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Integrated Reporting Elements Analysis of Mining and Manufacture Companies in Indonesia

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Abstract

This research aims to analyze the implementation of integrated reporting elements by mining and manufacture companies in Indonesia. The analysis consists of scoring the number of the Integrated Reporting (IR) element conducted by mining and manufacture companies listed on the Indonesia Stock Exchange. Research data was taken from Companies' Annual Report, sustainability report and other information published on IDX. This research analyzes the main eight indicator of Integrated Reporting. A purposive sampling method is used in this research to determine the research sample. Analytical technique used in this research is descriptive statistical analysis. Research finding shows that 68.3% of companies have implemented eight IR elements. Among those companies, only ten companies enumerated in Integrated Sustainability Reporting Award. The transformation report policy suggested by OJK in integrating Sustainability Reporting, Corporate Social Responsibility and Annual Report into an Integrated Report motivates manufacture and mining companies to present their performance information corresponding to International Integrated Reporting Framework.

Keywords: Integrated Reporting Framework, IR Elements, ISRA, Legitimacy, Mining, Manufacture.

1. Introduction

Each company runs their business to achieve their goal with perfect strategic planning. In shaping their long-term goal, the company should consider all aspects, not only gaining profit-oriented but also the sustainability of the environment. Mining and manufacture company are the company which runs its business in exploiting the environment and sustainability of the earth. Mining company gains the advantage of the resource provided by the earth while manufacture company has its final plant waste. Their business takes along with the environment. Within this condition, mining and manufacture companies have to consider their action in saving the earth and environment sustainable for the future generation.

In order to show their responsibility to the environment, company should provide information for the public. Stakeholders need information in making decisions. Financial reports is a form in delivering information of company's financial and non-financial routine (Kustiani, 2016). A complete Financial Statement expected to convenience the stakeholder in gaining valid data regarding the performance of the companies. In the other hand, non-financial information become an important information. Integrated Reporting is an evolution of business report which combine the financial and non-financial reporting. The evolution initiates by Financial Report, Management Report, Corporate Social Responsibility Report, Green Reporting, Sustainability Report and the latest is Integrated Reporting.

International Integrated Reporting Council (IIRC) proposed a framework called Integrated Reporting which combine financial report and non-financial report to highlight the business performance. Farrar (2011) defined Integrated Reporting as a combination of human/person, wealth, natural resources, intellectual resources, intentional objectives, transparency, integrated system technology and innovation. Integrated Reporting can be a management tool to reflect and communicate any organization strategies, good governance, and forecasts of social environment, reaching the short, medium and long-term strategy assessment (IIRC, 2013), (Sofian & Dumitru, 2017).

The implementation of Integrated Reporting depends on the readiness of a country in adjusting the new form of reporting. The Financial Services Authority (Otoritas Jasa Keuangan) Indonesia concern about the agenda of global financial changes and statements for the development of sustainable goals. OJK gives awareness of the Environment, Social and Government (ESG) to achieve financial system stability by compiling integrated financial reporting (OJK, 2018). Sustainability Reporting (SR) is still used in Indonesia. This kind of reporting was based on Global Reporting Initiative Standard which been accomplished by National Center for Sustainability Reporting. Otherwise, on July 2019, Otoritas Jasa Keuangan (OJK) released a policy in term of shifting the way of business presenting their performance statement in order to conduct an integrated reporting. this regulation called by Rancangan Peraturan Otoritas Jasa Keuangan (RPOJK).

The urgency of non-financial statement such as sustainability report, corporate social responsibility report and integrated report motivate this research to analyze the implementation of integrated reporting elements by the mining and manufacture company. The transformation of Sustainability report or Corporate Social Responsibility and financial statement into an Integrated Reporting, Sustainability Reporting to Integrated Reporting trigger every business to straightway present a report according to Integrated Reporting guidelines. This research emphasis the grade of IR elements implementation.

2. Literature Review

Legitimacy Theory

Legitimacy theory was taken from the ideas of organizational legitimacy, defined well by (Dowling & Pfeffer, 1975) as:

“... a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.”

In brief, legitimacy is a theory that describe all organization action are appropriate, suitable, in social structure, norm, morals, beliefs and characterizations (Suchman, 1995). Legitimacy Theory plays a role in enlightening the behavior of organizations to fulfill their social responsibility that supports the recognition of their company's objective and survival by

implementing and developing voluntary social contract and environmental disclosure. Social responsibility action should follow the expectation of society. In terms of maintaining the business, it cannot be neglected that the company should align its business goal with the social contract to gain a great steadiness. A company should have a good ethic and legitimacy in maintaining business and social relationships.

Triple bottom line

Sustainability report is arranged according to the concept theory of Triple Bottom Line. It's a mixture of financial statement, social environment and other characteristics. Sustainability Report provide any main business' information which is not presented in financial report. This report enhances the understanding of users in terms of resources, capital, risk ad opportunities, governance, and ability to innovate.

The Triple Bottom Line concept demonstrate not only about the Profit gained by the company but also explain the People, and the Planet being exploited. Those three concepts are the main pillars which integrated financial, social and environment (Elkington, 1998). Triple Bottom Line theory has been used by business organization as an activity model of company social responsibility implementation. Triple Bottom Line Theory ensure that environment and society must be included in company's long-term strategy.

Triple Bottom Line Concepts consist of three main pillars (Elkington, 1998);

- a. Planet. It describes that company should give a responsiveness to the social environment condition. Such as the exploration of natural resources that are increasingly scarce and cannot be renewed, company should manage the waste production then recycled it to become an environmentally friendly product.
- b. Profit, focused on efforts to create fair trade, ethical trade, and ethical business practices. Company gain advantages get along with their awareness action to protect the sustainability of social and environmental. This effort will engage a very high cost in the beginning.
- c. People. The company must support the labor force interests, include guarding them from various possibilities risk and give best treatment by giving relevance wage, improving quality, education and health program.

Integrated Reporting

The enlargement of reporting start from Financial Reporting done by the company in presenting their current business condition. Moreover, the public eager to gain more complete information provided by the company. Stakeholder needs to get more understanding of the company's performance in term of financial and social awareness. Formerly, business starts to provide another form of reporting called by Management Reporting. However, the company's commitment and environmental stewardship activities are not bounded in the Management Reporting. Reporting transformation jump into Green Reporting. Unfortunately, Green Reporting presentation is still separated and has not published consistently. This circumstance triggers the improvement of the Good Corporate Social Responsibility Report. Sustainability Report obliges an enhanced method in providing more wide-ranging information and integrated reporting. It is an integration of financial report and sustainability report become an integrated reporting.

The changes and adoption of Integrated Reporting encounter the traditional report to give a transparent statement and strategic value creation for stakeholder and societies. IIRC (2013), stated that Integrated Report is a brief description of organization activities performance dealing with strategies, future aspect and social environment value creation. Integrated Reporting aims to give acquaintance of social environment which give impact to business, sources ad its

correlation. This report shows the organization ways in coordinating all environmental aspect with society to create a sustainable value.

International Integrated Reporting Council provides guideline principles in disclosing company information through Integrated Reporting. The Integrated Reporting principles are as follows (IIRC, 2013):

- a. Strategic focus and future orientation. IR must provide a deep understanding of the organization's strategy, and business's capability in creating organization's value.
- b. Stakeholder Association. IR must explain the understanding of organizational relationship with the stakeholders.
- c. Information Connectivity. IR has to describe an overall depiction of mixture and interrelationships which affect to the value creation.
- d. Materiality. IR have to describe the materiality information in business activities.
- e. Concise. IR must be brief without reducing any necessary information elements.
- f. Reliability and completeness. IR must provide reliable and complete information, without any material errors.
- g. Consistency. IR must consistent in presenting their information.

Some of organization ty to combine their integrated reporting and vigorous thinking in a systematic and transparent report. It recommends that an integrated reporting of any organization could give a good development changing in the social environment (Camilleri, 2018). In decades, Business began started to unite financial performance, social responsibility and environmental indicator which were guided by Global Reporting Index. The company's relationship with the external environment framework has been changing. Currently, ESG disclosure is a form of present company strategic company's positioning rather than their compliance as seeking external legitimation to the public (Beck, Dumay, & Frost, 2015). Camodeca (2017) find that the change experienced by the selected companies was related to the aspects of company's capital, connectivity, improvement of social responsibility disclosure, analyzing company materiality, their effort in handling the critics (Camodeca, 2017).

3. Methods

The research population is mining and manufacture company listed on IDX which publish their Annual Report and other information in 2018. This research uses purposive sampling technique in determine the research's samples. This research uses secondary data (published annual report) taken from www.idx.co.id. There are eight indicators used in this research which are the element of integrated Reporting based on the International Integrated Reporting Council (IIRC, 2013);

1. Good Corporate Governance.
The company should describe on how the good corporate governance exist and support in creating the short-term, medium and long-term value
2. Organizational Overview and External Environment.
The company should exemplify their activities as well as their action to the social environment.
3. Business Model.
The company should figure out their business model.
4. Strategy and Resource Allocation.
The company should determine the company's goal and their approach to achieve it.
5. Risk and Opportunities.
The company should explain their risk and opportunities which can give an impact to their performance

6. Performance.
The company should demonstrate the company performance and position in achieving their strategic goals.
7. Base of Presentation.
The company should describe the method, valuation and evaluation of any information presented in Integrated Reporting. Performance.
8. Outlook.
The company should illustrate the potential uncertainty challenged by the organization in running their business in the future.

These variables are dummy variable. It was calculated by giving score to the availability of element Integrated Reporting in the company's Annual Report. The valuation of the dummy variables will be scored one if the company implement of IR element. Then, it will be scored by zero (0) if the company did not present the element of Integrated Reporting. The cumulative score of each company will determine level of IR elements' implementation in their report.

The research method uses in this research are statistic descriptive and frequency analysis. This research will describe the average, minimum, maximum and standard deviation value to show the proper of data distribution. Furthermore, this research also analyzes the frequency of company which implement the IR elements in their Annual Report.

4. Results and Discussion

Descriptive Analysis

This research uses 202 samples taken from the Company's Annual Report 2018. Examining the result of the implementation of Integrated Reporting (IR) can be shown in Table 1 below. The minimum value of IR is 6 (six). It shows the companies already implement six elements of Integrated Reporting in their Annual Report. While the maximum value is 8 (eight). It means that the company has applied eight elements of integrated reporting in their Annual report. This finding shows that implementation of IR element done by the companies voluntarily before the shifting plan proposed by OJK released. The manufacture and mining company has already present their Annual Report according to IIRC Framework.

The mining and manufacture companies in this research implement IR element for 7.64 in average. It can describe the positive action of the average company run their business not only for gaining profit but also giving reward to the social environment and then present their action in the Annual Report. The variance value is 0.310. It is a good sign that this research has small value of variance. The smaller the value of variance the closer the data distribution to the average which means the more valid the model used. While the standard deviation is 0.557. It shows that the deviation of data distribution at 0.557 which means a lower deviation to the average value of this research's data. This finding analysis indicate the level of readiness mining and manufacturing company in implementing almost all the element of Integrated Reporting.

The high average value of the IR element implementation confirms a good sign that the company in this sample is ready to face the transformation policy. Their effort in presenting Annual Report based on the guideline of International Integrated Reporting Framework before the policy release must be appreciated. This can be seen as their social responsibility to the social environment as well as the stakeholder.

Table 1. Descriptive Analysis

	Min	Max	Mean	Std Dev.	Variance
IR ELEMENT	6	8	7.64	0.557	0.310

Sources: Data Processed 2020

Frequency Analysis

This research finds that there are 68.3% of mining and manufacture companies have present eight indicator of Integrated Reporting elements. This result shows that more than 50% of the samples have presented their reporting based on the IIRC standard voluntarily. This finding show that mining and manufacture companies already present their Annual report by integrating their financial performance as well as non-financial statement into one document called Integrated Reporting. describing the eight elements in their report is the way to provide complete and concise information for the stakeholder. There are 10 (ten) companies that are listed in the International Sustainability Reporting Award which are PT Semen Indonesia Tbk., PT Unilever Tbk., PT Bumi Resources Tbk., PT Indocement Tuggal Persada Tbk., PT Antam Tbk., PT, Timah Tbk., PT Bukit Asam Tbk., PT Indo Tambangraya Megah Tbk., PT Medco Energi International Tbk., and PT Vale Indonesia Tbk. Those companies regularly present their Annual Report include the assessment of Integrated Reporting elements.

Table 2. Frequency Analysis

IR Element Implemented	Frequency	Percent
6	8	4.0
7	56	27.7
8	138	68.3
Total	202	100.0

Sources: Data Processed 2020

Meanwhile, there is only 4% of the sample which implements six elements of IR. Therefore, there is only eight company which still applied six elements of Integrated Reporting. Those are PT Tempo Scan Pacific Tbk., PT TRI Banyan Tirta Tbk., PT Yanaprima Hastapersada Tbk., PT Jembo Cable Company, PT Ever Shine Tex Tbk., PT Perdana Kaya Perkasa Tbk., PT Pania Indo Resources Tbk., and PT Capitalinc Investment Tbk. This result indicate that the companies have tried to implement several elements of Integrated Reporting. This effort is reflection of their responsibility to the social environment as well as to the stakeholders in term of giving valid information of business performance.

5. Conclusion

Mining and Manufacture Companies listed in IDX are already apply the policy changing of integrated the annual report. Those companies already exposed element of integrated reporting in their annual report. This research shows that more than 68% of mining and manufacture companies have applied eight integrated reporting elements. Some of the are nominee of International Sustainability Reporting Award. It indicates the implementation of IR elements in mining and manufacture companies is running well voluntarily before the policy released.

Implication of this research is that the company has the integrity to align their business with the sustainability environment. Mining and manufacture companies have high awareness of reporting their support system of a sustainable business. They revealed an action in

presenting elements of integrated reporting voluntarily before the mandatory policy exist for them.

ACKNOWLEDGEMENT

Authors wish to thank to LPPM Universitas Pembangunan Nasional "Veteran" Yogyakarta who fund this research.

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