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The Moderating Effect Of Integrated Reporting To Company Value (Empirical Study On Companies In Indonesia)

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ABSTRACT

Integrated reporting can reduce information asymmetry in the company and have a positive impact on the company value. Beside, managers as manager will get compensation for their performance to increase the company value. Therefore, it is suspected that the implementation of integrated reporting and manager compensation can bring a positive impact on company value. This research has purpuse to know the role of manager compensation and the implementation of integrated reporting on company value. 82 companies listed on the IDX during 2016-2019 and disclosed elements of integrated reporting that adopted the integrated reporting index (IRX) is used as a sample. The The hypothesis testing uses P-value and path correlation, while the mediation test uses VAF with the warpPLS application. The study result is manager compensation has a significant impact on company value and integrated reporting, then integrated reporting also has a positive impact on company value, and integrated reporting can mediate the impact of manager compensation on company value with partial mediation.

Keywords: Manager compensation, integrated reporting, company value

INTRODUCTION

In the business world, in general, the control of the company rests entirely on the manager in performing its function as an agent of the owner (principal). The consequences of these provide a very important task for managers is maximizing the company value. In other hand, the separation of ownership and control roles has the potential to cause asymmetric information for owners about the condition of the company. That way, the quality of the company will be difficult to assess by shareholders, so that asymmetric information has a negative impact to the company value.

Meanwhile, there is also company value which impacted positively by the integrated reporting. Lee & Yeo, (2016) state that express company Integrated Reporting reducing information asymmetry between insider and external investors. The company value itself has a positive relationship between manager compensation and company value (Basuroy et al., 2014; Dah et al., 2012; Page, 2018). As we know, managers have a role to increase the value of the company. So managers can make decisions for companies to invest in the implementation of integrated reporting disclosures which are expected to create value for shareholders.

Thus, the relationship between integrated reporting and company compensation can be studied. Although there have not been many studies related to the relationship between integrated reporting and manager compensation, there are several studies that have conducted their research, one of that is the research of Al-Shaer & Zaman, (2019) which shows that CEO compensation bring a positive impact on the disclosure of Sustainability Reporting (which is part of the Integrated Reporting element). This can certainly be used as a further framework for conducting research on this topic. The purpose of this research is to build a basic theoretical model and an empirical research model. Where the concept of implementing integrated reporting elements mediates the role of manager compensation on company value.

LITERATURE REVIEW

Agency Theory

This theory is developed by Jensen & Meckling, (1976). This theory suggests how corporate governance is run on the basis of a the owners of the company (shareholders), the manager, and the main provider of debt financing interest conflict. Each group has different interests and goals. Differing interests and objectives of this conflict as a conflict called the agency or the agency problem (Jensen & Meckling, 1976; Ross, 1973).

Agency problems arise in a company whenever managers have incentives to pursue their own interests at the expense of shareholders (Agrawal & Knoeber, 1996). In other hand, Jensen & Meckling, (1976) argue that when managers act in the interests of shareholders, managers bear the entire cost of failure in achieving their corporate objectives and obtain a small profit. Therefore, incentives should be given to the management to increase their willingness to make decisions to maximize the value or in other words take a favorable decision is to maximize the shareholder value of the stock owners.

Signaling Theory

Akerlof and Arrow was the first who studied the concept of the signal in the context of product and market then, its developed by Spence (1978). Spence (1978) states that sending a credible signal of to the markets can differentiate the good with the bad company. Ross (1977) showed that companies that have a high debt can be a signal that the company is more optimistic and of good quality compared with companies that have low debt.

In addition, signal theory explains that company insiders generally know more information related to the company's prospects than external parties. Signal theory is fundamentally related to reducing information asymmetry between the two parties (Spence, 2002). To reduce information asymmetry, managers (insiders) are advised to provide the information needed by investors or potential investors (Bini et al., 2010).

Hypothesis Development

Manager Compensation Effect on Company Value

H1: The higher the manager's compensation, the higher the company value

Effect of Manager's Compensation on Disclosure of Integrated Reporting Elements

H2: The increased compensation increased the disclosure of integrated reporting elements

The Effect of Disclosure of Integrated Reporting Elements on Company Value

H3: The increased disclosure of integrated reporting elements increased company value.

METHODOLOGY

Methode

This study uses quantitative data, which is expressed by figures showing the extent of the value of the variables studied. Secondary data is used as data source. The data is obtained from the annual report of the selected companies as samples in the 2016 – 2019 research period.

According to (Ferdinand, 2006), combination of people, things, and all elements who have a same characteristic and became reseacher center of attention cause of it is viewed as the study universe is called population. All company that listed on Indonesia Stock Exchange in 2016 and 2019 is this study population.

Data Collection

This study was analyzed by Partial Least Squares (PLS) - Structural Equation Modeling (SEM) using the WarpPLS version 7.0 program to test the hypothesis. There are five stages through:

1. Model Conceptualization. In this research, the form of latent variable is reflective.
2. Determine methods of analysis algorithm (outer model and inner model). In outer model, PLS Regression algorithm is used cause can configure data that is subject to collinearity.
3. Determine the resampling method. Stable 3 is used as resampling method, it is most recommended method because it is software default.
4. Draw a path diagram as illustrated in empirical research model.
5. Model evaluation. Measuring model evaluation (outer model) is used to evaluate the reliability and validity of the latent construction-building indicator. While, structural model evaluation (inner model) used to predicted relation between latent variable by looking at how big is variance to know the signification of P-value.

Integrated Reporting as Mediating Compensation Effect on Company Value

H4: Integrated Reporting Disclosure element acts as a mediating influence of manager compensation company value.

Data collection methods are carried out manually and online, obtained either through the Capital Market Reference Center, the Indonesian Capital Market Directory (ICMD), IDX statistics, as well as through relevant publications.

Operational Definition and Measurement of Variables

This study uses the Manager's Compensation variable as an independent variable or an exogenous variable. The Variable Score Disclosure of Integrated Reporting Elements as a mediating variable or dependent variable which at the same time also acts as an independent variable for other tiered relationships (endogenous variables). The dependent variable in this study is Tobin's Q variable or company value. Several control variable is used in this research, namely company size, and company growth.

RESULTS

Descriptive Data

Through the purposive sampling method, 94 companies were found that could be sampled. Then as many as 94 companies listed on the IDX in the period 2016 to 2019, 82 companies were obtained according to the purpose of sampling.

Descriptive Statistics

Descriptive statistics are used to provide an overview or description of data. This descriptive statistic is examined from the minimum value, maximum value, mean, and standard deviation of the standard. The results can be seen below :

a. Manager's Compensation

Based on thedescriptive statistical test, it can be seen that the minimum value of Manager's Compensation is 7.00. While the is 14.94 is manager's Compensation's maximum value. The average value (mean) is 10.00 and the standard deviation is 1.499687715. ICBP Inc. has the lowest manager compensation value while UNVR Inc. has the highest.

b. Integrated Reporting

Based on the descriptive statistical test, the minimum Integrated Reporting value is 0.33. While the maximum value for Integrated Reporting is 1.00. The average value (mean) is 0.67 and the standard deviation is 0.128330627. ITIC Inc. and DVLA Inc. have the lowest Integrated Reporting scores while HMSP Inc. has the highest.

c. Company Growth

Based on the of descriptive statistical tests, the minimum value of the company's growth is -2.46. While the maximum value of the Company's Growth is 2.15. The average value (mean) is 0.11 and the standard deviation is 0.430622698. AISA has the lowest company growth value. Meanwhile, companies with the code KEJU Inc. have the highest company growth values.

d. Company Value (Tobin's Q)

The company value indicated by Tobin's Q proxy based on the results of descriptive statistical testing, the minimum value of Tobin's Q is 1.04 and the maximum value is 8.91. The mean is 3.37 and the standard deviation is 1.545848054. The lowest Tobin's Q value is owned by RMBA Inc. Meanwhile, the company that has the highest Tobin's Q value is the company with the PCAR Inc. code.

ANALYSIS

Evaluation of the Measurement Model (Outer Model)

Evaluate the model is the next step in this studi. The evaluation can be done with three criteria, named convergent validity, composite reliability discriminant validity, and. The following is the result of data processing:

1. Convergent Validity

The correlation between the construct score (loading factor) and the indicator score with the criteria for the loading factor value of each indicator greater than 0.70 can be said to be valid is used to seen Convergent Validity of the measurement model. Furthermore, the p-value <0.50 is considered significant. Manager's compensation as an independent variable (KM) has a value of 0.751 > 0.50. Company growth as a control variable (PP) has a value of 0.810 > 0.50. Integrated Reporting as a mediating variable (IR) has a value of 0.847 > 0.50, and Company Value as the dependent variable (Tobin's Q) has a value of 0.629 > 0.50. The conclusion of all variables has met the criteria of convergent validity.

2. Discriminant Validity

Cross-loading measurements with constructs is used to assessed discriminant validity. Looking at the latent construct loading which will predict the indicator and use the AVE criteria is two way to evaluate the fulfillment of discriminant validity. The results show that all indicators can measure the variables used in the study and meet discriminant validity.

3. Composite Reliability

Table 1. Results of Latent Variable Coefficients on Composite Reliability

Variable	Composite Reliabele	Cronbach Alpha	Criteria	Annotation
KM	0.923	0.888	>0.70	Reliabel
PP	0.945	0.922	>0.70	Reliabel
IR	0.957	0.940	>0.70	Reliabel
Tobin's Q	0.871	0.803	>0.70	Reliabel

Source: data processed from WarpPLS 7.0, 2021

Construct reliability test that can be measured by two criteria, namely composite reliability and Cronbach's alpha is the next test. If the composite reliability value is > 0.70, the construct will declared reliable. By the results of Cronbach's alpha and, it can be composite reliability all variable can be concluded have met the criteria for composite reliability

Structural Model Evaluation (Inner Model)

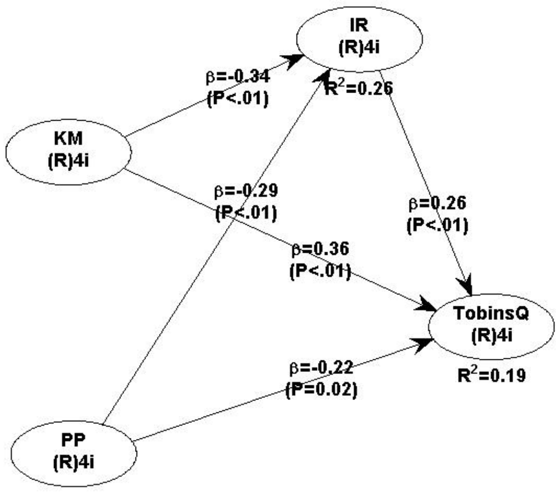

Fig 1. SEM model analysis results

From Figure 1 above, the test of this structural model is carried out by looking at the R-square. The results show the value of R-Square on the integrated reporting variable which is influenced by manager compensation, company size, and company growth, which is 0.265. This means that the exogenous latent variables in this study can affect the integrated reporting by 26% or in other words the research model is classified as weak. While the value of R-Square on the variable of company value which is influenced by manager compensation, firm size, and firm growth is 0.189. This means that the exogenous latent variables in this study can affect the company value by 19% or in other words, this research model is classified as weak. Things, as said by Chin (1998) in the Ghazali & Latan (2015), are assessed from the coefficient of determination R-Square 0.67; 0.30; and 0,19 for each endogenous latent variable in the structural model can be interpreted as substantial, moderate, and weak.

Q-Squared (also known as the Stoner-Geisser Coefficient). Relevance of a set of predictator latent variables on creation variabel can be asses by Q-Squared. Same as R-Squared, but resampling is the only way to obtained Q-Squared. While the Q-Squared can be negative, the R-Squared value is always positive. A model with good predictive validity must have a Q-Squared value > 0 (Ghazali & Latan, 2015). The model estimation results show good predictive validity because > 0, namely integrated reporting of 0.261 and company value of 0.199.

Mediation Test

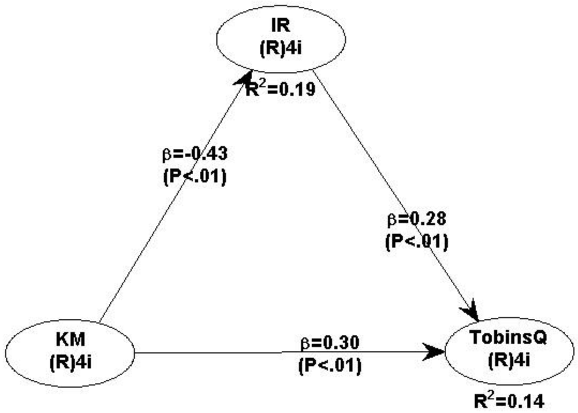

Fig 2. Indirect Effect of Integrated Reporting Mediates Manager's Compensation on Company value

In testing the PLS SEM mediation the Variance Acounted For (VAF) model and formula used as follows:

$$VAF = \frac{\text{Indirect Effect}}{\text{Total Effect}}$$

With this formula, it can be calculated as table 2 below:

Table 2 VAF Calculation

Description of Influence	The Calculation Results
Indirect effect= (KM)□(IR)=0.43 * IR □Tobin's Q=0.28	0.1204
Direct effect (KM)□(Tobin's Q); without including IR as a mediator = 0.26	0.26
Total effect= 0.1204 + 0.26	0.3804
VAF = Indirect effect / Total effect =0.1204/0.3804	0.316508938 or 32%

Source: data processed by researchers, 2021

Based on the results of the VAF calculation, it is necessary to determine the mediating effect. The following are the magnitude of the effect of the mediating variable on other variables (Hair dkk, 2013):

a. VAF > 80% means full mediation,
b. 20% ≤ VAF ≤ 80% means that there is partial mediation,
c. VAF < 20% means there is no mediating effect in the model.

Based on the VAF mediation test criteria above, it can be concluded that 32% VAF is included in the category of partial mediation.

Hypothesis Test

Table 3 P-values

Variabel independen	Nilai P Value	
	R	Tobin's Q
KM	<0.001	<0.001
IR		0.006
PP	0.002	0.017

Source: data processed from WarpPLS 7.0, 2021

If the -value <0.5 it is mean there is a significant effect, If the P-value is <0.10 it is mean the significant effect is weak, and P-value is <0.01 the significant effect is strong. Based on table 3 it can be said that the manager's compensation variable (KM) has a P-value company value (Tobin's Q) variable of <0.001. This means that the manager's compensation variable has a strong significant effect on integrated reporting because of the P-value < 0.05.

And the value of the manager's compensation variable (KM) has a P-value of the integrated reporting (IR) of <0.001. This means that the manager's compensation variable has a strong significant effect on company value because of the P-value <0.05. While the value of the integrated reporting (IR) variable has a P-value of the company value variable (Tobin's Q) of 0.006. This means that the integrated reporting variable has a strong significant effect on company value because the P-value < 0.05.

Company growth as another control variable has a P-value of the integrated reporting (IR) 0.002. This means that the company growth variable has a strong significant effect on integrated reporting because of the P-value <0.05. Beside company growth (PP) has a P-value of the company value variable (Tobin's Q) 0.017. This means that the company growth variable has a strong significant effect on company value because the P-value < 0.05.

Table 4 Path Coefficients Result

Variabel independen	Nilai Path Coefficients	
	R	TobinQ
KM	-0.339	0.363
IR		0.262
PP	-0.292	-0.223

Source: data processed from WarpPLS 7.0, 2021

Based on table 4, it can be said that the manager's compensation variable (KM) has a path coefficient value of the company value (Tobin's Q) variable of 0.363. This means that the relationship between managers' compensation and company value is positive because +1.

And the value of the manager's compensation variable (KM) has a path coefficient value of the integrated reporting (IR) of -0.339. This means that the relationship between managers' compensation and integrated reporting is negative because -1. While the value of the integrated reporting (IR) variable has a path coefficient value of the company value variable (Tobin's Q) of 0.262. This means that the relationship between integrated reporting and company value is positive because +1.

Company growth (PP) as an another control variable has path coefficients value of integrated reporting (IR) of -0.292. This means that the relationship between company growth and integrated reporting is negative because -1. While the value of the company growth (PP) variable has path coefficients value of company value variable (Tobin's Q) of -0.223. This means that the relationship between company growth and company value is negative because -1.

DISCUSSION

Hypothesis 1 Test Results

The first hypothesis in this study is to test whether the increase in manager's compensation (KM) affects the increasing company value (Tobin's Q). According to the results of this research using SEM PLS obtained a P-value of <0.001 < 0.05 event less than <0.01. This means that the manager's compensation has a strong significant effect on increasing company value. And the results of this research show that the manager's compensation has a path coefficient value of 0.363, which means it has a positive effect. So, the H1 is accepted.

Hypothesis 2 Test Results

The second hypothesis in this study examines the effect of increasing manager compensation (KM) on the disclosure of integrated reporting (IR) elements. Using SEM PLS on the results of the analysis showed a P-value of < 0.001 < 0.05 event less than <0.01. Meanwhile, the manager's compensation variable also has path coefficients on integrated reporting of (-0.339). It means that the manager's compensation has a strong significant effect on integrated reporting but has a negative effect. So that the H_2 proposed by the researcher is supported.

Hypothesis 3 Test Results

The third hypothesis in this study is to test whether the disclosure of integrated reporting (IR) elements affects company value (Tobin's Q). According to the results of this study using SEM PLS obtained a P-value of 0.006 > 0.05. And has a path coefficients value of 0.262. This means that integrated reporting has a strong significant and positive effect on company value. So the H_3 is supported.

Hypothesis 4 Test Results

The fourth hypothesis in this study is to test whether the disclosure of integrated reporting elements affects mediating managers' compensation on company value. According to the results of this study, the use of VAF (Variance Accounted For) is 32%. This means that integrated reporting can mediate the effect of manager compensation on company value with partial mediation. So it can be concluded that H_4 is supported.

Control Variable Hyphothesis Test Result

The control variable, company growth to the integrated reporting has a P-value of 0.001 < 0.05 event less than < 0.01, so it is strong significant effect. And company growth to the company value also has a significant effect with P-value of 0.017 < 0.05. So, the control variable company growth has an effect to the integrated reporting and company value.

CONCLUSION

In this study, a tests has been carried out on the disclosure of integrated reporting elements that have a mediating effect on the relationship between manager compensation and increasing of company value. And the conclusion obtained that integrated reporting is able to mediate the effect of the relationship between manager compensation on increasing of the companies value on the Indonesian Stock Exchange for the 2016 – 2019 period. As for the limitations of this research, among other, the time than span used in this research relatively short so can not provide optimal results and only uses limited variable so that additional variable needed that have influence in increasing of company value.

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