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INTEGRATED AND SEPARATE REPORTS: IMPLICATIONS FOR THE COST OF EQUITY CAPITAL

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ABSTRAK

Latar belakang dari penelitian ini adalah perkembangan terkini dalam pelaporan perusahaan, yakni integrated report (IR), yang menyatukan informasi keuangan dan non-keuangan dalam satu dokumen guna mendorong transparansi serta mendukung pengambilan keputusan yang lebih efisien. Berdasarkan penelitian sebelumnya, IR juga dinilai mampu mengurangi biaya modal ekuitas dan mengurangi informasi asimetris. Namun, penerapannya di Indonesia masih terbatas. Penelitian ini bertujuan untuk menguji apakah terdapat perbedaan biaya modal ekuitas antara perusahaan yang menerbitkan IR dan non-IR. Untuk mencapai tujuan tersebut, penelitian ini menerapkan uji beda Mann-Whitney U. Sampel yang digunakan mencakup seluruh perusahaan yang terdaftar dalam indeks *Environmental, Social, and Governance* (ESG) di Bursa Efek Indonesia (BEI) selama periode 2019 hingga 2023, dengan total sebanyak 496 observasi. Temuan dari penelitian ini menujukkan adanya perbedaan perbedaan biaya modal ekuitas antara perusahaan yang menerbitkan IR dan non-IR. Secara khusus, perusahaan yang menerbitkan IR memiliki rata-rata biaya modal ekuitas lebih rendah dibandingkan perusahaan non-IR. Perusahaan yang menerbitkan IR cenderung memberikan informasi yang lebih lengkap dan transparan, sehingga meningkatkan kepercayaan dan mengurangi risiko investor. Temuan ini memberikan implikasi bagi manajemen perusahaan untuk dapat merancang, menyusun, dan menyajikan pelaporan secara terintegrasi. Selain itu, bagi otoritas bursa temuan ini dapat menjadi landasan dalam merumuskan kebijakan pelaporan, terutama bagi perusahaaan publik yang wajib menyampaikan informasi kepada investor.

Kata kunci: *integrated report*, *corporate reporting*, biaya modal ekuitas, informasi asimetris, *sustainability*, SDGs

ABSTRACT

The background to this study is the latest development in corporate reporting, namely integrated reporting (IR), which combines financial and non-financial information in a single document to promote transparency and support more efficient decision-making. Based on previous studies, IR is also considered capable of reducing equity capital costs and asymmetric information. However, its application in Indonesia is still limited. This study examines whether there are differences in the cost of equity capital between IR and non-IR companies. To achieve this objective, this study applied the Mann-Whitney U test. The sample used included all companies listed on the Environmental, Social, and Governance (ESG) index on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023, with a total of 496 observations. The findings of this study indicate differences in equity capital costs between companies that publish IR and those that do not. Specifically,

companies that publish IR have lower average equity capital costs than non-IR companies. IR companies tend to provide more complete and transparent information, thereby increasing investor confidence and reducing risk. These findings provide implications for company management to be able to design, compile, and present IR. In addition, for the stock exchange authority, these findings can be the basis for formulating reporting policies, especially for public companies that are required to submit information to investors.
Keywords: *integrated report, corporate reporting, cost of equity, information asymmetry, sustainability, SDGs*

INTRODUCTION

Integrated reporting (IR) represents a recent innovation in corporate disclosure, combining financial and non-financial information into a unified document. This reporting method has transitioned from being solely based on corporate social responsibility (CSR) disclosures to becoming a more thorough and inclusive reporting system (Rupley et al., 2017). IR is required to succinctly outline a company's strategic direction, governance practices, operational outcomes, and future prospects in the context of generating sustainable value within its external environment (Melloni et al., 2017). Additionally, IR contributes significantly to reducing the cost associated with equity capital (Chouaibi et al., 2022; Ghofar, 2023; Zaro et al., 2022) and minimizing corporate risks associated with asymmetric information (García-Sánchez & Noguera-Gámez, 2017a). However, in Indonesia, there are still few companies that publish IR. Implementing sustainability practices such as green accounting is proven to increase stakeholder trust and improve the company's financial performance (Khusnah & Kirana, 2023). Efficient working capital management is a key element in ensuring a company's long-term sustainability, as it directly influences the firm's ability to endure over time (Marita & Permatasari, 2019). This aligns with the objective of IR, which aims to deliver a thorough overview of a company's long-term outlook (García-Sánchez & Noguera-Gámez, 2017a; Zaro et al., 2022). This study examines whether there is a difference in the cost of equity capital between companies that issue IR and non-IR.

According to the International Integrated Reporting Council (IIRC), IR has two primary objectives: improving the quality of data available to external providers of financial capital—thereby facilitating more effective capital distribution—and fostering integrated internal thinking, decision-making, and actions focused on long-term value creation for the organization (Barth et al., 2017). By presenting more detailed and complex elements within IR content, investors are better equipped to lower the costs associated with corporate investments and operations. Moreover, companies that adopt integrated disclosures tend to benefit from reduced capital costs, highlighting the relevance of IR in supporting investor decision-making (Chouaibi et al., 2022; García-Sánchez & Noguera-Gámez, 2017a; Ghofar, 2023). Increasing demands for greater transparency have driven companies to report their performance more openly to investors, shareholders, and the broader public. However, the existence of multiple separate reports often complicates information analysis. To address this issue, IR has been developed as a unified document that consolidates financial, social, and

environmental data while presenting key performance indicators (Barth et al., 2017; Permatasari & Narsa, 2022).

According to the asymmetric information theory proposed by Leland & Pyle (1997), investors will demand higher returns if they feel the information between the company and themselves is asymmetric. As a result, when companies disclose their performance and risks with greater transparency, investors tend to require a lower cost of equity capital. Previous research has shown that IR can increase corporate transparency, including more detailed information about corporate performance and risks (García-Sánchez & Noguera-Gámez, 2017a). Likewise, Chouaibi et al. (2022) found that Integrated Reporting Quality (IRQ) has a significant adverse effect on the cost of equity capital in Islamic Banks (IBs) in the Middle East and North Africa (MENA) region and has a positive impact on IB financial performance. Furthermore, research by Zaro et al. (2022) identified a negative association between integrated reporting (IR) disclosure and the cost of equity capital, particularly among firms functioning in regions with rigorous legal enforcement. Supporting this, Ghofar (2023) concluded that enhanced IR quality reduces information asymmetry, which in turn results in a lower equity financing cost for businesses.

Nevertheless, some researchers have found no definitive correlation between IR and the cost of equity capital. For instance, Utami (2016) demonstrated that IR primarily contributes to reducing the cost of debt capital, with no empirical validation for its impact on equity capital costs among companies in APEC nations within the Asia-Pacific. In a comparable study, Pirgaip & Rizvić (2023) in their analysis of firms listed on the Istanbul Stock Exchange, investigated how IR relates to WACC, debt cost, and equity capital cost. Their results indicated that while IR is positively linked to both WACC and debt expenses, its influence on the cost of equity capital lacked statistical significance. The results indicated that while integrated reporting (IR) is positively correlated with both the weighted average cost of capital (WACC) and debt financing costs, it does not show a statistically meaningful influence on equity capital costs. This is due to the lack of attention of stock market investors in these countries to sustainability practices and doubts about their relevance, or investors may consider that the information presented in IR does not provide benefits in making resource allocation decisions.

This research analyzes a dataset comprising all 103 companies listed on the Environmental, Social, and Governance (ESG) indices of the Indonesia Stock Exchange (IDX) from 2019 to 2023, generating a total of 496 observations. The ESG indexes (ESGLEADERS, ESGSKEHATI, and ESGQKEHATI) prioritize non-financial dimensions like environmental sustainability, social accountability, and governance standards over purely financial outcomes. (Chen et al., 2022; Mulyono, 2024). The ESG index was selected as the sample because today's financial reporting increasingly incorporates social and environmental dimensions, which are reflected in the ESG framework. In Indonesia, companies are already required to publish sustainability reports, either as standalone documents or integrated with annual reports, in accordance with Article 10, Paragraph 2 of OJK Regulation Number 51 of 2017 (Regulation of the Financial Services Authority, 2017). The inclusion of ESG-related data in IR simplifies investor analysis of company operations and has been shown to significantly reduce the cost of equity capital (Becchetti et al., 2023;

Chen et al., 2022; Ng & Rezaee, 2015), However, this positive effect may be diminished when it is linked to efforts solely aimed at enhancing environmental performance (La Rosa & Bernini, 2022).

This study utilized a quantitative method through an independent sample t-test to assess whether there is a statistically significant gap in equity capital costs between firms implementing IR and those that do not. The findings support the asymmetric information theory, highlighting the critical role of transparency and IR in guiding investor decision-making. In addition, this study is helpful for company management and stock exchange authorities. For company management, these results encourage the importance of designing, compiling, and presenting transparent reporting to reduce the cost of equity capital. For the stock exchange authority, these findings can serve as a basis for formulating policies related to the preparation of reporting, especially for public companies that must convey information transparently to investors.

Literature review and hypothesis development

Asymmetric information theory

According to Scott (2015: 23) Scott (2015: 23), asymmetric information is a condition that occurs when some parties in a business transaction have information advantages over other parties. There are two types of asymmetric information. The first is adverse selection, a kind of asymmetric information where one or more parties with better information exploit the situation for their benefit. The second type of asymmetric information is moral hazard, where one party in a contractual relationship is incentivized to accept greater risk, knowing that it does not fully bear the negative consequences of such actions.

By reducing the level of asymmetric information, financial reporting will be more transparent and result in lower investor risk estimates because no information is hidden (García-Sánchez & Noguera-Gámez, 2017b; Ghofar, 2023; Mohammed, 2023; Rajapaksha & Kehelwalatenna, 2022). Asymmetric information can lead to conflicts between managers who want to generate profits for themselves and harm other parties (investors). A potential solution is regulations that require managers to disclose their information fully. Low information quality will result in investors not maximizing their company funding (Akerlof, 1970). The principle of transparency includes the open submission of information to help coordinate and efficiently implement company activities (Rohmah et al., 2022). Companies with better transparency tend to get more optimal funding than companies that are less open in presenting their financial and operational information (Leland & Pyle, 1997).

Hypothesis development

Emphasizing the importance of integrated reporting (IR) in managerial decision-making plays a crucial role in reducing the cost of equity capital for a company. This becomes particularly important for companies that are expanding their sources of financing while also dealing with the challenges of limited information transparency (García-Sánchez & Noguera-Gámez, 2017a; Ghofar, 2023; Rajapaksha & Kehelwalatenna, 2022; Sharif et al., 2021). Enhanced openness in corporate disclosures has been found to help lower the cost associated with equity financing (Chouaibi et al., 2022; Zaro et al., 2022). Asymmetric information

theory states that information inequality in business transactions encourages investors to obtain information privately (Diamond & Verrecchia, 1991). Such disparities among investors generally lead to a rise in the anticipated return on investment (Leuz & Verrecchia, 2000).

Previous studies indicate that IR has the capacity to enhance corporate information transparency by delivering more in-depth insights into company performance and risk factors. Research conducted by García-Sánchez & Noguera-Gámez (2017a), Chouaibi et al. (2022), Zaro et al. (2022), dan Ghofar (2023) indicates that superior integrated reporting (IR) quality is linked to reduced equity capital costs. Conversely, Utami (2016) who explored IR disclosure effects among companies listed in APEC member countries across the Asia-Pacific, found no meaningful influence of IR on the cost of equity capital. This outcome is attributed to the abundance of non-financial disclosure indicators, which pose challenges for both companies and stakeholders in interpreting and assessing the information provided. Likewise, Pirgaip & Rizvić (2023) found no significant relationship between IR and the cost of equity capital, because many stock market investors currently place limited emphasis on sustainability efforts, question their relevance, or perceive IR disclosures as lacking usefulness in guiding resource allocation decisions.

This research investigates the differences in equity capital costs between firms that issue integrated reports and those that do not. Prior studies by García-Sánchez & Noguera-Gámez (2017a) dan Zaro et al. (2022) highlight a distinction in equity financing costs between IR-adopting and non-IR firms. Businesses that release IR typically experience a lower average cost of equity, primarily due to improved transparency, which enhances investor confidence and diminishes perceived investment risks. Drawing from these prior findings, the study formulates the following hypothesis:

H_1: Companies that issue IR have a lower cost of equity capital than non-IR companies.

Data and methodology

A quantitative methodology is adopted in this study, making use of numerical data extracted from corporate annual reports, which are sourced from the Indonesia Stock Exchange (IDX) platform or the official websites of each company (archival sources). The sample consists of all firms included in the IDX Environmental, Social, and Governance (ESG) index. The index consists of ESGLEADERS, ESGSKEHATI, and ESGQKEHATI during the period 2019 to 2023 with a total observation for IR of 117 firm-years and for non-IR of 379 firm-years. To analyze the data, this study applies the Mann-Whitney U test, a type of independent sample t-test, as the dataset does not meet the assumption of normal distribution. This study categorizes companies based on the form of reporting used, namely IR and non-IR. The study conducts an analysis to examine whether the cost of equity capital varies between the two groups, utilizing the Capital Asset Pricing Model (CAPM) framework. As stated by Ross et al. (2020: 439), the cost of equity is calculated using the following equation:

$$E(CE_{it}) = R_f + \beta_i(R_m + R_f)$$

where:

R_f = risk-free rate of return proxied by the interest rate of the Certificate of Bank Indonesia (SBI)

β_i = the systematic risk of stock *i*, obtained from the regression between the individual stock's return and the overall market return

R_m = market rate of return, calculated using the Jakarta Composite Index (JCI) as follows: the JCI in period t minus the JCI in period *t-1*, then divided by the JCI in period *t-1*.

RESULT AND DISCUSSION

Results

Table 1 presents information on the frequency distribution of company reporting forms. From a total of 496 observations, 117 observations are IR, with a percentage of 23.59%. Furthermore, 379 observations are non-IR, with a rate of 76.41%. In addition, Table 1 also presents descriptive statistics of the cost of equity capital of two groups, namely companies that issue IR and non-IR. Companies that issue IR have an average cost of equity capital of 0.08 with a minimum value of 0.04, a maximum of 0.19, and a standard deviation of 0.04. Meanwhile, non-IR companies show a slightly higher average cost of equity capital of 0.09 with a minimum value of 0.04, a maximum of 0.21, and the same standard deviation of 0.04.

Table 1. Frequency Distribution and Descriptive Statistics

Frequency Distribution		
Type	Frequency	Percent
IR	117	23.59
Non-IR	379	76.41
Total	496	100.00

Descriptive Statistics								
	IR (n = 117)				NON IR (n = 379)			
	Min	Max	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.
Cost of equity	0.04	0.19	0.08	0.04	0.04	0.21	0.09	0.04

This study utilizes the Mann-Whitney U test to evaluate whether there is a statistically significant difference in equity capital costs between firms that implement integrated reporting (IR) and those that do not engage in such reporting. The test was chosen because the data is not normally distributed. Table 2 shows a statistically significant difference between IRs and non-IRs with a signification of 0.01 (Z =-3.596, p-value =0.05). In addition, Table 2 also shows that the rank means of companies issuing IR has a lower cost of equity capital (mean rank 206.85) than non-IR companies (mean rank 261.36), so these results support H_1.

Table 2. Mann-Whitney U Test

	n	Mean rank	Sum of rank
Rank			
IR	117	206.85	24202
Non-IR	379	261.36	99054
Test-statistic			

Mann-Whitney U	17299.000
Z	−3.596
p-value	0.000*

Note: *p< 0.01

DISCUSSION

Integrated Reporting (IR) refers to an approach that consolidates traditional annual reports with sustainability reports into a unified and comprehensive document, based on the guidelines set by the International Integrated Reporting Council (IIRC). It presents both financial and non-financial data and includes six types of capital: financial, manufactured, human, intellectual, social and relationship, and natural capital. IR primarily aims to offer a broad perspective on how organizations sustainably create value across short-, medium-, and long-term horizons, while simultaneously improving the transparency and quality of information provided to stakeholders and investors (Ribeiro et al., 2024; Zhou et al., 2017).

The IIRC principle emphasizes that information in reports should be integrated by showing the relationship between strategy, risk, business model, performance, prospects, and capital. IR also emphasizes a strategic focus on the company's future predictions, risks, opportunities, and directions. As such, IR is not just a reporting method but reflects an organizational way of thinking that encourages collaboration or cooperation between various departments or divisions within an organization and holistic information-based decision-making.

Conversely, firms that have not implemented Integrated Reporting (IR) continue to issue separate annual and sustainability reports, leading to a misalignment between financial and non-financial information. This separation complicates investors' ability to assess how the company’s strategic initiatives contribute to sustainable value creation, potentially heightening perceived risk and, in turn, elevating the cost of equity capital. Moreover, the fragmented reporting structure may also impair internal decision-making, particularly when environmental, social, and governance (ESG) concerns and long-term strategic priorities are not incorporated into the firm’s operational framework.

This study explores whether there is a discernible difference in the cost of equity capital between companies utilizing IR and those that do not. The evidence indicates that companies practicing IR typically face a lower average cost of equity capital compared to their non-IR peers. These findings suggest that IR contributes to improved transparency and reduces information asymmetry between corporate leadership and stakeholders.

As noted by García-Sánchez & Noguera-Gámez (2017a), reducing the cost of equity is influenced not solely by the quantity of disclosed data, but also by its clarity and consistency. Their research shows that firms presenting well-organized IR disclosures generally experience a decline in equity costs, as these reports offer investors more precise insights into long-term corporate prospects.

This result aligns with the principles of information asymmetry theory, which proposes that enhanced transparency through high-quality public disclosures reduces perceived investment risk, prompting investors to require a lower expected rate of return. (Scott, 2015: 137). According to García-Sánchez & Noguera-Gámez (2017a), the critical factor in lowering

equity costs lies not only in the volume of disclosed information but also in its precision and consistency. The research highlights that firms presenting clearly organized integrated reports often experience a decrease in their equity financing costs, since such disclosures offer investors a better understanding of the company's future prospects.

Furthermore, Zaro et al. (2022) found that the negative association between integrated reporting and the cost of equity is more evident in countries with well-established legal systems and stringent regulatory oversight. This means that the implementation of IR is not just a formality, but must be accompanied by a real commitment to transparency and accountability. In this context, IR becomes an effective strategic tool in building market confidence and improving funding efficiency, especially under high regulatory pressure. Aisyaturrahmi et al. (2021) also emphasized the importance of governance and organizational quality in unstable situations, where the balance between speed of action, transparency and accountability is crucial.

In Indonesia, the urgency of implementing IR is increasing as investors demand comprehensive information, including sustainability aspects. Although OJK Regulation No. 51 Article 10 Paragraph 2 of 2017 has made sustainability reporting mandatory, many companies still separate it from the annual report, reducing the effectiveness of reporting (based on Table 1 about 76.41% is non-IR). In response to this Chouaibi et al. (2022), García-Sánchez & Noguera-Gámez (2017a), Ghofar (2023) Zaro et al. (2022) revealed that IR serves as a strategic approach to enhance the quality of corporate disclosures and strengthen investor trust. This plays a crucial role in advancing the Sustainable Development Goals (SDGs), especially those related to sustainable consumption and production patterns, along with promoting transparent and responsible governance.

With complete and integrated information, companies can demonstrate their contribution to sustainable development while reducing the risks investors perceive. When investors are provided with complete and pertinent information, they are likely to expect a reduced return, consequently decreasing the company's equity capital costs. Therefore, strengthening IR implementation policies in Indonesia can improve the efficiency of corporate finance and positively affect both firm value and investor confidence in the long run.

CONCLUSION

This study examined the potential disparity in equity capital costs between companies that have adopted integrated reporting (IR) and those that have not embraced such practices. The findings indicate that there is indeed a difference in equity capital costs, with IR-adopting companies generally experiencing a lower average cost compared to non-IR firms. The findings hold theoretical relevance by reinforcing the core concepts of information asymmetry theory, emphasizing how transparency and the use of integrated reporting can assist investors in making better-informed decisions. This study shows that investors tend to have more confidence in companies that present information in an integrated manner than companies that present information separately. IR can reduce uncertainty and increase efficiency in decision-making related to fund allocation because the form of IR reporting aligns with IIRC principles that present information in an integrated manner. Thus, IR is critical in building good relations between companies and investors.

For company management, this research makes an essential contribution to the company's strategic decision-making. By implementing IR, companies can increase investor confidence and reduce risk perceptions. Company management must design, compile, and present informative, transparent reporting using IR principles. For the stock exchange authority, these findings provide a strong foundation for formulating policies related to effective reporting through the implementation of IR. The policy ensures that public companies deliver integrated information to investors using IIRC principles. This approach is considered vital because Integrated Reporting not only helps reduce a firm's equity capital costs but also merges both financial and non-financial information into a unified report, streamlining the process for investors to obtain essential data for sound decision-making.

This study has limitations in using dummy variables to proxy IR and non-IR. Although this approach facilitates the classification process, it can describe the complexity and quality of information presented in the report. Therefore, future studies are encouraged to adopt more thorough approaches, like content analysis, to precisely evaluate the degree of integration and transparency in reporting. With content analysis, future research is expected to produce more in-depth empirical evidence related to corporate reporting practices in Indonesia.

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