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# THE EFFECT OF FEMALE DIRECTORS, BOARD SIZE, INDEPENDENT COMMISSIONERS AND QUALITY OF EARNINGS RATIO ON THE INTEGRATED REPORTING QUALITY WITH POLITICAL CONNECTION AS A MODERATING VARIABLE

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## ABSTRACT

The aims of this research are to examine the relationship between female directors, board size, independent commissioners, quality of earnings ratio on the quality of integrated reporting. In addition, this research also investigates how political connections moderate the effects of these variables on integrated reporting quality. The data was collected from annual reports of non-cyclical consumer goods companies listed on the IDX between 2019 and 2022. The analysis indicates that only the size of the board of commissioners had a significant effect on the quality of integrated reporting, while other variables show an insignificant effects on the quality of integrated reporting. However, the test results show that politically connected companies exhibit a stronger influence of female directors and board size on integrated reporting quality. With the results of this study, it is expected to contribute to a broader understanding of integrated reporting, so that it can help the development of integrated reporting.

**Keywords:** *Integrated Reporting; Integrated Thinking; Political Connection; Corporate Governance*

## RESEARCH HIGHLIGHTS

In response to the evolving landscape of corporate reporting, this study investigates factors influencing the quality of integrated reporting, a comprehensive system merging financial and non-financial data. Amidst the global sustainability focus and the lack of standardized reporting structures, integrated reporting seeks to offer a holistic understanding of how companies create, sustain, or diminish value over time.

The study explores the impact of board characteristics (size, independence), earnings quality, and political connections on integrated reporting quality. Surprisingly, female directors show no significant influence, contrary to previous findings, while board size significantly affects reporting quality. Independent commissioners, however, exhibit no discernible impact.

Intriguingly, political connections emerge as crucial moderators. Companies with political ties amplify the positive influence of female directors and board size on reporting quality. Yet, political connections do not alter the relationship between independent commissioners, earnings quality, and reporting quality.

These findings contribute to the understanding of integrated reporting dynamics, emphasizing the nuanced role of gender diversity, board size, and political connections in shaping reporting quality. The study acknowledges limitations, calling for future research to explore additional factors with broader indicators and larger sample sizes.

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## Research Objectives

This research holds significance in advancing our understanding of integrated reporting by delving into the impact of board characteristics, earnings quality, and political connections on reporting quality. As companies increasingly embrace integrated reporting, the study aims to shed light on key determinants and moderators, fostering better practices.

By exploring the influence of board composition, particularly the roles of independent commissioners and female directors, the research aims to contribute to corporate governance literature and practices. Additionally, the investigation into earnings quality seeks to establish a link between financial performance and the quality of integrated reporting.

The inclusion of political connections as a moderating variable adds a nuanced perspective, considering the external influences on reporting quality. Understanding how political ties interact with board dynamics and earnings quality provides valuable insights into potential external factors affecting integrated reporting.

Ultimately, the research aspires to offer practical implications for companies, regulators, and policymakers, guiding efforts to enhance the quality of integrated reporting. Through a comprehensive analysis, this study seeks to inform decision-makers and contribute to the ongoing dialogue surrounding the evolution of corporate reporting standards, aligning with global sustainability goals and best practices.

## Methodology

This research adopts a quantitative approach, focusing on companies within the non-cyclical consumer goods sector that are listed on the Indonesia Stock Exchange (IDX). Data for the study were gathered from various sources, including company annual reports available on the official website of the Indonesia Stock Exchange (<https://www.idx.co.id>) and several reports obtained directly from the companies' official websites. The sample selection for this study utilized a purposive sampling technique.

In terms of data analysis, the Partial Least Squares Structural Equation Modeling (PLS-SEM) method is employed, facilitated by the smartPLS v3.0 application. The analysis encompasses two main stages: the outer model test, which assesses reliability and validity, and the inner model test, which evaluates the overall structural relationships within the model. All these stages follow the guidelines of Hair et al. (2021).

In the method of measuring the quality of integrated reporting, this study refers to the research of Adegboyegun et al. (2020), by using indicators to assess the quality of integrated reporting, and the indicators are taken based on the IIRC (2021), guidelines.

## Results

The path analysis revealed significant insights into the hypotheses testing and moderating effects in the context of integrated reporting quality. While Hypotheses H<sub>2</sub> and H<sub>5</sub> were accepted, indicating a positive influence of female directors and board size on integrated reporting quality, H<sub>1</sub>, H<sub>3</sub>, H<sub>4</sub>, H<sub>7</sub>, and H<sub>8</sub> were rejected. This implies that the impact of female directors, independent commissioners, and earnings quality on integrated reporting quality was not statistically significant. Additionally, political connections were found to moderate the relationship between female directors and board size with integrated reporting quality but failed to moderate the influence of independent commissioners and earnings quality.

The  $R^2$  value of 48.4% suggests that the model's predictor variables explain a substantial portion of the dependent variable's variance. The  $f^2$  values indicated a large moderating effect of political connections on the association between female directors and board size with integrated reporting quality. However, the moderation effect on independent commissioners and earnings quality was deemed small. The blindfolding test demonstrated a medium predictive power ( $Q^2 = 0.386$ ) for the model.

## Findings

The study's findings highlight the nuanced influence of key factors on integrated reporting quality. Female directors and board size emerged as significant determinants positively affecting integrated reporting quality. These results aligned with the study conducted by Vitolla et al. (2020), as well as previous research from Allegrini & Greco (2013), and Nindiasari (2021), which discussed the relationship between the board of commissioners and corporate disclosure also found similar results.

Political connections were revealed to play a substantial moderating role in enhancing the impact of female directors and board size on integrated reporting quality, aligning with the expectation of amplified effects in politically connected companies.

However, independent commissioners and earnings quality did not exhibit a direct influence on integrated reporting quality. Furthermore, political connections did not moderate the relationship between independent commissioners, earnings quality, and integrated reporting quality. These nuanced findings contribute to the evolving understanding of the intricate dynamics influencing the quality of integrated reporting within the corporate landscape.

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### Author's Biography



**Dr. Firdaus A. Rahman, SE., M.Si., CA.,** serves as an Associate Professor specializing in Accounting at Universitas Islam Riau (UIR). With a comprehensive academic background and professional credentials, including the Certified Accountant (CA) designation, Dr. Firdaus brings a wealth of expertise to his role. He actively contributes to the academic community as a lecturer in the Master's program, focusing on accounting, specializing in accounting and Islamic Economics and Finance. Dr. Firdaus is recognized for his dedication to advancing knowledge in the field, participating in international conferences, and publishing research papers. His commitment to academic excellence and his significant contributions to the accounting discipline underscore his position as a respected figure at UIR.



**Sandicha Dwi Ramadhan,** a holder of an Accounting Associate degree from Riau University, is currently venturing into a fresh academic chapter by pursuing a bachelor's degree at Riau Islamic University. Intrigued by the intricacies of financial accounting and auditing, he immerses himself in these disciplines, motivated by a curiosity to unravel their complexities. Possessing a meticulous attention to detail and a strong thirst for knowledge, he actively pursues opportunities to enhance his comprehension and contribute meaningfully to the realms of accounting and finance.



**Dian Saputra** serves as both a Lecturer and an internal auditor at Universitas Islam Riau. With a range of accounting certifications such as Asean Chartered Professional Accountant (ACPA), Certified Accountant (CA), and Accountant (Ak), Dian brings a wealth of expertise to his roles. Prior to his current positions, he gained experience as an external auditor at a prominent accounting firm. Renowned as an expert in the field, Dian Saputra focuses his research on topics encompassing accounting, auditing, and behavioral issues. He has authored numerous academic papers and publications featured in national and international journals, actively participating in various international conferences.