning it is smaller than 0.05. It can be concluded that the independent variables tested in this research have a simultaneous influence on Integrated Reporting.

Table 6. Simultaneous Test Results (F Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	530.822	3	176.941	6.535	.002[b]
	Residual	703.978	26	27.076		
	Total	1234.800	29			

Source: Secondary data processed using SPSS 29

Partial Test (T-Test)

Table 7. Partial Test Results (T-Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	61.895	8.977		6.895	<.001
	KI	.132	.062	.370	2.133	.043
	KKI	.450	.146	.526	3.075	.005
	ROA	.524	.182	.489	2.878	.008

Source: Secondary data processed using SPSS 29

4. Discussion

The Influence of Institutional Ownership on Integrated Reporting

Based on the results of the first hypothesis test (H1), it produces tcount>ttable, namely 2.133>2.055, and a significance value of 0.043<0.05, which means that the constitutional ownership variable influences the integrated reporting variable because the significance value is

less. Therefore 0.05 and tcount is greater than the ttable that has been obtained. It can be concluded that constitutional ownership influences Integrated Reporting so H1 is accepted.

The Influence of Independent Commissioner Composition on Integrated Reporting

Based on the results of the second hypothesis test (H2), it produces tcount>ttable, namely 3.075>2.055 and a significance value of 0.005<0.05, which means that the independent commissioner composition variable influences the integrated reporting variable because the significance value is less than 0.05 and tcount is greater than ttable that has been obtained. It can be concluded that the composition of independent commissioners influences Integrated Reporting so H2 is accepted.

The Influence of ROA on Integrated Reporting

Based on the results of the third hypothesis test (H3), it produces tcount>ttable, namely 2.878>2.055 and a significance value of 0.008<0.05, which means that the ROA variable influences the integrated reporting variable because the significance value is less than 0.05 and tcount is greater than ttable. has been obtained. It can be concluded that ROA influences Integrated Reporting so H3 is accepted.

Acknowledgments

Thank you to our lecturers who are willing to spend time helping with this research, and also to my team who are willing to work together so that this article can be published. Thank you so much to the International Journal of Economics Business and Management Research for giving us the opportunity to publish our research results.

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