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Research Article

A Geographical Review on The Development of Integrated Reporting Implementation Companies in Indonesia

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Abstract

The purpose of this paper explains the geographically concept of Integrated Reporting (IR) based on the recommendations of the International Integrated Reporting Committee (IIRC) practiced by companies in Indonesia. Most companies in Indonesia have implemented integrated reporting, and most generally present social responsibility reports. Only companies were selected that were easily accessible due to their geographic location. The results of the study concluded factors that affect integrated reporting, among others corporate good governance, the size of the company. The implications of this article to develop the concept of integrated reporting as well as the socialization of the importance of integrated reporting to increase stakeholder trust.

Keywords

Integrated Reporting (IR), IIRC, Stakeholders.

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Background

The International Federation of Accountants says the integrated report is a report for the future. This is based on concerns about the current report describing only twenty percent of the overall condition that should be disclosed. But in reality, up to 80% of the company's value is not on the balance sheet.(Hoque, 2017) stakeholders are not only interested in financial information but also non-financial. Therefore, an interesting sustainability report is required for decision-makers to understand. In 2011, the International Integrated Reporting Committee (IIRC) is an international organization covering regulators, companies, standard builders, accounting professions, investors, and the public. IIRC designed a corporate reporting model known as Integrated Reporting (IR).
Companies in each country have adjusted the needs of stakeholders in the form of integrated reports. Researchers in different countries have examined how and to what extent integrated reports have been accommodated by the company. Similarly, companies in Indonesia have also implemented the concept of integrated reports. This paper has summarized various integrated report practices in Indonesia, in more detail explained also the factors that support the practice of integrated reports.

Integrated Reporting Concept

The integrated report has changed the thinking of companies that originally only published financial conditions to publish financial and non-financial, with this change providing benefits for stakeholders because it has awareness of the sustainability capabilities of the company it assesses (Kurniawan, 2018). Integrated report as a solution in answering stakeholders' needs for sufficient information needs (Sebayang, Maksum, Bukit, & Fachrudin, 2021). Integrated reporting can increase transparency to increase investor confidence (Hamad, Draz, & Lai, 2020). Integrated reports motivate to be more transparent oriented to stakeholder interests (Kılıç, Uyar, Kuzey, & Karaman, 2020). Stakeholders are eager to know how businesses are managed, what could pose future business risks, and how they will have implications in the wider community (Hoque, 2017). Financial performance and non-financial performance reports are described in a holistically integrated reporting with targets for the future (Jensen & Berg, 2012).
Integrated reporting is the integration of sustainability information and corporate social responsibility into the annual report (Ioana & Adriana, 2014). IR is the presentation of information about strategy, governance, performance &prospects related to each other in a single report (García-Sánchez, Raimo, Marrone, & Vitolla, 2020). Integrated reporting is a report containing financial and non-financial information that communicates the process of value creation by the company (Dewi, Agustia, & Ardianto, 2019). Integrated reporting reports on financial and non-financial information such as economic factors, governance, environment, intangible assets, social issues related to each other are integrated (Al Amosh & Mansor, 2021). Integrated reporting is measured using integrated reporting index (IRX) based on the concept of NKONKI consisting of elements; framework (the application of the framework and declaring responsibility for an integrated report), strategic focus, connectivity of information in the integrated report, materiality and stakeholders dealings, consistency and comparability, conciseness of the integrated report, reliability and completeness, fundamental concepts, business model and capital, content elements (Makhathini).
This integrated reporting can reduce information asymmetrical issues and put stakeholder interests first (Affan, 2019). Integrated reporting is defined as a level of disclosure that meets the integrated reporting element (Affan, 2019). Integrated reporting is a report of inter-integration between financial information, governance, management opinions, remuneration, and sustainability reports (Velte, 2021). Integrated reporting is reporting that in the process focuses on understanding and communicating the company's value creation (Grassmann, 2021). The integration report will also explain how an organization can create value over time. This value is not created by itself but it will be formed because there are several things; influenced by the external environment, created through relationships with Stakeholders, and depending on various sources. The value created manifests that the company has increased from the invested capital so that it becomes an output for the company itself. That value has two interrelated aspects that are first the organization itself and stakeholders and the wider community.
Investors will be interested in the value created by the organization for the financier itself as well as the value created by the company for other parties. The organization's ability to create value

for the organization itself is related to the value it creates for others. As illustrated in the following image:

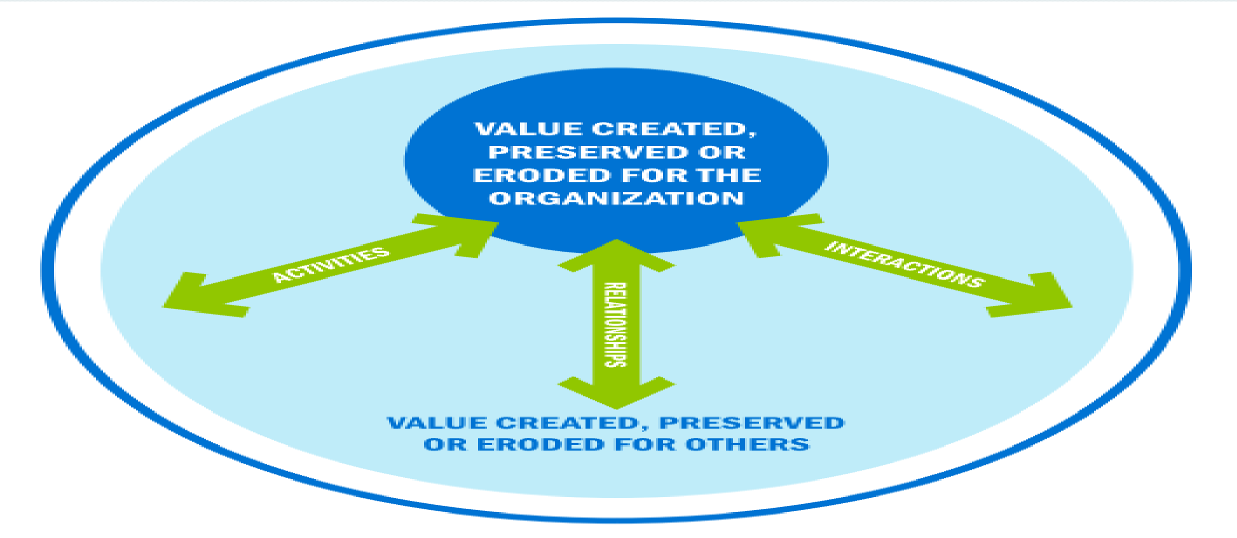

Figure 1. Values Created and Maintained for Organizations and Stakeholders
Source: International Integrated Reporting Framework (2021)

The value obtained by the organization is liked by investors, as well as when the organization can create value for other stakeholders, investors will be more interested because this value is a guarantee for the sustainability of the organization. The organization's ability to obtain value depends on the organization creating value for others. Figure 1 describes the interaction of relationships between stakeholders that have implications for value creation, sales to consumers have an impact on increasing financial performance. When this relationship is material in nature to create organizational value, then everything must be disclosed in an integrated report because the value creation may decrease or increase, so this information needs to be disclosed.
Value cannot be created by maximizing one capital at the expense of other capital, for example maximizing financial capital at the expense of human capital. This means that value cannot be created due to maximizing profits through policies that use human resources that are not appropriate, because the value is created in the long term.
Value creation requires a different period between one company and another company as well as for one Stakeholder with another stakeholder so that it is not possible to happen through one model but other capital is required.

Categorization according to international integrated reporting what else:

1. Financial capital funds are also for services that are from financing such as debt, capital, grants, or investments.
2. Capital production of physical objects (not natural physical objects) that are for the production process of buildings, ports, infrastructure.
3. Capital based capital is based on it including intellectual property.
4. Such as patents, copyrights, files, rights, and licenses also capital organizations can procedures, systems, protocols.
5. Human resources are the competence, ability, and experience of people and their motivation to innovate.
6. Capital social relations i.e., relationships with communities, stakeholder groups, and other networks to share information to improve the welfare of individuals and collectives.
7. Natural capital is all resources that can be renewed or cannot be renewed that can provide goods or services to support the welfare of the organization both in the past, present, and future.

The content of the integrated report depends on the condition of the organization itself. International integrated reporting recommends eight content on integrated reports, (Mirsadri, Bardinet-Evraert, & Evraert, 2021)

Organization Overview and External Environment

The organization review explains the objectives, mission, vision of the organization. Integrated reports identify:

a. Organization, about culture, ethics, values, ownership, operating structure, main activities, positions in the value chain.
b. The main quantitative information, the main quantitative information is the number of employees, income, and the country in which the company operates.
c. Significant factors that affect the external environment, including legal, commercial, social, environmental, and political aspects that affect the organization's ability to create short-, medium-term, and long-term value.
1. Governance, the integrated report should explain how organizations can create short-term, medium-term, and long-term value.
2. Business model, the integrated report describes the business model that is a system to convert inputs through its business activities into outputs to achieve organizational goals and create good value short, medium, long term.
3. Risks and opportunities, explains how organizations identify risks and opportunities where they can affect an organization's ability to create value.
4. Strategy and Resource allocation explain short-term, medium-term, long-term strategic objectives to achieve goals and plan resource allocations to be implemented and measure achievements or targets.
5. Performance, explain the extent to which the organization has achieved its strategic objectives in that period. The integrated report contains qualitative and quantitative information about performance.
6. Outlook, explain the challenges and uncertainties that organizations may face and what the implications in the future will be.
7. Basis of preparation and presentation, explain the essentials to be presented in the integrated report.

Empirical Studies on Integrated Reporting

(Rahmanda & Sandhi, 2020)The results of the study found evidence that 50% of companies listed on the Indonesia Stock Exchange publish Integrated Reporting using the IIRC Integrated Reporting concept. Voluntarily have reported the necessary information both financial and non-financial information about the company's social and environmental obligations. Integrated reporting develops with a background of several theories. Relevant theory that is relevant in the background of integrated reporting. The theory in question, among others; stakeholder theory, institutional theory, and innovation diffusion theory (Ioana & Adriana, 2014). Research (García-Sánchez et al., 2020)s PT Pertamina reports the Integrated Annual Report following national standards namely Bapepam, OJK Regulations, and SAK. Meanwhile, the voluntary report is GRI 3.1, G4.0, and IIRC.
Highly connected integrated reports have higher decision benefits (Dewi et al., 2019). The research (Al Amosh & Mansor, 2021) concluded that companies listed on the Indonesia Stock Exchange present 51% elements of the integrated reporting index with the most components being the presentation of information related to compliance with the law. The results of the study (Affan, 2019) concluded that integrated reporting of basic and chemical industry companies registered with IDX has a high level of disclosure of integrated reporting elements consisting of financial and non-financial information even though disclosure is not mandatory. Elements of integrated reporting disclosure used by (Velte, 2021) include; corporate picture and external conditions, corporate governance, business characteristics, risks & opportunities, strategies and implementation, company performance, forward prospects, disclosure basis. The results of the study (Velte, 2021) showed the ownership of institutions, the number of directors, and the audit committee affected the disclosure of integrated reporting studies on state-owned enterprises in the financial sector.
Research (Grassmann, 2021) conducted a study of PT. Elnusa, PT. Pertamina and PT Timah present an integrated annual report based on mandatory national standards by the Regulation of the Capital Market Supervisory Board, Financial Statements, and Regulation of the Financial Services Authority. And, international standards through GRI G4, disclosure of value creation. The content

of the integrated annual report includes; overview of achievements, management reports, company profiles, risk opportunities and strategies, management analysis and discussion, good and sustainable corporate governance, qualified human resources as the key, grow and develop with the community, care and be responsible for the environment. Research (Kurniawan, 2018) researched companies registered in the Indonesia Sustainability Reporting Award (ISRA) competition, concluding that company size affects the company's ability to carry out integrated reporting, stakeholders affect the company's ability to carry out integrated reporting. Integrated reports in government have been implemented in the form of the State Treasury and Budget System, their implementation is very helpful in the preparation of accrual-based Central Government Financial Reports (Tobgyel, 2021).
The elements of Integrated Reporting in research (Hamad et al., 2020; Sebayang et al., 2021) consist of an organizational overview and external environment, governance, opportunities and risks, strategy and resource allocation, business model, performance, outlook, and basis of presentation. Where integrated reporting is treated as a moderating variable on the relationship between profitability and firm value. The research results state that integrated reporting affects supporting the relationship between profitability and firm value Research (Hamad et al., 2020) examined the role of the proportion of independent commissioners, the expertise of the audit committee, the frequency of audit committee meetings, institutional ownership, and foreign ownership in supporting disclosure of information in integrated reports. The conclusion is that the frequency of audit committee meetings affects the extent of integrated reporting disclosure, while the proportion of independent commissioners, audit committee expertise, institutional ownership, and foreign ownership do not affect the extent of disclosure in integrated reporting.
Research (Mirsadri et al., 2021) studies in high-tech companies adopting integrated reporting based on the IIRC with the conclusion that organizational reviews, business models, governance, strategy and resource allocation, opportunities & risks, and performance are elements included in integrated reporting. , while prospects are not included in integrated reporting because the company does not consider projections, targets.

Conclusion

This article concludes that the integrated reporting practice in Indonesia adopts the concept of the International Integrated Reporting Committee (IIRC). Indonesian researchers develop IR research by building knowledge by examining the various factors that influence IR practice. The IIRC concept recommends integrated reporting in the eight elements of organizational overview and external environment, governance, business models, risks & opportunities, strategy and resource allocation, performance, outlook, the basis of preparation, and presentation.

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