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By Luk Luk Fuadah

The Effect of Independent Board of Directors Composition, Independent Audit Committee and Firm Characteristics to The Integrated Reporting Disclosure of The Manufacturing Firms Listed in Indonesian Stock Exchange.

Abdullah[1], Taufiq [2], Luk Luk Fuadah[3]

Magister Ilmu Ekonomi, Universitas Sriwijaya
Email: Abdullahsaggaf@yahoo.co.id

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Abstract: *This research aims to analyze the effect of independent board of directors composition, independent audit committee, firm characteristics as (firm size and profitability) to the integrated reporting disclosure of the manufacturing firms listed in Indonesian Stock Exchange. The population used in this research consists from 150 firms period 2015-2017. Purposive sampling was implemented in this research. From 150 firms, only 51 firms were selected as research samples. The result showed that Independent audit committee and firm size had positive effect to the integrated reporting disclosure while Independent Board of Directors Composition and profitability had no effect to the integrated reporting disclosure.*

Keywords: Independent Directors, Independent Audit Committee, Firm Size, profitability, Integrated Reporting

1. Introduction

The maximization of the wealth of shareholder's is the ultimate goal of company's management(*shareholders wealth maximization*), which will result in maximizing firm's value (Brealey, 2012). But now the company must also be oriented to stakeholders (stakeholder oriented) if it wants to increase its company value. The biggest contribution to the global crisis in America in 2008 was caused by the company only gave priority to shareholders oriented without regard to stakeholders oriented (Stiglitz, 2009). Learning from the causes of the crisis, companies are encouraged to be more transparent and voluntary to meet the expectations of stakeholders (Lidia Oliveira, Lucia Lima Rodrigues, 2014).

In response to these concerns, many companies have sought to improve the information available for stakeholder decisions through the addition of financial reporting and reporting of non-financial information (Cohen et al., 2012). As for non-financial reporting, including corporate social responsibility and corporate sustainability approaches that have been used by companies, the approach still has some weaknesses because it is still separated from the financial statements of the organization so that it fails to create a link between sustainable issues and organizational strategy (Sirakaya-turk, Baloglu ,& Mercado, 2015).

In 2011, an international institution named "The International Integrated Reporting Council (IIRC)" was established which made a reference for companies in reporting, both financial and non-financial. IIRC is an institution consisting of government, investors, companies, standard makers, accountant professions, and non-governmental organizations. This institution offers reporting standards for use by companies in order to report their activities, both financial and non-financial aspects which are important elements in the reporting. The reporting of this activity will be a single or integrated and interconnected with each other known as integrated reporting.

Some international guidelines used in the formation of integrated reporting structures are the Global Reporting Initiative (GRI), the Institute of Social and Ethical Accountability, and the International Integrated Reporting Council (ACCA, 2015). Integrated reporting is a brief communication about how organizational strategy, performance, and prospects of an organization can create short-term, medium-term, and long-term value (www.theiirc.org, 2013). An interesting phenomenon in the Indonesian capital market is that most companies that go public in Indonesia are family firms and government-owned companies. Whereas it is known that the family firm and company owned by the government are concentredownership.However, according to the rules, companies that have been *go public* must have a separation between owner and management. The management cannot be intervened by other parties, yet it is possible that management will be intervened by the concentred ownership so that it will influence the management in the disclosure of integrated reporting. The crisis case that hit government and private companies in Indonesia in 1998 was inseparable from concentrated ownership intervention in company management. It happened due to the ineffectiveness of the board of directors' oversight function and the lack of transparency of the board of directors and audit committee in disclosing information.

Considering the new integrated reporting study is still lessstudy conducted in Asian region, especially in Indonesia, there are still many differences in research results on integrated reporting and typical corporate family companies in Indonesia indicating to have potential to intervene in corporate management and management's policies, therefore, further research is needed to examine the effect of the composition of the independent board of directors, independent audit committee and firm characteristics in form of firm size and profitability on the disclosure of integrated reporting on manufacturing sector companies in Indonesian Stock Exchange. Based on the background described, the researcher conducted a study entitled, "The Effect of the Composition of Independent borad of Directors, Independent Audit Committees, and Frim Characteristics on the Integrated Reporting Disclosure at Manufacturing Sector Companies in Indonesian Stock Exchange"

2. Theoretical Foundations

a. Agency Theory

Agency theory discusses about the relationship between agents (management of a business) and the principal (business owner). In the agency relationship there is a contract whereby one or more principals govern the agent to perform a service on behalf of the principal and authorize the agent to make the best decision for the principal (Jensen and Meckling, 1976). A problem will occur when the principal cannot determine and know what has been done by the agent. This separation of company management and ownership can lead to a conflict of interest between management and owners which creates agency problems.

b. Legitimacy theory

Legitimacy is an acknowledgment of the legality of something. An organization's legitimacy can be said to be a potential benefit or source for the company to survive (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1975; O'Donovan, 2002). Legitimacy theory has a relationship with stakeholder theory. Legitimacy theory states that organizations continually seek ways to ensure their operations within the limits and norms prevailing in society (Deegan, 2002). In the perspective of legitimacy theory, a company will voluntarily report its activities when management considers that is what the community expects.

c. Composition of Independent Board of Directors

According to Hossain & Reaz (2007) states that the composition of an independent board of directors is a comparison between independent directors and the number of directors in the company. The existence of a composition of an independent board of directors within a company is expected to pressure the company to disclose all information voluntarily.

d. Independent Audit Committee

According to (Beasley et al., (2009) states that an independent audit committee is an independent monitoring unit that aims to ascertain the truth of corporate disclosure, based on the agency theory's perspective that an independent audit committee can detect or at least reduce fraud in reporting disclosure (Bronson et al., 2009).

e. Firm Size

Describing the size of a company indicated by total assets, total sales, average total sales and average total assets (Brigham and Houston, 2011).

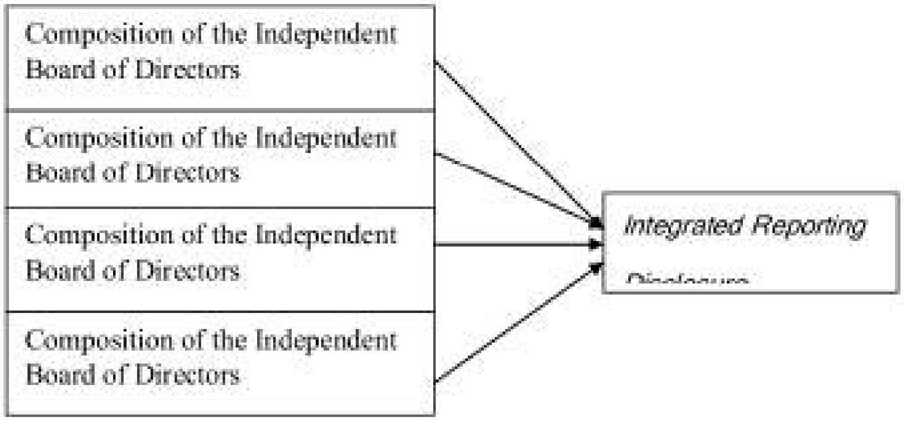
f. Profitability

Profitability is the company's ability to make a profit in relation to sales, total assets and own capital. In this study using the ratio of Return on Assets (ROA) as a proxy of profitability (Kasmir, 2012).

g. Integrated Reporting

Integrated reporting as a concise and integrated information communication process on how strategy, governance and remuneration, performance and prospects of an organization result in value creation in the short term, medium and long term (IIRC, 2013).

In this study there are four hypotheses as follow:



H1: Composition of the Independent Board of Directors influences the Disclosure of Integrated Reporting

H2: The Audit Committee affects the Disclosure of Integrated Reporting

H3: Firm Size affects the Disclosure of Integrated Reporting

H4: Profitability affects the Disclosure of Integrated Reporting

RESEARCH METHODOLOGY

The populations in this study were all manufacturing sector companies in Indonesian Stock Exchange in 2015-2017 total of 150 companies. But in this study the sample selection method usedwas purposive sampling, only the data that matches the existing sample criteria. The criteria are (1) Manufacturing sector companies registeredon the Indonesia Stock Exchange in 2015-2017 (2) Companies that have voluntarily disclosed the integrated reporting in 2015-2017.

Based on the sample selection criteria above, the numbers of samples were51 companies. The type of data needed in this study was secondary data which was analyzing the annual report of non-financial companies registered on the Stock Exchange in 2015-2017. The technique used was Multiple Linear Regression using the Statistical Package Social Sciences program (SPSS).

Operational Definition and Variables Measurement

a. The composition of Independent Board of Directors

The definition of composition of board of directors is a comparison between independent directors and the number of directors in the company (Hossain & Reaz, 2007). The composition of an independent board of directors has a tendency to pressure the company todisclose all information voluntarily (Michelon & Parbonetti, 2012). The measurement of the composition of the independent board of directors in this study refers to (Hossain & Reaz, 2007).

$$\textit{Composition of independent board of directors} = \frac{\textit{independent directors}}{\textit{board of directors}}$$

b. Independent Audit Committee

The audit committee is an independent monitoring unit that aims to ensure the truth of company disclosure (Beasley et al, 2009). Based on the agency theory's point of view, that an independent audit committee can detect or at least reduce fraud in disclosure of reporting (Bronson et al, 2009). The measurement of an independent audit committee refers to (Ahmed Haji & Anifowose, 2016).

$$\textit{The audit committee} = \frac{\textit{independent audit committee}}{\textit{all audit committee}}$$

c. Firm Size

Describing the size of a company indicated by total assets, total sales, average total sales, and average total assets (Brigham and Houston, 2011). This study uses total assets as a description of firm size.

$$\textbf{Firm Size} = \textbf{Ln (Total Asset)}$$

d. Profitability

Profitability ratios are the ability of a company to make a profit in relation to sales, total assets and own capital. In this study uses the ratio of Return on Assets (ROA) as a proxy of profitability (Kasmir, 2012).

$$\textit{Return on Assets}\ \textbf{(ROA)} = \frac{\textit{Net income}}{\textit{Total asset}}$$

e. Integrated Reporting

The integrated reporting framework was introduced by The International Integrated Reporting Council (IIRC) at the G20 meeting in June 2011. Content analysis was used in this study to measure the disclosure of integrated reporting where the use of Content analysis refers to research (Ahmed Haji & Anifowose, 2016) using checklist consisting of 8 (eight) main principles containing 52 question items. These principles can be seen in appendix 3. When information is available given a score of 1 and if not not available given a score of 0. Then to calculate the value of the Integrated Reporting Score (IRSCORE) refers to research conducted by (Lee & Yeo, 2015). The IRSCORE value is calculated based on the actual value of integrated reporting information provided by the company compared to the total value based on the checklist.

h. Method of Data Analysis

Data analysis method used in this study was multiple regression analysis. The initial model of this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_1$$

The test used in this study was a classic assumption test (normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test), multiple regression test and hypothesis test.

4. Results and Discussion

Descriptive statistics are used to provide an overview or description of the data under the research by looking at mean, standard deviation, and maximum-minimum of values.

Table1 Descriptive Statistics

	Minimum	Maximum	Mean
INTEGRATEDREPORTING	.08	.61	.2748
The composition of Independent Board of Directors	.05	.69	.2805
Independent Audit Committee	.07	.70	.2946
FIRMSIZE	3.65	45.58	21.8104

PROFITABILITY	-13.58	26.15	3.7439
Valid N (listwise)			

Source: Data Processing Results

Based on the statistical descriptive results in table 1 shows that the average integrated reporting value is 0.2748 with minimum value of 0.08 and maximum value of 0.61, the average value of the independent board of directors is 0.2805 with minimum value of 0.05 and value maximum 0.69, the average value of the independent audit committee is 0.2946 with minimum value of 0.07 and maximum value of 0.70, the average value of firm size is 21.8104 with minimum value of 0.365 and maximum value of 45.58 and average value profitability of 3.7439 with minimum value of -13.58 and maximum value of 26.15.

CLASSIC ASSUMPTION TEST

result of the multicollinearity

Table 2

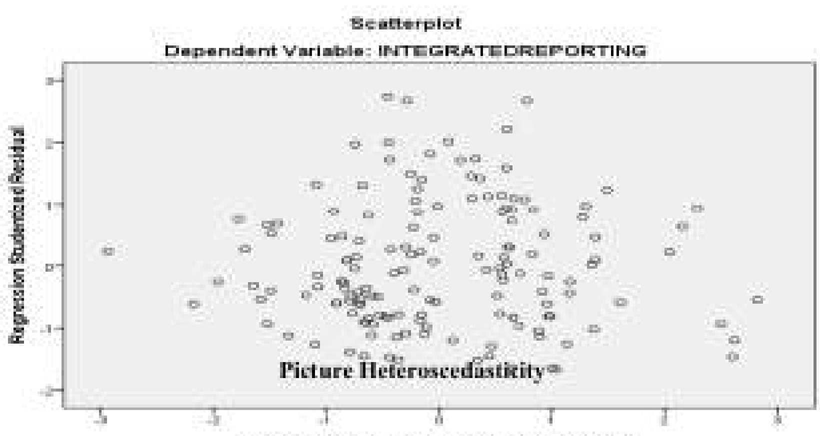
Variabel	VIF
The composition of Independent Board of Directors	1.215
Independent Audit Committee	1.275
FIRM SIZE	1.091
PROFITABILITY	1.040

Source: Data Processing Results

Table 2 above is the result of the multicollinearity test of the regression equation in this study. A regression detected multicollinearity if the VIF value is below 1 in the output coefficients. The VIF values of all variables are above 1, it can be concluded that this regression is free from multicollinearity or can be considered as tolerance value below 0.01.

Heteroscedasticity results

A regression is said to be detected heteroscedasticity when the residual scatter diagram forms a certain pattern. The regression results in Figure 3. below shows that there is no specific pattern shaping the image. Thus, it can be concluded that regression is free from heteroscedastic cases.



Picture Heteroscedastitity

Autocorrelation Results

Table 4

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.447[a]	.199	.178	.11037	1.575

Source: Data Processing Results

A regression detected autocorrelation when the D-W value> dU> dL. Based on the D-W table at p = 0.05, N = 153 and K 2, obtained score 1.17 and dU 1.54 dL. The results of the D-W value in this regression are found in table 4.4 of 1.575. These results indicate that the D-W> dU> dL value, it can be concluded that this regression model is free from autocorrelation.

Statistical Test
Overall Test (Test F)

Table 5

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.449	4	.112	9.214	.000[b]
1	Residual	1.803	148	.012		
	Total	2.252	152			

Source: Data Processing Results

Based on the estimation results of the effect of the composition of the independent board of directors, independent audit committee, firm size, and profitability of integrated reporting disclosures as shown in table 5 it can be seen simultaneouslythat the independent board of directors, independent audit committee, firm size and significant profitability variables affect the integrated reporting. This condition is indicated by the calculated F value of 9.214 which is much higher than the F table for α 5% and dt (4; 148) which is 2.37 or can also be seen from the significant value of α <0.05.

Partial Test (t test)

Table 6

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.183	.032		5.774	.000
	The composition of Independent Board of Directors	-.202	.078	-.210	-2.586	.011
1	Independent Audit Committee	.218	.067	.270	3.256	.001
	FIRMSIZE	.004	.001	.292	3.795	.000
	PROFITABILITY	.001	.001	.033	.435	.664

Source: Data Processing Results

Based on the results in table 6, partially the independent board of directors, independent audit committee, and firm size significantly affect the integrated reporting while profitability does not significantly affect the integrated reporting. The significance of the variables of the independent board of directors, independent audit committee, and firm size is indicated by t score is greater than t table for α 5% which is 1.96. While the insignificance of the effect of profitability on integrated reporting is indicated by t score which is 0.435 smaller than t table of 1.96. The effect of independent board of directors, independent audit committee, and firm size partially significantly affects the disclosure of integrated reporting seen from its significant value <α 0.05, while the effect of partial profitability does not affect the disclosure of integrated reporting seen from its significant value α> 0.05 .

The research regression equation model is as follow:

$$Y = 0{,}183 - 0{,}202X_1 + 0{,}218X_2 + 0{,}004X_3 + 0{,}001X_4$$

Discussion

The Effect of Independent Board of Directors Composition on Integrated Reporting Disclosure

Based on the results of the partial t test, it shows that the composition variable of the independent board of directors in the manufacturing sector companies on the Indonesia Stock Exchange does not significantly affect integrated reporting; the form of the direction of its influence is negative. It is indicated by the t scorehigher than t table for 5% which is 1.96. The results of this study cannot explain the application of agency theory. Negative influence can also be caused by the number of independent directors much less than the number of directors so that the role of independent directors is not significantly affecting. It is indicated by the small number of integrated reporting revealed. In addition, the implementation of integrated reporting by companies on the Indonesia Stock Exchange only began in 2014 so there were still few companies carried out such integrated reporting disclosures. When viewed from the R square value the role of directors and other variables in this study is only 19.9%, while the rest is explained by other variables.

TheEffect of Independent Audit Committee on Disclosure of Integrated Reporting

Based on the test resultsabove, it shows that the independent audit committee variable in the manufacturing sector companies on the Indonesia Stock Exchange significantly affect integrated reporting positively. According to the agency theory, the audit committee function is to monitor whether the company has carried out firm disclosures correctly. An independent audit committee is a very important part of the audit committee. The results of this study indicate that the independence of the audit committee of the manufacturing sector in the Indonesia Stock Exchange is sufficiently maintained or in other words that independent audit committees are not under pressure from parties who do not want the disclosure of integrated reporting.

Indeed, the role of independent audit committees is not too significant in the disclosure of integrated reporting;it is because the number of independent audit committees is less than the number of audit committees. According to Li et al., (2012) states that an independent audit committee improves the quality and credibility of financial and non-financial reporting processes. The results of this study support agency theory which predicts a positive relationship between the audit committee and the implementation of integrated reporting.

The Effect of Firm Size on Integrated ReportingDisclosure

Based on the test results above,it shows that the firm size variable in the manufacturing sector companies in the Indonesia Stock Exchange significantly affects the integrated reporting positively. The results of this study indicate that the manufacturing sector companies in the Indonesia Stock Exchange in conditions of an increase in size are detected from an increase in the total amount of assets from 2015 - 2017. When the firm size of the company grows, then the company will have more wealth and easy access to funding in the capital market so that it can finance for information disclosure.

Another condition that may cause a positive effect on firm size on integrated reporting in manufacturing sector companies on the Indonesia Stock Exchange isthat the company encourages information disclosure. Information disclosure is to reduce agency problems because large companies face higher agency costs associated with high levels of asymmetric information compared to small companies.

The Effect of Profitability on Integrated Reporting Disclosure

Based on the results above,it shows that the profitability variable does not significantly affect the integrated reporting positively. According to signaling theory, profitability will be a positive signal so companies will disclose this information to the public in form of integrated reporting. The results of this study prove that there is no effect of profitability on the disclosure of integrated reporting. This condition indicates that there is a policy in the manufacturing sector companies on the Indonesia Stock Exchange that want to hold profits for funding from internal companies.Companies in Indonesia are mostly typical family firms that prioritize internal funding first, which comes from retained earnings after the new debt and stock issuance. This policy will encourage companies not to issue funding derived from profitability for the sake of integrated reporting disclosures so that the level of profitability does not have an effect on integrated reporting manufacturing sector companies on the Indonesia Stock Exchange.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results of the analysis shows that the audit committee and firm size affect the company's integrated reporting, while the composition of the independent board of directors and profitability does not affect the company's integrated reporting

Recommendation

It is recommended that the company management is expected to realize to increase the number of members of the independent board of directors and the independent audit committee and not to intervene with the management so that it is expected to give the role of independent directors to increase in the integrated reportingdisclosure. And further recommendation for companies should set aside profits from the company in an effort to disclose greater integrated reporting.

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