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EFFECT OF GOOD CORPORATE GOVERNANCE AND SUSTAINABILITY REPORTING TO THE INTEGRATED REPORTING MEDIATED FIRM SIZE

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ABSTRACT:

This study aims to test the hypothesis of the effect of Good Corporate Governance on Company Size, the effect of Sustainability Reporting on Company Size, the effect of Good Corporate Governance on Integrated Reporting, the effect of Sustainability Reporting on Integrated Reporting. The population of this research is 52 conventional commercial banks and conventional private commercial banks in Indonesia in 2016-2018. The sampling method uses census. The data source is secondary data obtained from the financial statements between the period 2016-2018 on the official website of each conventional commercial bank. The data analysis method uses data analysis using Structural Equation Modeling (SEM) with the help of the Analysis of Moment Structures (AMOS) program. The results of this study indicate that Good Corporate Governance has a positive effect on company size, Sustainability Reporting has a positive effect on company size, Good Corporate Governance has a positive effect on Integrated Reporting, Sustainability Reporting has a positive effect on Integrated Reporting, Company size is a mediating variable in the relationship between Good Corporate Governance and Integrated Reporting on Integrated Reporting. The better Good Corporate Governance and Sustainability Reporting, the better the impact on Integrated Reporting.

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INTRODUCTION:

All levels of a society increasingly need financial Services in the banking sector, both in developed and developing countries. Nowadays, banks increasingly dominate economic and business developments. The activity and the existence of banks greatly determine the progress of a country in the economic field. Banking is one of the things that affect the economy in all countries, including in Indonesia. Not a few wheels of the economy, especially in the real sector driven by banks, both directly and indirectly. The many sectors that depend on the banking sector are caused by the function and role of the banking sector, which is so important for a country's economy.

Integrated reporting (I.R.) is the latest financial reporting format that prioritizes transparency in reporting company performance. Integrated reporting presents financial and non-financial information such as transparent and integrated economic, financial, governance, environmental, intangible, and social issues about how an organization creates added value (Azam, Warraich, & Cloud, 2011; Eccles, Krzus, & Ribot, 2015; Morros, 2016; Soyka, 2013).

(Ballou, Casey, Grenier, & Heitger, 2012) said that integrated reporting aims to overcome the limitations of conventional financial reporting and sustainability reporting and is believed to be able to present a more comprehensive, effective, transparent and integrated business perspective in one report format (Brown & Dillard, 2014; Cheng, Green, Conradie, Konishi, & Romi, 2014; Eccles & Krzus, 2010; Lai, Melloni, & Stacchezzini, 2016; Reuter & Messner, 2015; Soyka, 2013). The implementation of transparent bank performance can be encouraged by the existence of good corporate governance or Good Corporate Governance. In Bank Indonesia Regulation Number 8/4 / PBI / 2006, that in the framework of improving bank performance, protecting Stakeholders and increasing compliance with legislation prevailing as well as ethical values that are generally accepted in the banking industry, required the implementation of Good Corporate Governance. Therefore the GCG concept seeks to encourage banks to create a culture that upholds professionalism, integrity, service quality, and Prudential Banking. Mismatch of governance will potentially lead to banks experiencing financial risk and reputation risk.

Sustainability Reporting is a report made by a company to measure, disclose, and the company's efforts to become a company that is accountable for all stakeholders for the company's performance towards sustainable development. Companies that have gone public should make a sustainability report in accordance with the mandate of Article 66, Paragraph 2 of Law No. 40 of 2007 concerning Limited Liability Companies. Bapepam-LK has issued a regulation that requires public companies to disclose the implementation of CSR activities in their annual reports. Through the implementation of Sustainability Reporting, it is expected that companies can develop sustainably (sustainable growth) based on business ethics.

According to Riyanto (2013: 313), the size of the company (Firm Size) is the size of the company seen from the amount of equity, sales, or asset values. Meanwhile, according to Basyaib (2007: 122), the size of the company (Firm Size) is a scale in which the size of the company can be classified according to various ways, among others, by measuring revenue, total assets, and total capital. The greater the size of revenue, total assets, and total capital will reflect the company's condition that is getting stronger. Company size is one of the important variables in managing a company. The size of the company reflects how big the total assets owned by the company. The total assets owned by the company represent the capital and the rights and obligations they have. The larger the size of the company, it can be ascertained, the greater the funds managed, and the more complex the management. So the size of the company will affect the company's access to obtain funding sources. Large companies tend to get more attention from the wider community. Thus, usually, large companies tend always to maintain the stability and condition of the company. To maintain this stability and condition, the company will, of course, try to maintain and continue to improve its performance.

However, in this study, the company size (Firm Size) focuses as a moderator variable of Good Corporate Governance (GCG) and Sustainability Reporting. Firm Size in this study allows strengthening the relationship between Good Corporate Governance (GCG) and Sustainability Reporting (S.R.) variables to Integrated Reporting as an effort to realize corporate financial reports that are accountable, transparent, and keep abreast of the times. Therefore the writer, in this case, focuses on the research title "The Effect of Good Corporate Governance (GCG) and Sustainability Reporting (S.R.) on Integrated Reporting with Firm Size as a Moderating variable."

LITERATURE REVIEW:

Good Corporate Governance influences Integrated Reporting:

According to Wulf et al. (2014) explained the importance of disclosure of financial statements in reducing the information asymmetry of information between managers and stakeholders, so that the realization of corporate governance. The research aimed at evaluating the ability of integrated reporting to improve good corporate governance by comparing comments from managers in Germany. Researchers conducted a descriptive analysis by comparing management comments in German and integrated reporting on corporate governance. The results of the research show that the proper implementation of integrated reporting will affect some traditional structures and business processes. Accounting management as a business partner can help meet the requirements of good corporate governance to realize the principles of integrated reporting such as strategic focus, information connectivity, and complex results from various capital to be transparent. The research equation lies in the use of Integrated Reporting as the dependent variable and Good Corporate Governance as an independent variable. The difference in research lies in the object of research used. Research conducted by Wulf, Niemoller, & Rentzsch uses the object of company managers in Germany while this study uses the object of mining companies listed on the Indonesia Stock Exchange in the 2014-2016 period.

Good Corporate Governance (GCG against Integrated Reporting mediated by Firm Size:

According to Riyanto (2013: 313) states that the size of the company is the size of the company seen from the amount of equity, sales, or asset values. The size of the company, according to Scott (1981: 235) in Torang (2013: 93) is Organizational Size is a context variable that measures the demands of the service or product of the organization. Jensen and Mckling (1976) revealed that large companies tend to reveal more information than small companies. This is due to the large number of companies considered capable of financing information for internal purposes in full. Large companies can recruit employees with high skills that are used to implement a good management reporting system. Wallace et al. (1994: 49) state that the completeness index of disclosure of mandatory items increases according to company size.

Sustainability Reporting to Integrated Reporting:

Sustainability Reporting is a report made by a company to measure, disclose, and the company's efforts to be an accountable company for all stakeholders for the company's performance towards sustainable development, wherein this report contains principles and disclosure standards that can reflect the level of company activity related to economic, environmental and social aspects.

According to Setiawan (2016) states that companies that won the Indonesia Sustainability Reporting Award are ready to present integrated financial reports (Integrated Reporting). This integrated reporting becomes important so that company stakeholders can assess the company more comprehensively and objectively not only from the financial side but also from the non-financial side.

Sustainability Reporting to Integrated Reporting on Mediation Firm Size:

Rustiarini's (2010) shows that Sustainability Reporting influences Integrated Reporting. This shows that investors are willing to provide more premium to companies that disclose (disclose) the implementation of S.R. in their annual reports. An assessment of company size indicates the better the level of disclosure, the better Integrated Reporting.

According to Adikusuma (2009) that S.R. affects Integrated Reporting, increasing S.R. will increase I.R. and company size variables do not affect I.R. because this is due to the size of the company that cannot influence I.R. Based on previous research, with good company management and a good stock market, company size can contribute more to the company.

METHODOLOGY:

This study is a study that uses a quantitative approach to determine the relationship of the Good Corporate Governance Mechanism and Sustainability Reporting to Integrated Reporting in Mediation Firm Size. The research sample of 52 public and private banking companies listed on the Indonesia Stock Exchange in Indonesia in 2016 - 2018. The sampling technique using nonprobability sampling. Data analysis techniques using SEM with AMOS software to test between variables in research. SEM with AMOS software, including validity and reliability testing, descriptive statistical analysis, and hypothesis testing with regression weight.

RESULTS AND DISCUSSION:

In SEM analysis, the model evaluation model is used in the form of squared multiple correlations for the dependent variable and the value of the standardized regression weights coefficient for the independent variables, which are then assessed for significance based on the C.R. (t-count) for each path. To assess the significance of the model of the path between constructs in the structural model seen from the C.R. value of the path between constructs or by looking at the p-value. The p-value is obtained from the analysis of AMOS software

Analysis of the results of data processing at the full SEM model stage is carried out by conducting the suitability test and statistical test. Data processing for the full SEM model analysis is shown in table 1.

Table 1 : Results of the Feasibility Model Structural Equation Model

The goodness of Fit Index	Cut-off value	Research Result	Model Evaluation
X^2 – Chi-Square	0.269	5.518	FIT Because the value of 0.269 is smaller than 5,518.
Significant Probability	≥ 0.05	0.269	
Free Degrees, DF		3	

CMIN/DF	≤ 5	73,712	Marginal
GFI	≥ 0.90	1.000	Good
AGFI	≥ 0.90	0.967	Good
TLI	≥ 0.90	-749	Marginal
CFI	≥ 0.95	709	Good
NFI	≥ 0.90	0.957	Good
RMSEA	≤ 0.08	0.685	Good

These results indicate that the model used can be accepted, which obtained a chi-square value of 5,518 with a significance level of 0.269. Significance values greater than 0.05 indicate an excellent structural equation model. The measurement indexes of GFI, AGFI, CFI, and RMSEA are also in the range of expected values, even though CMIN / DF and TLI values are received marginally. This is due to variations in data. Thus the SEM model feasibility test meets the acceptance requirements.

With the fit model, parameter testing, as hypothesized, can be interpreted. If the P-value is less than 0.05, the hypothesis is accepted. The parameter test results are obtained as follows:

Table 2 : Regression Weight Structural Equational

	Estimate	S.E	C.R (t value)	P
FIRMSIZE <--- GCG	-1,485	,269	-5,518	***
FIRMSIZE <--- SR	,101	,013	7,747	***
IR <--- FIRMSIZE	-,015	,306	-,049	,961
IR <--- GCG	-2,085	1,123	-1,857	,063
IR <--- SR	,445	,059	7,587	***

Relationship of Corporate Governance to Integrated Reporting:

Based on table 2, it is known that the path coefficient value of corporate governance variables on financial performance, the estimated value of -2.085, and C.R. of -1.857 with a p-value of 0.063. This means that there is a negative influence on Integrated Reporting, meaning that the worse the performance of corporate governance, the Integrated Reporting issued by the company will get worse.

The results of the study of the relationship of good corporate governance to integrated reporting have a negative and significant relationship. The results of this study are not in line with research conducted by Wulf et al., (2014) explaining the importance of financial statement disclosure in reducing information asymmetry of information between managers and stakeholders, so that the realization of corporate governance. The research aimed at evaluating the ability of integrated reporting to improve good corporate governance by comparing comments from managers in Germany. Researchers conducted a descriptive analysis by comparing management comments in German and integrated reporting on corporate governance. The results of the research show that the proper implementation of integrated reporting will affect some traditional structures and business processes. Accounting management as a business partner can help meet the requirements of good corporate governance to realize the principles of integrated reporting such as strategic focus, information connectivity, and complex results from various capital to be transparent. The research equation lies in the use of Integrated Reporting as the dependent variable and Good Corporate Governance as an independent variable. The difference in research lies in the object of research used. Research conducted by Wulf, Niemoller, & Rentzsch uses the object of company managers in Germany while this study uses the object of mining companies listed on the Indonesia Stock Exchange in the 2014-2016 period.

Relationship of Good Corporate Governance to Integrated Reporting through Firm Size:

Based on table 2, it is known that the path coefficient value of corporate governance variables on financial performance, the estimated value of -2.085, and C.R. of -1.857 with a p-value of 0.063. While it is known that the relationship of good corporate governance to firm size has an estimated value of -1,485, and C.R. of -5,518 with a p-value of 0,000. This means that the relationship of good corporate governance to integrated reporting through firm size has a positive and significant effect.

The results of the study of the relationship of good corporate governance to integrated reporting through firm disclosure, have a positive and significant relationship. The results of this study are in line with research conducted by Riyanto (2013: 313), stating that the size of the company is the size of the company seen from the amount of equity, sales or asset values. The size of the company, according to Scott (1981: 235) in Torang (2013: 93) is Organizational Size is a context variable that measures the demands of the service or product of the organization. Jensen and Mckling (1976) revealed that large companies tend to reveal more information than small companies. This is due to the large number of companies considered capable of financing information for internal purposes in full. Large companies can recruit employees with high skills that are used to implement a good management reporting system. Wallace et al. (1994: 49) state that the completeness index of disclosure of mandatory items increases according to company size.

Relationship of Sustainability Reporting to Integrated Reporting:

Based on table 2, it is known that the value of the path coefficient of the sustainability reporting variable towards integrated reporting is 0.445, and C.R. is 7587, and the p-value is 0.000. This states that sustainability reporting has a positive and significant effect on integrated reporting.

The relationship of sustainability reporting to integrated reporting disclosure has a positive and significant relationship. The results of this study are in line with research conducted by Setiawan (2016), stating that companies that won the Indonesia Sustainability Reporting Award are ready to present integrated financial reports (Integrated Reporting). This integrated reporting becomes important so that company stakeholders can assess the company more comprehensively and objectively not only from the financial side but also from the non-financial side.

Relationship of Sustainability Reporting to Integrated Reporting through Firm size:

Based on table 2, it is known that the value of the path coefficient of the sustainability reporting variable to the integrated reporting, the estimated value of 0.445, and C.R. of 7.587 with a p-value of 0.000. This means that there is a positive influence on integrated reporting. While the integrated reporting relationship through firm disclosure has a value of 0.101, C.R. of 7,747, and a p-value of 0,000, meaning that there is a positive and significant relationship. This shows that the relationship between good corporate governance and integrated reporting through firm disclosure has a positive and significant relationship.

The relationship of sustainability reporting to integrated reporting through firm size disclosure has a positive and significant relationship. The results of this study are in line with research conducted by Rustiarini Research (2010), which shows that Sustainability Reporting influences Integrated Reporting. This shows that investors are willing to provide more premium to companies that disclose (disclose) the implementation of S.R. in their annual reports. An assessment of company size indicates the better the level of disclosure, the better Integrated Reporting.

According to Adikusuma (2009) that S.R. affects Integrated Reporting, increasing S.R. will increase I.R. and company size variables do not affect I.R. because this is due to the size of the company that cannot influence I.R. Based on previous research, with good company management and a good stock market, company size can contribute more to the company.

CONCLUSION:

It can be seen that this study aims to determine the effect of Good Corporate Governance and Sustainability Reporting on Integrated Reporting through Firm size banking companies listed on the Indonesia Stock Exchange from 2016 to 2018. Good Corporate Governance has a significant negative effect on Integrated Reporting on conventional banks listed on the Indonesia Stock Exchange from 2016 to 2018. Good Corporate Governance has a significant positive effect on Integrated Reporting through Firm size on conventional banking, which is listed on the Indonesia Stock Exchange from 2016 to 2018. Sustainability Reporting has a significant positive effect on Integrated Reporting on conventional banks listed on the Indonesia Stock Exchange from 2016 to 2018. Sustainability Reporting has a significant positive effect on Integrated Reporting through Firm size on conventional banking, which is listed on the Indonesia Stock Exchange from 2016 to 2018.

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