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CEO Compentation, Company Value, And Integrated Reporting To Companies In ASEAN Member Countries

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Abstract: The purpose of this study is to empirically examine the direct relationship between CEO compensation on firm value and the indirect relationship between CEO compensation through the role of integrated reporting on firm value. This research is a quantitative research using secondary data. The object of this research is all companies listed on stock exchanges in ASEAN member countries, because ASEAN member countries have not required integrated reporting to be implemented. Observations were carried out for three years, starting from 2019 to 2021. So that 1266 observation data were obtained. This research analysis tool uses WarpPLS version 7.0. The results show that CEO compensation is directly related to company value, besides that CEO compensation is indirectly related to company value through the role of integrated reporting. The practical contribution of this research is the important role of integrated reporting to increase the value of the company, because integrated reporting creates value over time for the company, besides that integrated reporting also plays a role in increasing the trust of stakeholders in the company.

Keywords: CEO compensation; integrated reporting; company value; ASEAN member countries.

1. Introduction

The ASEAN region has its own charm in investment destinations, due to the support of favorable demographic factors, increasing purchasing power, and wealth of natural resources, so that the ASEAN region continues to offer promising prospects. The ASEAN region also shows stable economic growth and has economic resilience in facing challenges from the global environment. This is the advantage of ASEAN, and the challenges posed by the current global economic turmoil. The investment opportunities in the ASEAN region are more in the infrastructure, manufacturing, services, tourism and natural resources sectors. ASEAN regional financial market developments, such as ongoing deregulation, liberalization, and product innovation, ASEAN's potential and advantages, which are supported by continuous improvements to the fiscal performance of ASEAN countries, including broader reforms that have been implemented to avoid recurring structural risks and to ensure the sustainable economic growth of the ASEAN member countries' economies, and the unique investment prospects of the ASEAN region compared to other regions of the world and identify opportunities for further competitiveness of the ASEAN region. Therefore, to attract investors to invest, every company that goes public must show the value of its company to investors.

The value of the company can be reflected in the company's stock price (Fama, 1978). The higher the company's stock price, the better the value of the company can be assessed, and vice versa, the lower the company's stock price, the lower the value of the company. To increase the high value of the company, the company should give the best signal to stakeholders so that investors flock to invest their wealth in the company. The signal given by the company can be in the form of good news such as an increase in company sales, an increase in company assets, an increase in company profits and so on which are reflected in the financial statements. However, today's investors are getting smarter because they not only believe in financial reports but they also pay more attention to non-financial reports such as corporate social responsibility reports, corporate governance reports, sustainability reporting, and so on. This means that there are many reports that companies must present in addition to financial statements to convince investors. Until now, there have actually been reports that integrate financial reports and non-financial reports, namely integrated reporting (IR) (IIRC, 2013). However, not all companies implement it and not all countries require the implementation of IR. The only country that has made IR implementation mandatory is South Africa (Lee & Yeo, 2016).

IR is a report that integrates several reports covering the strategy, governance, performance and prospects of the organization, in the context of its external environment, leading to value creation in the short, medium and long term (IIRC, 2013). IR aims to provide insight into the resources and relationships used that are affected by the organization, collectively referred to as capital in the conceptual framework of integrated reporting (IIRC, 2013). There are two views related to IR (Lee & Yeo, 2016), the first view explains that IR will provide higher benefits to the company because in IR it will provide complete information about the company and this is a positive signal given by the company to its stakeholders so that it can increase company value and this can reduce information asymmetry between the company and its stakeholders. However, the second view states that IR will be a burden to the company because IR provides complete and readable information by competitors so that it will reduce the value of the company. Research on the relationship of IR to firm value has been conducted several times and still gives varying results.

Research findings (Lee & Yeo, 2016) provide evidence that IR disclosure has a positive effect on firm value. This finding is supported by research findings from (Islam, 2020), (Utomo et al., 2021), (Machmuddah et al., 2022) which state that IR implementation has a positive impact on firm value. Likewise with (Obeng et al., 2020) which states that his research findings are in accordance with the first view, namely that IR will improve the quality of accounting information so that it will have a positive impact on firm value. However, these findings and explanations differ from (Landau et al., 2020) which states that research findings support the results of a negative influence between IR on market value

There are still differences in views and differences in research findings indicate that research in this area still needs to be reviewed. With regards to IR implementation, this may depend on the Chief Exec,utive Officer (CEO). The CEO has the duties and responsibilities to develop the company, assess the company's business strategy, evaluate managers, and so on. If managers cannot maximize the value of the company, the CEO provides input to managers because one of the tasks of the CEO is to evaluate the duties of managers. Perhaps one of the inputs given by the CEO to managers is to implement IR because IR is considered capable of increasing firm value (Lee & Yeo, 2016). So the decision in implementing IR depends on the manager and the CEO only provides input to the manager. On the other hand, the CEO is also entitled to receive compensation from the company. The compensation received by the CEO can affect strategic decision making so that it will be able to affect the value of the company. This argument is supported by (Park & Byun, 2021) who found empirical evidence that there is a positive relationship between manager compensation and firm value. In addition, this explanation is also in line with (Velte & Stawinoga, 2017) which states that the relationship between CSR and positive financial performance is more prominent by CEO power. However, other research findings such as (Garcia-Sanchez et al., 2020) argue that IR disclosure can increase firm value. He (Garcia-Sanchez et al., 2020) argues that disclosure of IR will have bad consequences because it will be exploited by competitors. This is supported by research findings from (Basuroy et al., 2014) which provide findings that CEO compensation has no effect on firm value.

There are still differences in views and differences in research findings, so research in this area is still interesting to review. So the research question that arises is whether CEO compensation can be directly and indirectly related to firm value through integrated reporting?

2. Literature Review and Conceptual Framework Development

2.1. Agency Theory

The pioneer of agency theory is (Jensen & Meckling, 1976). This theory analyzes the relationship between principal and agent. This principal and agent relationship tends to lead to different interests between the two, because in general humans are utility maximizers for their own interests. The agent's position as the manager of the company is more profitable than the principal, because the agent has known the information inside the company and the company's future prospects. The obligatory duty of a manager is to inform the principal of the company's condition. Sometimes the information provided is not the same as the actual state of the company. This situation is called information asymmetry. The assumption of the two different interests built by (Eisenhardt, 1989) causes agency problems. Problems will occur if the principal cannot determine and know what the agent has done. There are two categories for agency problems. First, called adverse selection, this can occur when the agent is unable to provide his ability when the contract has occurred. Second, it is known as moral hazard, namely the lack of effort from the agent to carry out the given responsibilities, or without the knowledge of the principal acting for his own interests or otherwise contrary to the interests of the principal.

2.2. Signillaing Theory

The principle of signal theory is how a company gives signals to interested parties. Company information about IR can be used as a signal by the company to stakeholders. Information is a description, record or description of both past, current and future conditions for the survival of a company. Investors need complete, accurate and timely information as an analytical tool to make investment decisions. The market is expected to react when the announcement is received by the market, even if the announcement contains positive or negative signals. The stock price will increase if the information conveyed is good news information. On the other hand, the stock price will decrease if the information conveyed is bad news information. Pragmatic accounting theory is the root of signal theory, because the center of changes in information user behavior is the information conveyed by the company. Disclosure of non-financial statements is one of the signals conveyed by the company, so that the disclosure of non-financial statements is expected to result in changes in the company's stock price.

2.3. Compensation

Compensation is the remuneration received by employees in return for their contribution to the organization which is an integral part of human resource management helping to motivate employees in increasing organizational effectiveness (Patnaik & Padhi, 2012). There are two types of compensation provided by the company to managers. The first type of compensation is cash compensation, which is every salary received in one year plus bonuses received in that one year. While the second type of compensation is long-term compensation, which can be in the form of stock options, dividends, share value from limited stock, and other payment values (Shim, Eunsup Daniel and Kim, 2015).

2.4. Integrated Reporting

IR is a new approach to reporting that will result in a more holistic view of the organization by integrating economic, social and environmental issues, rather than focusing solely on traditional financial reports (IIRC, 2013). Together, IR links corporate governance, stakeholder needs, and other non-traditional demands that require real-time and flexible information (Simnett & Huggins, 2015). According to (IIRC, 2013) IR is a report that integrates several reports covering the strategy, governance, performance and prospects of the organization, in the context of its external environment, leading to value creation in the short, medium and long term. IR aims to provide insight into the resources and relationships used that are affected by the organization, collectively referred to as capital in the conceptual framework of integrated reporting (IIRC, 2013).

2.5. Company Value

Maximizing company value through maximizing share price is one of the company's main objectives. The increase in the value of the company's shares that is not followed by changes in the value of the company's debt indicates that the company is in good condition. However, if the company's condition is not good, the company's stock value will decrease. The conclusion is the measurement of firm value can be seen from the index of share ownership value.

2.6. Direct Relationship of CEO Compensation to Company Value

Agency theory explains that there are differences in interests between principals and agents (Jensen & Meckling, 1976). Principals and agents are both human beings who seek to maximize utility for their own benefit. Therefore, the agent as the manager of the company is entitled to receive compensation from the principal. The effectiveness of employees in the process of improving company performance is determined by compensation, this is when viewed from a behavioral perspective. He (Simnett & Huggins, 2015) explained that the company's performance is influenced by managerial decisions, for example in making decisions to determine the selling price of goods, strategies to face competitors, marketing areas and so on. While the quality of the decisions made does not only depend on the ability of the agent but the compensation given to the agent also has an influence in decision making so that later it will create value for the principal. So it can be concluded that the higher the CEO's compensation will increase the value of the company because the decision making will be more precise, and vice versa, the lower the CEO's compensation will decrease the value of the company because the decision making will be what it is. This argument is supported by (Park & Byun, 2021) who found empirical evidence that there is a positive relationship between manager compensation and firm value. In addition, this explanation is also in line with (Velte & Stawinoga, 2017) which states that the relationship between CSR and positive financial performance is more prominent by CEO power. Based on the theory, arguments and support for previous research findings, the first hypothesis of this study is: CEO compensation is related to company value.

2.7. Indirect Relationship of CEO Compensation on Company Value Through Integrated Reporting

The difference in interests between the principal and the agent causes information asymmetry (Jensen & Meckling, 1976). To reduce the occurrence of information asymmetry between the principal and the agent (Jensen & Meckling, 1976), the company must provide credible information. The information provided by the company to its stakeholders can be in the form of good news information or bad news information. This information or signal will be responded to by investors. In the previous hypothesis, the relationship between CEO compensation and firm value has been explained so that this relationship can be called a direct relationship. However, the relationship between CEO compensation and firm value can be mediated by IR because IR is a signal given by the company to stakeholders to reduce the occurrence of information asymmetry between principals and agents so as to increase firm value. This is consistent with (Shim, Eunsup Daniel and Kim, 2015) who found empirical evidence that CEO compensation largely determines market-based performance in the pre-SOX period. These findings confirm the impact of the SOX Act where it requires stronger internal control systems and reliable financial reporting to encourage CEOs to maximize shareholder value. Then there is a framework of the relationship between the role of CEO compensation and firm value requiring stronger internal control mediation and a reliable financial reporting system. A reliable financial reporting system can be a proxy in the context of implementing integrated reporting. So the second hypothesis in this study is: CEO compensation is indirectly related to company value through integrated reporting.

3. Materials and Methods

This research is a quantitative type of research using secondary data. Research data obtained from data provided by Bloomberg (www.bloomberg.com). The research objects used are all companies listed on the stock exchanges of each ASEAN member country. The year of observation is three years, starting from 2019 to 2021. To obtain representative research data, the sample selection uses purposive sampling with the criteria; 1) companies that issue integrated reporting and are listed on the stock exchanges of each ASEAN member from 2019 to 2021; 2) companies that present complete data as required by researchers.

The measurement of each variable of CEO compensation, IR and firm value proxied by Tobin's Q is as follows; for CEO compensation is measured using the natural logarithm of the amount of annual salary plus bonuses earned in the fiscal year (Javeed & Lefen, 2019) and (Shim, Eunsup Daniel and Kim, 2015). IR measurement uses a measurement index by giving a score, how much is disclosed in the IR divided by the total items in the IR. Meanwhile the measurement of company value is proxied by Tobin's Q with the formula (MVS + D)/TA (Lindenberg & Ross, 1981). MVS is the market value of all outstanding shares, namely the company's share price multiplied by extraordinary shares, TA is the total assets owned by the company, and D is the total debt owned by the company.

To assist in presenting research findings using the Structural Equation Modeling (SEM)-Partial Least Squares (PLS) analysis tool with the help of the WarpPLS version 7.0 program. In testing the hypothesis using SEM-PLS must go through several stages and one of them is testing the goodness of fit structural model.

4. Results and Discussion

The pioneer of agency theory is (Jensen & Meckling, 1976). This theory analyzes the relationship between principal and agent. This principal and agent relationship tends to lead to different interests between the two, because in general humans are utility maximizers for their own interests. The agent's position as the manager of the company is more profitable than the principal, because the agent has known the information inside the company and the company's future prospects. The obligatory duty of a manager is to inform the principal of the company's condition. Sometimes the information provided is not the same as the actual state of the company. This situation is called information asymmetry. The assumption of the two different interests built by (Eisenhardt, 1989) causes agency problems. Problems will occur if the principal cannot determine and know what the agent has done. There are two categories for agency problems. First, called adverse selection, this can occur when the agent is unable to provide his ability when the contract has occurred. Second, it is known as moral hazard, namely the lack of effort from the agent to carry out the given responsibilities, or without the knowledge of the principal acting for his own interests or otherwise contrary to the interests of the principal.

The principle of signal theory is how a company gives signals to interested parties. Company information about IR can be used as a signal by the company to stakeholders. Information is a description, record or description of both past, current and future conditions for the survival of a company. Investors need complete, accurate and timely information as an analytical tool to make investment decisions. The market is expected to react when the announcement is received by the market, even if the announcement contains positive or negative signals. The stock price will increase if the information conveyed is good news information. On the other hand, the stock price will decrease if the information conveyed is bad news information. Pragmatic accounting theory is the root of signal theory, because the center of changes in information user behavior is the information conveyed by the company. Disclosure of non-financial statements is one of the signals conveyed by the company, so that the disclosure of non-financial statements is expected to result in changes in the company's stock price.

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IR is a new approach to reporting that will result in a more holistic view of the organization by integrating economic, social and environmental issues, rather than focusing solely on traditional financial reports (IIRC, 2013). Together, IR links corporate governance, stakeholder needs, and other non-traditional demands that require real-time and flexible information (Simnett & Huggins, 2015). According to (IIRC, 2013) IR is a report that integrates several reports covering the strategy, governance, performance and prospects of the organization, in the context of its external environment, leading to value creation in the short, medium and long term. IR aims to provide insight into the resources and relationships used that are affected by the organization, collectively referred to as capital in the conceptual framework of integrated reporting (IIRC, 2013).

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While the quality of the decisions made does not only depend on the ability of the agent but the compensation given to the agent also has an influence in decision making so that later it will create value for the principal. So it can be concluded that the higher the CEO's compensation will increase the value of the company because the decision making will be more precise, and vice versa, the lower the CEO's compensation will decrease the value of the company because the decision making will be what it is. This argument is supported by (Park & Byun, 2021) who found empirical evidence that there is a positive relationship between manager compensation and firm value. In addition, this explanation is also in line with (Velte & Stawinoga, 2017) which states that the relationship between CSR and positive financial performance is more prominent by CEO power. Based on the theory, arguments and support for previous research findings, the first hypothesis of this study is: H_1: CEO compensation is related to company value.

The difference in interests between the principal and the agent causes information asymmetry (Jensen & Meckling, 1976). To reduce the occurrence of information asymmetry between the principal and the agent (Jensen & Meckling, 1976), the company must provide credible information. The information provided by the company to its stakeholders can be in the form of good news information or bad news information. This information or signal will be responded to by investors. In the previous hypothesis, the relationship between CEO compensation and firm value has been explained so that this relationship can be called a direct relationship. However, the relationship between CEO compensation and firm value can be mediated by IR because IR is a signal given by the company to stakeholders to reduce the occurrence of information asymmetry between principals and agents so as to increase firm value. This is consistent with (Shim, Eunsup Daniel and Kim, 2015) who found empirical evidence that CEO compensation largely determines market-based performance in the pre-SOX period. These findings confirm the impact of the SOX Act where it requires stronger internal control systems and reliable financial reporting to encourage CEOs to maximize shareholder value. Then there is a framework of the relationship between the role of CEO compensation and firm value requiring stronger internal control mediation and a reliable financial reporting system. A reliable financial reporting system can be a proxy in the context of implementing integrated reporting. So the second hypothesis in this study is: H_2: CEO compensation is indirectly related to company value through integrated reporting.

Based on data, the number of ASEAN member countries is ten countries, including Singapore, Indonesia, Malaysia, Philippines, Thailand, Vietnam, Brunei Darussalam, Cambodia, Laos, and Myanmar. The following is data on the number of companies in each country, the number of companies that do not publish integrated reporting, and the number of companies that publish integrated reporting from each country:

Table 1. Company Recapitulation Published IR of each ASEAN Member Country

Country	Total Company	Non publish IR	Publish IR
Singapore	554	(462)	92
Indonesia	754	(670)	84
Malaysia	943	(841)	102
Philippines	274	(220)	54
Thailand	813	(733)	80
Vietnam	1569	(1559)	10
Brunei Darussalam	0	(0)	0
Cambodia	11	(11)	0

Laos	11	(11)	0
Myanmar	12	(12)	0
Total	**4941**	**4519**	**422**

Source: secondary data processed, 2022

Based on the data in table 1, it can be seen that the total number of companies that are members of ASEAN are 4941 companies. However, as many as 4519 ASEAN member companies do not publish integrated reporting, this is because integrated reporting has not been required for ASEAN member companies so that it is still voluntary. Therefore, the number of companies that become the research sample are companies that publish integrated reporting as many as 422 companies. By using the year of observation for three years, starting from 2019 to 2021, the total observation data in this study is 1266 observational data.

The analytical tool used in this research is SEM-PLS with the help of the WarpPLS version 7.0 program. The first stage before testing the hypothesis is to see the goodness of fit of the structural model first. If the model is fit then the next step is to test the hypothesis. In accordance with what is presented in table 2, it can be seen that the average path coefficient value is 0.097 with P <0.001 meaning the average path coefficient (APC) is acceptable. Likewise, the average R squared (ARS) is 0.018 with P=0.131 which indicates that the average R squared is acceptable. The average block value of VIF (AVIF) and average full collinearity VIF (AFVIF) are 1.004 and 1.019, respectively, which means that both are acceptable. For the value of Simpson's paradox ratio (SPR), the R-squared contribution ratio (RSCR) and the Statistical suppression ratio (SSR) are each of 1,000 and show ideally. However, for tenenhaus GoF (GoF) is included in the small category because it is only 0.134.

Table 2. Goodnes of Fit Model Structural

Criteria	**Parameter**	**Rule Of Thumb**
APC	0.097 P<0.001	Acceptable
ARS	0.018 P=0.131	Acceptable
AVIF	1.004	Acceptable
AFVIF	1.019	Acceptable
GoF	0.134	Small
SPR	1.000	Ideally
RSCR	1.000	Ideally
SSR	1.000	Acceptable

Source: secondary data processed, 2022

The results of hypothesis testing can be seen in Figure 1 and Figure 2. In accordance with Figure 1, it can be seen that the indirect relationship of CEO compensation to firm value (Tobin's Q) shows P value = 0.004 with beta -0.05, this value means that CEO compensation is related significantly directly on the value of the company. In addition, Figure 2 explains the direct relationship between CEO compensation on firm value through IR. Figure 2 shows that the direct relationship between CEO compensation and firm value shows a value of P<0.01 and a beta of -0.05. This shows that CEO compensation is not directly related to firm value but is mediated by IR.

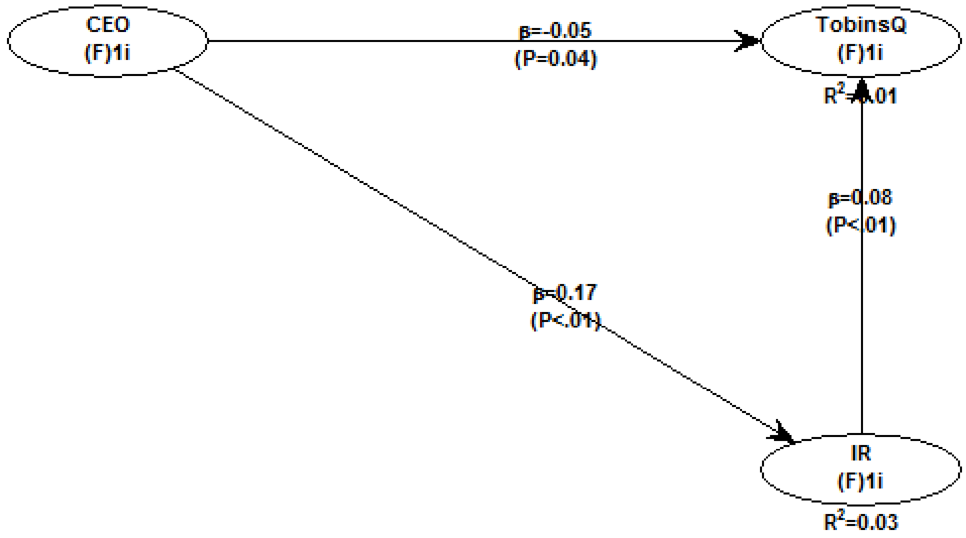

Figure 1. Indirect result

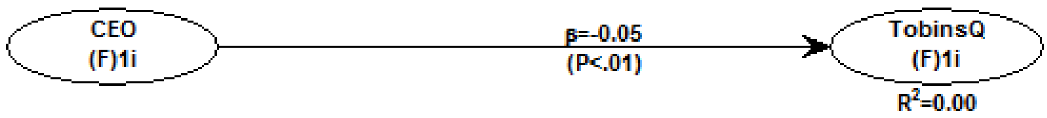

Figure 2. Direct result

CEO compensation has a relationship with firm value. This means that the increase in CEO compensation will further increase the value of the company. The findings of this study are in accordance with the research hypothesis and agency theory, which states that there are differences in interests between principals and agents, causing them to be utility maximizers because they are all human (Jensen & Meckling, 1976). So when viewed from a behavioral perspective, it can be interpreted that CEO compensation will increase employee effectiveness which has an impact on increasing company value. Meanwhile, increasing company performance is based on quality decisions and CEO compensation. This explanation is in line with (Park & Byun, 2021) who found empirical evidence that there is a positive relationship between manager compensation and firm value. In addition, this explanation is also in line with (Velte & Stawinoga, 2017) which states that the relationship between CSR and positive financial performance is more prominent by CEO power. However, other research findings such as (Garcia-Sanchez et al., 2020) argue that IR disclosure can increase firm value. He (Garcia-Sanchez et al., 2020) argues that disclosure of IR will have bad consequences because it will be exploited by competitors. This is supported by research findings from (Basuroy et al., 2014) which provide findings that CEO compensation has no effect on firm value.

In addition to being directly related to firm value, CEO compensation can also be indirectly related to firm value and this indirect relationship is mediated by IR. IR is a communication tool that integrates several reports covering the strategy, governance, performance and prospects of the organization, in the context of its external environment, leading to value creation in the short, medium and long term. So that IR can mediate the relationship between CEO compensation and firm value. This explanation is in accordance with agency theory and signaling theory, where IR is a signal given by the company to its stakeholders because IR provides information for company stakeholders in assisting in making investment decisions so as to reduce the occurrence of information asymmetry between principals and agents. This is consistent with (Shim, Eunsup Daniel and Kim, 2015) who found empirical evidence that CEO compensation largely determines market-based performance in the pre-SOX period. These findings confirm the impact of the SOX Act where it requires stronger internal control systems and reliable financial reporting to encourage CEOs to maximize shareholder value. Then there is a framework of the relationship between the role of CEO compensation and firm value requiring stronger internal control mediation and a reliable financial reporting system.

5. Conclusions

The conclusion that can be drawn from this research is that CEO compensation can be directly or indirectly related to firm value through IR. The theoretical implication of this research is that the findings of this study strengthen agency theory and signaling theory. The practical implication of this research is the importance of implementing IR disclosure because it is to reduce the occurrence of information asymmetry between principals and agents and to provide signals to stakeholders so that they can influence investment decisions. While the limitations of this study are the low R2 of the data processing results obtained, so suggestions for further research are to add other variables such as corporate social responsibility reports, corporate governance reports, company size, type of industry or others in order to obtain more comprehensive research findings. good, besides that it is also necessary to add control variables so that research results are stronger, as well as the importance of modifying research models so that research in the IR realm is more varied.

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