Forward-Looking Information Based on Integrated Reporting Perspective: Value Relevance Study in Indonesia Stock Exchanges

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Original Research Article

ABSTRACT

The International Integrated Reporting Council (IIRC) in 2013 has formulated the Integrated Report Framework. Integrated reporting provides forward-looking information related to the company's holistic picture, future targets and the relationship between financial performance and non-financial performance. Indonesia does not require companies to report integrated reporting, but many voluntary ones have provided partial disclosures about aspects that are regulated in the integrated report framework. This study aims to provide empirical evidence about the effect of forward-looking disclosure on firm value. The research population is a manufacturing company on the Indonesia Stock Exchange for the 2015 and 2016 annual reports. The sample is selected based on the availability of annual reports accessed through the company's web and the Indonesia Stock Exchange. The population is 144 manufacturing, and sample companies were 70 which was collected for two years, so there were 140 firms years. The forward-looking measurement is based on the disclosure index. GCG variables are used as control variables because empirically GCG can affect the value of the company. The results of the study showed that forward-looking disclosure has a significant effect on the value of the company and can explain the 20.9% variation in the value of the company.

Keywords: Firms value; forward-looking; disclosures; good corporate governance; Indonesia.

1. INTRODUCTION

Rapidly evolving information technology has had an impact on increasingly diverse information needs for economic decision making. Decision makers (investors and creditors) have long relied on historical earnings and cash flow information to predict the future value of the company. This approach does not provide an opportunity to obtain significant abnormal returns. (look for empirical references)

Accounting produces historical financial statements about the company's performance that have been achieved by management. In a rapidly changing economic condition due to the effects of globalisation, past performance cannot be used as a predictor of future performance. Decision makers need additional information that can be used to better predict future performance. Information that can provide future orientation is forward-looking information can come from various sources.

Empirically, some researchers have proven that disclosures in annual reports conducted by management were responded by investors [1,2,3,4]. However, studies on disclosure by

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management remain interesting to do because of different types of disclosures (mandatory and voluntary). Factors that triggered management to provide voluntary disclosures were company size, management performance, analyst following, share issuance, institutional ownership, and others [5,6]. Management who want to provide private information when the information is not yet an obligation (mandatory) or when other parties do not want to disclose it will have an impact on the proper corporate image and subsequently have an impact on reducing the cost of equity [7].

[8] Conducted a study of forward-looking information in the form of profit and sales projections expressed in the annual report. Companies that have better earnings quality (earnings persistent) tend to provide more forward-looking information. Investors give positive and significant responses to forward-looking earnings and sales information. Forward and looking earnings and sales disclosures, in this case, are voluntary disclosures.

Companies that conduct an initial public offering must present mandatory disclosures and also voluntary disclosures in the prospectus. How much voluntary disclosure is presented in the prospectus depends on management policy. Companies that conducted IPOs in Italy which provide more forward-looking voluntary disclosures had experience lower underpricing [9]. Forward-looking information can also be used as a reference to make the optimal portfolio. In general, the stock portfolio is formed based on historical data [10] If the portfolio was formed based on historical stock data, it does not provide optimal returns. A better way is to create a portfolio based on the forward-looking information [11].

The International Integrated Reporting Council (IIRC) in 2013 has formulated the Integrated Report Framework. Integrated reporting shows a holistic picture of the company about future targets and the relationship between financial performance and non-financial performance [12]. Thus, integrated reports provide future information to stakeholders. Forward-looking information revealed in integrated reporting consists of 6 elements, namely: (1) *Organizational overview and external environment;(2) Governance;(3) Business model;* (4) *Risks and opportunities; (5) Strategy and resource allocation and (6) Performance.*

In Indonesia, the implementation of integrated reporting is still voluntary and has not been regulated explicitly by the accounting standard board (regulator). Some companies present separate sustainability reports from annual reports, and many still incorporate various information in an annual report.

This study aims to examine whether companies who do voluntary disclosures related to forward-looking information based on the integrated reporting perspective has value relevance. Besides that, it also provides empirical evidence that the forward-looking information presented in the annual report is needed by stakeholders so and regulators can use it as a basis for policy to change from voluntary to mandatory disclosures.

Referring to the purpose of this study is to examine the effect of forward-looking information on the value of the company, the research hypothesis is as follows:

H0: Disclosure forward-looking information that refers to the integrated reporting perspective does not affect the value of the company

H1: Disclosure Forward-looking information that refers to the integrated reporting perspective has a positive effect on the value of the company

2. LITERATURE REVIEW AND THEORY

2.1 Signalling Theory and Forward-Looking Information

Signalling theory explains how signals of success or failure of management (agent) are conveyed to the owner (principal). Signalling theory indicates that a company will try to show a signal in the form of positive information to potential investors through disclosures in financial statements [13]. Information published in annual reports can be grouped into two categories: "backward-looking information" and "forward-looking information. Forward-looking disclosure is a set of information that refers to the current year plan and future forecasting that can be used by investors and other information users to assess the future financial performance of a company [14]. Future information disclosure is a disclosure that is not required by regulation but depends on the manager's policy (voluntary disclosure).

Future information can be quantitative, qualitative, financial, and non-financial. The financial forecast includes next year's income, expected income, and anticipated cash flow.

Whereas those included in non-financial information include information about risks and uncertainties that can significantly affect actual results and cause differences with previous projections [14]. The business reporting elements related to forward-looking information are as follows: (1) Opportunities and risks, including those resulting from important trends; (2) The management plan, including critical success factors and (3) Comparison of actual business performance with opportunities, risks, and management plans revealed earlier. A study in Canadian companies related to the publication of the chairmen's statements in Management Discussion and Analysis (MDA) reveal that 19.2% is forward-looking information and contain 97.5% is good news. Thus, management tends to provide more positive forward looking information[15].

2.2 Integrated Reporting

In August 2010 the concept of Integrated Reporting (IR) was introduced by the International Integrated Reporting Committee (IIRC) which consisted of various community groups, professions, and business institutions, regulators, non-governmental organisations. The mission of IIRC is to build an acceptable and globally integrated reporting framework which is presented together with financial, environmental, social and governance information in a clear, concise, consistent and comparable format. Integrated reporting is strongly supported by stakeholders to be implemented because they contain information related to financial capital, intellectual capital, social capital, and environmental capital [16].

There are three benefits that can be identified in implementing integrated reporting, namely (1) for internal parties can be used to make optimal allocation of company resources; establish better communication with stakeholders and raise reputation [17]; (2) for the market or external who want sustainability index information and ensure that vendors report accurate non-financial information; (3) used as a means of managing risks prepared for possible waves of global regulation, responding to requests from the stock exchange and other parties.

On the other hand, there is still a perception that the current annual report is considered sufficient because the information in the annual report is comparable and reliable, while sustainability reporting is still in its early stages [18]. Some support voluntary approaches for implementing integrated reporting because the majority of participants thought that it was too early for regulatory reform. Integrated reporting will become the reporting norm over time if market forces companies are adopting integrated reporting practices. There is no doubt that integrated reporting is an essential tool for business organisations [19,20,21]. The benefits of adopting internal reporting are very clear that companies can provide all reports and benefit from it by increasing internal business [22,16]. Integrated reporting provides a comprehensive picture of the company regarding future targets and the relationship between financial performance and reporting on corporate social and environmental responsibilities. Integrated reporting also help improve business strategies and models with integrated thought processes and decision support [23].

2.3 The value of the company

Firm value is defined as the stock market value because the value of a company can provide maximum shareholder prosperity if the company's stock price increases [24]. The higher the stock price, the higher the value of the company. Measuring company value according to [25] can use 3 approaches, namely, (1) Price Earnings Ratio; (2) Price to Book Value and (3) Tobin's Q. Tobin's Q approach is considered more comprehensive because it is the ratio of the market value of the company's stock to the book value of the company entity. The following formula:

$$Q = \frac{(EMV + D)}{(EBV + D)}$$

Q = value of the company
D = total Amount of debt
EMV= equity market value
EBV = book value of total assets

Tobins' Q ratio is a ratio that explains the value of a company in the market, the market value of a company should be the same as the cost of changing its assets. If the value of Tobin's Q is more than one company, it means that the company's market value is greater than the assets of the listed company. The market will appreciate companies that have high Tobin's Q value. Conversely, if the Tobin "s Q value is less than one, it indicates that the cost of changing assets is higher than the market value of the company. It means that the company performance is relatively low.

2.4 Relationships Forward Looking Information and Firm Value

A study of forward-looking information in the form of profit and sales projections expressed in the annual report showed that investors give positive and significant responses to forward-looking earnings and sales information [10]. The other study gives empirical evidence that IPO companies that provide more forward-looking voluntary disclosures will experience lower underpricing. Low underpricing means that the company has a relatively high share value. Conversely, if the forward-looking information is related to many business risks, the underlying gets higher, or the stock price becomes cheap [9].

There are several researchers who had researched forward-looking information, good corporate governance on company value. According to [26] good corporate governance has a positive and significant impact on the precision of sales forecasting choices. Companies with good corporate governance are more likely to disclose sales forecasts more precisely than providing qualitative discussions about the company's sales trends. Companies that are well managed are found to be more likely to provide appropriate non-financial information.

It was believed that integrated reporting is a form of integration of ethical aspects in the core business of the company. There was a study to find out whether integrated reporting which is an integration of environmental, social and governance (ESG) reports has an impact on external performance [27]. The analysis was done by comparing companies that have implemented integrated reporting with: (a) companies that have no ESG reporting and (b) companies whose ESG reporting is presented in the annual report. The result shows that companies that have implemented integrated reporting have superior return on asset (ROA) performance compared to companies that do not make ESG reports. If the application of integrated reporting has an impact on improving performance, investors will respond to the information presented in integrated reporting and subsequently have an impact on the value of the company.

The reason for supporting integrated reporting adoption for business are: (1) integrated reporting is a tool that integrates all business processes comprehensively; (2) increase the reputation of the company; and (3) is a medium of communication and negotiation with stakeholders so as to reduce the cost of equity which has an impact on the increase in the value of the company [22,16].

3. METHODOLOGY AND MODEL SPECIFICATION

The population is a manufacturing company listed on the Indonesia Stock Exchange. Samples were selected for the 2015 and 2016 reporting periods and have complete annual report data for both periods. Reasons for using 2015 and 2016 data due to Financial Services Authority regulation No. 8 / POJK.04 / 2015 which regulates the disclosure of annual report and should be start implemented for the annual report in 2015.

The dependent variable is the value of the company that is proxy by Tobin's Q [28]. Tobin's Q is calculated by comparing the ratio of the market value of a company's stock to the book value of total assets. The formula is as follows:

$$Q = \frac{(EMV + D)}{(EBV + D)}$$

Q = company value
D = total Amount of debt
EMV= equity market value
EBV= book value of total assets

EMV is obtained from the multiplication of the number of shares outstanding with the share closing price in April. April closing price is used because annual reports in Indonesia should be published within 90 days after the end of the financial year. If the financial year ends December, the annual report must have been published in March. Therefore, investors will respond to the publication of the annual report in April.

The independent variable is forward-looking information that refers to the perspective of disclosure in integrated reporting. According to IIRC, 2013, there were six categories (perspectives) which broke down into 27 disclosure items as presented in Table 1. The forward-looking score measurement was based on the disclosure index.

Control variables are the implementation of corporate governance that can be seen from the structure, ownership and governance activities.

The use of GCG as a variable control is based on the consideration that Indonesia has not implemented integrated reporting so that aspects of governance are still presented in the annual report. Some previous studies provide evidence that GCG can affect the company's performance and also the value of the company [4,3,29,30,31,32]. The implementation of GCG is proxied by four variables, namely: (1) Institutional Ownership; (2) Frequency of board meeting meetings; (3) the size of the audit committee; and (4) educational background of the commissioner.

Table 1. Disclosure Topic in Integrated Reporting Perspectives Based on IIRC 2013

Categories	Topics of Informations
I. Organisational Overview and External Environment (ORG)	1. The organisation's culture, ethics, and values 2. The organisation's ownership and operating structure 3. The organisation's principal activities and markets 4. The organisation's competitive landscape and market positioning 5. The organisation's position within the value chain 6. Significant factors affecting the external environment and the organisation's response
II. Governance (GOV)	7. The organisation's leadership structure including the skills and diversity 8. Specific processes used to make strategic decisions and to establish and monitor the culture of the organisation 9. Particular actions charged with governance to influence and monitor the strategic direction of the organisation and its approach to risk management 10. The relationship between culture, ethics, and value with key stakeholders and capital 11. Remuneration and incentives
III. Business Model (BUS)	12. Key inputs 13. Key business activities 14. Key outputs 15. Key outcomes
IV. Risks and Opportunities (RISK)	16. Specific external source of risks and opportunities 17. Specific internal source of risks and opportunities 18. The organisation's assessment of the likelihood that risk or opportunity will come to fruition moreover, the magnitude of its effect if it does 19. The specific steps being taken to mitigate or manage key risks or to create value from the key opportunities
V. Strategy and Resource Allocation (STR)	20. The organisation's short, medium and long-term strategic objectives 21. The strategies to achieve strategic objectives 22. The resource allocation plans to implement the strategy 23. The linkage between the organisation's strategy and resource allocation plans 24. What differentiates the organisation to give it a competitive advantage and enable it to create value
VI. Performance (PERF)	25. The organisation's effects on the capitals 26. The state of key stakeholder relationship and how the organisation responds to key stakeholder's legitimate needs and interests 27. The linkage between current performance and the organisation's outlook

Table 2. Measurement of variables

Variables	Proxy	Measurement
Dependent Firm Value	Tobin's Q	$Q = \frac{(EMV + D)}{(EBV + D)}$
Independent Forward-looking	Disclosure forward looking	Index disclosures
Control Variable Good Corporate Governance	Institutional Ownership	The ratio between the number of share ownership owned by the institution with the number of shares outstanding
	The frequency of Meetings the Board of Commissioners	The number frequency attendance of meeting in one year
	Audit Committee	Number of audit committees in a company's annual report
	Education background	Percentage of the board of commissioner had business/ economic education background

The analysis method for testing hypotheses was multiple regression model as follows:

Tobin's Q = α + β1 KEP_INST + β2 FREK_RAPAT + β3PROP_KOM + β4 KOMITE_AUDIT + β5 FORWARD + e

Tobin's Q = The value of the company
KEP_INST = Institutional Ownership
FREK_RAPAT = Frequency of Board of Commissioners Meetings
EDUC = Background of the Board of Commissioners
KOMITE_AUDIT = Size of the Audit Committee
FORWARD = Forward-Looking Information Disclosure

4. RESULTS AND DISCUSSION

The population of manufacturing companies is 144 companies consisting of 19 sub-sectors. The number of samples based on the availability of financial statements is 70 companies or 48.61% of the population. The period of the financial statements for 2015 and 2016 so that the number of samples is 140 firm's years. An overview of the number of samples for each sector and sub-sector is presented in Table 3. The largest samples came from basic and chemical industries (28 companies), then the goods and consumption industry (27 companies), the rest came from various industries (15 companies). There are three sub-sectors with incomplete financial statement data.

Based on Table 4 reveal that forwarding-looking information disclosures referred to 2013 IIRC framework is still very low. The average number of disclosure items during 2015 and 2016 are 13 item from 27 item that should be disclosures. The low level of integrated reporting disclosure was due to being voluntary. Only companies who had high attention to the issue of integrated reporting consistently presented disclosures. Disclosures related to environmental issues are the most widely implemented.

Table 3. List of Populations and samples

No	Sector	Total population	Sample	Population
Chemical Base Industry		**28**		
1	Cement Sub-Sector	6	5	83.33%
2	Ceramic, Porcelain and Glass Sub-Sector	6	3	50%
3	Metal and the like	16	6	37.50%
4	Chemical Sub-Sector	10	4	40%
5	Plastic and Packaging Sub-Sector	13	6	46.15%
6	Animal Feed Sub-Sector	4	2	50%
7	Wood and Processing Sub-Sector	2	0	0%
8	Pulp and Paper Sub-Sector	9	2	22.22%
Various Industries		**15**		

9	Machinery and Heavy Equipment Sub	2	0	0%
10	Automotive and Component Sub	13	5	38.46%
11	Textile and Garment Sub	17	4	23.53%
12	Footwear Sub	2	1	50%
13	Cable Sub	6	5	83.33%
14	Electronic Sub	1	0	0%
Consumer Goods Industry		**27**		
15	Food and Beverage Sub	14	11	78.57%
16	Cigarette Sub	4	3	75%
17	Pharmaceutical Sub	10	7	70%
18	Cosmetic and Household Goods Sub	6	4	66.67%
19	Home Appliances Sub	3	2	66.67%
Total		**144**	**70**	**48.61%**

Table 4. Forward Looking Information in 2015 and 2016

Information on the Web	Mean item disclosure 2015		Mean item disclosure 2016	
Organizational Overview and External Environment (ORG) [6 item]	3.39	56.5%	3.40	56.6%
Governance (GOV) [5 item]	2.71	54.2%	2.81	56.2%
Business Model (BUS) [4 item]	2.17	54%	2.17	54%
Risks and Opportunities (RISK) [4 item]	1.73	43%	1.81	45,2%
Strategy and Resource Alloc (STR) [5 item]	2.57	51.4%	2.57	51.4%
Performance (PERF) [3 item]	0.47	15,6%	0.50	16.6%
Average index score	13.04	48,3%	13,26	49,1%

Disclosures related to the governance are also still low at around 54.2%. The lowest disclosure is performance. This disclosure is more comprehensive because it involves operational effects on past and future performance. Table 5 presents descriptive variables. The average level of forward-looking disclosure is 48.76%. The average institutional ownership was 67.86% and the frequency of meetings in a year was 3.84. There is a company whose meeting frequency is 9.84. This indicates that there is strong coordination of the overall operational activities of the company. The educational background of the board of commissioners minimum is 0%, means that all the board of commissioner had non-business education, maximum 100% means that all the board of commissioner had a business education background. Mean score for education background is 46.77%, this means that the educational background of the board of commissioners varies. The average number of audit committees is 4.27, and the highest number of audit committees are 12 people.

4.1 Test of Multiple Regression models

The requirement of the regression model to be unbiased are a normal distribution, autocorrelation, multicollinearity, and heteroscedasticity. The result of the regression test assumption was presented in Table 6, Table 7, Table 8, Graph 1.

Based on the data in Table 6, it can be seen that the Kolmogorov-Smirnov Z value is 0.612 and have a probability of 0.200 ≥ 0.05, which means that the residual data is normally distributed.

According to Table, the D-W value obtained from the regression model is 1.897. This value will be compared with the table value using a significance value of 5%, the number of samples

Table 5. Descriptive independent variables and controls

Variable	*Min*	*Max*	*Mean*	*Standard Deviation*
Forward Looking	22,22	85,19	48,76	14,93
Institutional	1,96	99,42	67,85	19,83
Meeting	1,20	9,84	3,84	1,63
Education	0.00	100	46.77	23.09
Audit Committee	2,00	12,00	4,27	1,90

Table 6. Normality test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		140
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.66786856
Most Extreme Differences	Absolute	.062
	Positive	.062
	Negative	-.044
Test Statistic		.062
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Table 7. Autocorrelation test

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. The error of the Estimate**	**Durbin-Watson**
1	.581[a]	.338	.308	.65828	1.897

a. Predictors: (Constant), Comm Independent, Commissioner, institutional, Education, Forward looking, Meeting
b. Dependent Variable: Firm Value

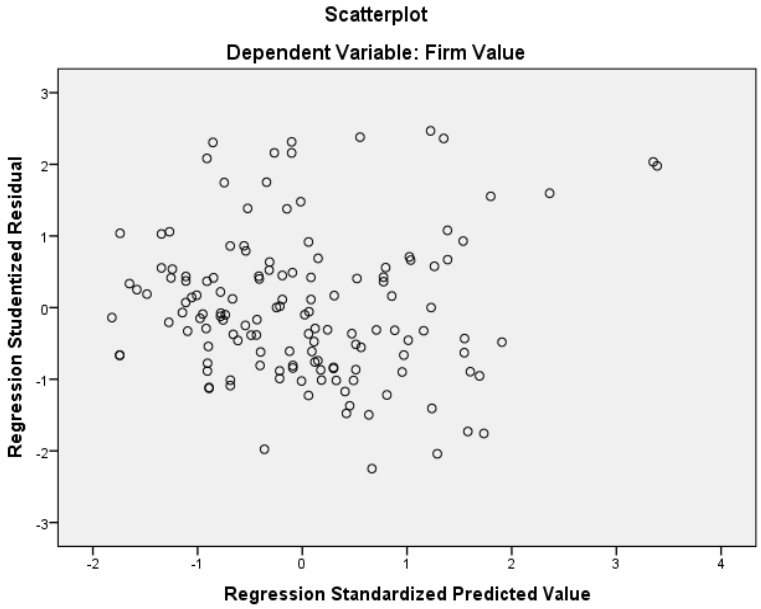
140 (n) and the number of independent variables 6 (k = 6). Then in the Durbin Watson table, the lower limit value (dl) is 1.636 with the upper limit (du) of 1.814. Durbin Watson statistical test results obtained were 1.897 in the area du <dw <4-du (1,814 <1,897 <2,186) or in the area without autocorrelation. Then it can be concluded that there is no autocorrelation in the regression model used.

Table 8. Coefficients Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	**VIF**
Institusional	0.964	1.037
Meeting	0.153	6.520
Education	0.941	1.063
Forward looking	0.614	1.628
Commissioner	0.174	4.747
Committee Independent	0.923	1.084

The calculation results in Table 8 show that no independent variable has a tolerance value of less than 0.10 which means there is no correlation between independent variables whose values are more than 95%. The results of the calculation of the value of the Variance Inflation Factor (VIF) also shows the same thing no one independent variable has a VIF value of more than 10 [33]. So, it can be concluded that there is no multicollinearity between independent variables in the regression model.

Based on the scatterplots (Graph 1) chart above, it can be seen that the points spread randomly and spread both above and below 0 on the Y-axis. It can be concluded that there is no heteroscedasticity in the regression model so that the regression model is feasible to predict firm value based on input from the variable independent and control.



Graph 1. Heteroscedasticity Test

Table 9. The goodness of Fit, R square

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	29.366	6	4.894	11.295	.000[b]
	Residual	57.633	133	.433		
	Total	87.000	139			

a. Dependent Variable: Firm Value

b. Predictors: (Constant), Comm Independent, Commissioner, institutional, Education, forward looking, Meeting

Table 10. Test of coefficient regression

Independent variable	t table	Sig
Forward Looking	4.822	0.000
Education	3.008	0.003
Commissioner Independent	2.690	0.008
Commissioner	2.569	0.011
Meeting	-2.336	0.021
Institutional	1.490	0.139

Table 11 .Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.463[a]	.214	.209	.70378
2	.503[b]	.253	.242	.68859
3	.536[c]	.287	.272	.67519

a. Predictors: (Constant), Forward looking

b. Predictors: (Constant), Forward looking, Comm Independen

c. Predictors: (Constant), Forward looking, Comm Independen, Education

In Table 9, by using a 95% confidence level, α = 5%, df1 (number of variables-1) = 6 and df2 (n-7) or 140 - 7 = 133, the results obtained for F table are 2.257 with F calculated at 11.295. In conclusion, because F arithmetic> F table (11.295> 2.167) and significance <0.05, that is

(0.005 <0.05), it can be concluded that variables (Institutional, Meeting, Education, Forward looking, Commissioner and Independent Comm) jointly affect the Firm Value. It means that the regression model was fit as a prediction tool.

Based on Table 10 showed that the forward-looking variable affects the Firm Value at significance value of 0.000. Next, to find out how much independent variables contribute to explaining the variation in firm values, the stepwise analysis is needed.

Based on Table 11, by stepwise regression method, it can be seen that forward looking disclosures provide the greatest contribution in explaining the value of company values. Adjusted R square was 0.209 which meant that forward-looking information was able to explain 20.9% of the variation in firm value. If the regression added by the independent commissioner variable, the ability to explain increase to 24.2%. Thus, empirically it is proven that forward-looking information has a significant effect on firm value. The regression coefficient in Table 10 is positive, showed that the higher of disclosures integrated reporting would get higher company value.

Based on the signal theory it can be said that forward looking information is the strongest signal captured by investors compared to other information. Management should pay attention to provide information to fulfil the forward looking aspect which refers to the concept of integrated reporting. In Indonesia, the regulator has not yet regulated the necessity to refer to integrated reporting disclosures, but later the company will voluntary willing to provide such information if empirically investors consistently appreciate the forward looking.

5. CONCLUSION AND RECOMMENDATION

Forward looking information based on integrated reporting perspective have significant effect on firm value. The regulator in Indonesia has not yet required public companies to present integrated reporting. Investorsreally appreciate the issuers who voluntarily provide disclosures with integrated reporting insight. Management needs to study more forward looking information concept based on integrated reporting because it will have an impact on increasing investor confidence and increasing the value of the company. The accounting standard board needs to participate in popularising the integrated reporting framework so that the company will voluntarily implement it. This finding may have similarity in the other country who has an emerging capital market.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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