UNIVERSITI TEKNOLOGI MARA

INTEGRATED REPORTING AND EARNINGS QUALITY: THE MEDIATING EFFECT OF CORPORATE GOVERNANCE AMONG IR-ADOPTERS AND NON-IR ADOPTERS

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ABSTRACT

Earnings quality (EQ) is a key indicator of a company's financial health but can be compromised by creative accounting practices that distort true performance. Integrated Reporting (IR) addresses this issue by enhancing transparency, accountability, and corporate governance. This study examines the impact of IR on EQ through Corporate Governance (CG) in firms listed on the Indonesia Stock Exchange from 2017 to 2021. A total of 76 companies, comprising 38 IR adopters and 38 non-IR adopters, were analysed using STATA. The study adopts a path analysis approach based on causal mediation analysis combined with bootstrapping to test the direct and indirect effects of IR on EQ. The results reveal that IR significantly influences EQ for IR adopters and non-IR adopters. For IR adopters, path analysis and bootstrapping show a stronger direct effect of IR on EQ. Additionally, CG mediates the relationship between IR and EQ for IR adopters, where IR has a significant indirect effect on EQ through CG, indicating that improvements in corporate governance strengthen the impact of IR on EQ. For non-IR adopters, while path analysis suggests a potential indirect effect, bootstrapping does not confirm its significance. In this group, the direct effect of IR on EQ is evident, but the mediation through CG is weaker and less consistent. This study underscores the importance of adopting an IR framework to improve transparency, strengthen governance, and enhance earnings quality. It contributes to the literature by addressing the gap in understanding the indirect effects of IR on EQ through governance mechanisms. Future research should explore additional IR attributes, like guiding principles disclosure, and examine moderating variables such as cash flow volatility (Cvol) to better understand their impact on EQ. These findings provide valuable insights for academics, policymakers, and regulators aiming to enhance corporate transparency and accountability.

Keyword: Earnings quality, Integrated reporting, Corporate governance, IR Adopters, Non-IR Adopters

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CHAPTER 1
INTRODUCTION

1.1 Introduction

This chapter summarizes the study, focusing on earnings quality (EQ), Integrated Reporting (IR), and corporate governance. Section 1.2 provides the background, highlighting the importance of EQ in corporate reporting as a key indicator of a company's financial health. It discusses how IR can improve transparency and accountability, potentially enhancing EQ through corporate governance (CG). Sub-section 1.3 outlines the motivation behind the study, addressing the research gap in understanding the relationship between IR, CG, and EQ. Sub-section 1.4 presents the problem, while sub-section 1.5 defines the research objectives. Sub-section 1.6 details the research questions guiding the study. Sub-section 1.7 outlines the underlying assumptions, and sub-section 1.8 discusses ethical committee approval. Sub-section 1.9 defines the thesis scope, focusing on firms listed on the Indonesia Stock Exchange, specifically IR adopters and non-adopters. Finally, sub-section 1.10 outlines the structure and flow of the thesis.

1.1 Research Background

Financial performance is a fundamental aspect of corporate reporting, offering stakeholders critical insights into a company’s ability to create value and sustain long-term growth. Among the most widely used indicators of financial health, earnings reflect the net profit a company generates over a given period. Earnings, representing the profit accumulated by a company over a period, are a crucial indicator of financial performance (Kieso et al., 2020). These earnings reflect the company's ability to use resources effectively to generate returns (Abu Hamour et al., 2024) and contribute to an accurate depiction of financial health by providing relevant and reliable information through earnings quality (Spiceland et al., 2020). High-quality earnings, characterized by their reliability and relevance, support informed decision-making (Erawati & Tunnajiha, 2023) by offering a true and comprehensive view of financial health. When earnings quality is high, they offer stakeholders a true and comprehensive view of a company’s financial health, fostering informed decision-making. However, this