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Market responses on integrated reporting: Does corporate reputation matter?

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ABSTRACT

This study investigates the market response to the adoption of Integrated Reporting (IR) among companies listed on the Indonesia Stock Exchange and examines whether corporate reputation moderates this relationship. A quantitative approach was used, applying descriptive analysis and hypothesis testing with the Common Effect model. The analysis compared IR adopters and non-adopters using Cumulative Abnormal Return (CAR) as a measure of market response, both before and after the COVID-19 pandemic. Integrated Reporting (IR) adopters had greater Cumulative Abnormal Return (CAR) values than non-adopters, indicating stronger market responses. This impact persisted before and after COVID-19. Further descriptive analysis showed no significant differences in company reputation, firm size, and leverage between IR adopters and non-adopters. Additionally, corporate reputation did not significantly moderate the relationship between IR adoption and market response. IR adoption positively influences market perception, supporting signaling theory. The market rewards transparent and comprehensive reporting, regardless of prior corporate reputation. IR can be an effective tool for companies seeking better market valuation. Investors should consider IR adoption in their decision-making, and policymakers are encouraged to promote IR to enhance market transparency and efficiency.

Contribution/Originality: This study contributes to the literature on Integrated Reporting (IR) by examining how an emerging market responds to IR adoption. Corporate reputation is uniquely used as a moderating variable, providing novel insights into whether reputation influences investor perception of IR.

1. INTRODUCTION

Integrated Reporting (IR) began development in 2011 by the International Integrated Reporting Council (IIRC), supported by the Global Reporting Initiative (GRI). In 2013, the IR Framework was launched. IR is an evolution of the corporate reporting system that combines financial and non-financial information, including environmental, social, and corporate governance data, into a single reporting document (Akisik & Gal, 2020; De Villiers, Rinaldi, & Unerman, 2014; Nishitani, Unerman, & Kokubu, 2021). Integrated reporting is a fundamental concept that communicates a company's integrated thinking in the short, medium, and long-term value creation processes, as revealed by the International Integrated Reporting Council (IIRC) (2013) and the Indonesian Institute of Public Accountants (IAPI) (2022). IR has been suggested as a novel approach to corporate reporting (Octorina, 2022). The integrity of company reporting is believed to be enhanced by the implementation of integrated reporting compared to previous reporting methods (Ahmed Haji & Hossain, 2016; Stubbs & Higgins, 2018). IR is believed to enhance transparency and corporate accountability (Dumay, Bernardi, Guthrie, & Demartini, 2016; Perego, Kennedy, &

Whiteman, 2016). Recently, more and more companies have adopted integrated reporting to report company performance because it is considered to provide a competitive advantage for the company. Integrated reporting contains complete information compared to separate reports (International Integrated Reporting Council (IIRC), 2013; Robertson & Samy, 2020; Steyn, 2014).

Integrated Reporting provides the information needed by stakeholders (Cosma, Soana, & Venturelli, 2018; Giorgino, Supino, & Barnabè, 2017; Lee & Yeo, 2016; Nakajima & Inaba, 2022). Several studies also state that market decisions are quite strongly influenced by Integrated Reporting (Akisik & Gal, 2020; Cosma et al., 2018; Reimsbach, Hahn, & Gürtürk, 2018). However, other studies found that there is no correlation (Hsiao & Kelly, 2018; Stubbs & Higgins, 2018).

The integrated reporting framework continues to receive inadequate market attention (Perego et al., 2016). The market in Taiwan still requires awareness of the Integrated Reporting framework when making decisions, as per Hsiao and Kelly (2018). The relationship between Integrated Reporting and market response is rendered invalid by discrepancies in the results of this research. Previous studies also examined how Integrated Reporting influences stakeholder perspectives (Sciulli & Adhariani, 2023). So far, researchers have yet to find research regarding the market response to integrated reporting. The reputation of a company is very important because it can affect financial performance and competitiveness in the long term (Narteh, Odoom, Braimah, & Buame, 2012).

Reputation serves as a signal of how effective the company and its competitiveness are, which influences stakeholders to trust and make investment decisions (Camilleri, 2017; Raithel & Schwaiger, 2015). Stronger companies usually do more for sustainability and provide more honest information, which can make their integrated reporting seem more valuable (Hussainey, Albitar, & Alkaraan, 2022; Singh & Misra, 2021). However, current research largely overlooks how reputation relates to IR in influencing market response (Ihsani, 2021). Afrin and Rahman (2023) state that a company's reputation determines the impact of sustainability on investment quality. Tischer and Hildebrandt (2014) found that corporate reputation has a positive impact on shareholder value. Companies with a positive image are more likely to engage in social and environmental responsibility, according to Camilleri (2017). The sustainability performance of well-known companies will be better than that of unknown companies (Hussainey et al., 2022; Singh & Misra, 2021).

This study contributes to adding evidence related to market responses to companies that adopt IR. The enthusiasm of companies that voluntarily adopt IR signals to investors that the company is trying to secure its sustainability. Additionally, this study models reputation as a variable that moderates the influence of IR adoption on market responses. This study also provides practical insights into the role of reputation as a variable that explains market responses to companies that adopt or do not adopt IR.

This study is divided into five sections. Part one serves as an introduction; part two addresses the literature review. Section three delineates the research methodology. Part four comprises the analysis and discussion, concluding with the results and recommendations presented in part five.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1. Signaling and Stakeholder Theory

Signaling theory is a concept in which the person providing information can choose how it is presented, and the party receiving the information can decide how to interpret it (Christian, 2022; Khairudin & Wandita, 2017). Signaling theory states that businesses send and receive information about their quality and performance, and that these signals are interpreted by the market and stakeholders. This process helps to bridge information gaps and facilitates better decision-making (Ching & Gerab, 2017; Karaman, Kilic, & Uyar, 2020; Spence, 1973). Companies provide information not only in the form of financial reports but also non-financial information that can increase positive responses to the company.

Integrated reporting is implemented to provide a more comprehensive view of the company's overall performance. In line with signaling theory, the implementation of IR offers a perception of information transparency, where companies convey not only financial achievements but also non-financial aspects, such as the company's attitude towards environmental and social issues (Torelli, Balluchi, & Lazzini, 2020). This IR also describes how management views the company's prospects so that external parties can assess the company more comprehensively. This reporting demonstrates to the market that the company is capable of meeting stakeholder expectations by providing the requisite information regarding the company (Fernando, Dharmawati, Sriani, Shauki, & Diyanty, 2017).

According to Stakeholder Theory, organizations are accountable to a broader array of stakeholders, such as suppliers, employees, consumers, and investors (McAbee, 2022; Vitolla, 2020). This concept underscores the dual obligations of companies: satisfying the information requests of various stakeholder groups and accommodating their interests. There are two distinct components of stakeholder theory. First, the normative theory states that companies must treat all stakeholders fairly. The second theory is empirical management theory, which examines the impact of stakeholders on the company's performance (Rankin, 2022). Businesses that actively resolve stakeholder interests are more likely to receive public support, trust, and legitimacy (Nel & Van der Spuy, 2021).

The framework provided by IR enables companies to act in accordance with stakeholder expectations, thereby exemplifying these concepts. Stakeholder engagement and transparency are improved by IR. This allows them to evaluate the company's financial performance, as well as its social and environmental contributions (Adams, 2015).

The IIRC established IR in 2013, a new disclosure approach that incorporates financial and non-financial factors in a single report (Krzus, 2010). IR seeks to give more comprehensive and holistic information than individual sustainability and yearly reports (Rowbottom & Locke, 2016). IR demonstrates how organizations use several types of capital, including financial, manufacturing, intellectual, human, social, relational, and natural capital (International Integrated Reporting Council (IIRC), 2013). IR includes an overview of the organization and its external environment, governance, a business model, risks and opportunities, strategy and resource allocation, performance, and an outlook, as well as the basis for preparation.

2.2. Hypothesis Development

The IIRC established IR in 2013, a new disclosure approach that incorporates financial and non-financial factors into a single report (Krzus, 2010). IR seeks to give more comprehensive and holistic information than individual sustainability and yearly reports (Rowbottom & Locke, 2016). IR demonstrates how organizations use several types of capital, including financial, manufacturing, intellectual, human, social, relational, and natural capital (International Integrated Reporting Council (IIRC), 2013). It includes an outline of the organization and its surroundings, its governing structure, its business model, its risks and opportunities, its strategic direction, how resources are used, its performance metrics, its future outlook, and the framework for preparation.

In preparing IR, management is encouraged to instill integrated thinking within the company and also to see the dependencies between each aspect of the company so that it can help in forming business strategies. The reporting is transparent about how the company will maintain the value created, thus providing additional relevant information for the market (Abeywardana, Azam, & Kevin Low, 2024; Nishitani et al., 2021). International Integrated Reporting Council (IIRC) (2013) developed IR to improve the quality of information that will be received by the market, which can provide information about how the company produces value for all its stakeholders. Value creation disclosures align with stakeholder requirements and expectations, reducing asymmetry and risk to the company.

There are several reasons why the market responds more positively and prefers companies that implement IR. First, IR provides a comprehensive view of the company's potential and values. Second, IR enhances accountability regarding the resources possessed by the firm and promotes integrated thinking in decision-making and activities aimed at generating short-, medium-, and long-term value for the company (International Integrated Reporting Council (IIRC), 2013). The positive market reaction to the implementation of IR is characterized by an increase in

share prices around the publication date and a higher level of acceptance by the market compared to companies that do not implement it (Cosma et al., 2018; Nakajima & Inaba, 2022).

Stakeholder theory states that IR aims to meet the needs of stakeholders for both financial and non-financial information, such as data on social performance, environmental impacts, and other relevant aspects. The market tends to respond positively to companies that implement IR because these companies are perceived as more transparent and accountable. Furthermore, IR promotes positive interactions between the firm and its stakeholders, which can enhance the company's performance and reputation from the stakeholders' perspective (Ching & Gerab, 2017; Karaman et al., 2020). The information provided by the company to the market is essential for market consideration when making investment decisions. IR provides certainty regarding the company's prospects by including information that can help reduce asymmetry between the company and external parties. The arguments above underpin the following research hypothesis:

H_1: *Disclosure of IR has a positive effect on market response.*

Company reputation is the public's perception of the company and its overall performance. The public builds and trusts a company's reputation through its characteristics over time (Rahman & Akhter, 2021). Building a reputation will give the company a competitive advantage (Balmer & Greyser, 2003). A company's reputation can be built by producing products or services that are economically strong, trustworthy, have excellent management, and are efficient in their operations (Afrin & Rahman, 2023).

A company with a good reputation influences market response because reputation is an intangible asset that contributes to the company's sustainability. A high reputation supports companies in increasing their profits, performance, and social status. According to Legitimacy Theory, companies that prioritize community interests and maintain a positive image will receive community support (Aluchna, Hussain, & Roszkowska-Menkes, 2019). Companies can improve their reputation in the eyes of the public by carrying out their responsibilities. Company reputation is important because it can reduce the risk of being poorly perceived by the market (Cowan & Guzman, 2020). Publication of company reputation rankings enhances the company's image as a trustworthy organization, and the market will respond positively to these companies (Jao, Hamzah, Laba, & Mediaty, 2020). A company's ranking can encourage the market to invest capital because the higher the reputation, the more assured the market is of the company's quality. Drawing from the previously provided explanation, we propose the following hypothesis.

H_2: *Company reputation has a positive effect on market response.*

In their research, Afrin and Rahman (2023) prove that the influence of Corporate Social Responsibility (CSR) on the quality of an organization's investment varies according to its reputation. Afrin and Rahman (2023) demonstrate that the impact of CSR on the quality of an organization's investment is contingent upon its reputation. This finding implies that companies with a high reputation can increase market confidence in the information produced (Anwar & Malik, 2020). A company can enhance its reputation through various means, including effective management, high efficiency within its industry, or producing high-quality products. Reputable companies continually strive to improve the quality of their reports, especially those related to sustainability.

A good reputation will influence market perceptions and responses to the information contained in IR (Singh & Misra, 2021). Companies with a high reputation are more trusted and credible, so the information contained in IR can be well received by the market compared to reports issued by disreputable companies.

H_3: *Company reputation moderates the influence of IR on market response.*

2.3. Control Variables

Control variables aim to mitigate the impact of variables other than the primary variables of interest. This analysis employs control factors such as company size, leverage, sales growth, and the impact of COVID-19, which occurred in Indonesia from 2020 to 2022. Company size is a scale used to determine the size of a company and can significantly influence company performance (Qian & Xing, 2018). There are numerous methods for determining the

size of a company, including the number of shares owned, total assets, or sales. However, the natural logarithm is used to determine the company's magnitude in this study, based on total assets (Juniarti, Devina Theja, Tenoyo, & Darmasaputra, 2023; Velte, 2017).

Leverage is the capacity of a company to meet its obligations, which can impact its value and performance. This leverage variable is quantified by dividing total debt by total assets (Ruan & Liu, 2021). As leverage value increases, a company's capacity to fulfill its obligations decreases. Another control variable is sales growth. This variable indicates the increase in company sales from one period to the next. If sales increase, the company's assets also increase. Total sales for the current year are subtracted from total sales for the previous year, and the result is scaled by total sales for the previous year (Juniarti et al., 2023; Wahl, Charifzadeh, & Diefenbach, 2020). This calculation is used to determine sales growth. The final control variable is the COVID-19 pandemic, which can influence the market response to implementing IR. The capital market has been significantly affected by the COVID-19 outbreak, which is closely linked to investor confidence (Hai, 2020; Priscilla, Hatane, & Tarigan, 2023). Investors who feel pessimistic about future profits in the stock market decide to sell their shares at a low price (Bloom & Terry, 2020; Huang et al., 2020).

3. RESEARCH METHOD

3.1. Research Sample

The sample was drawn from companies listed on the Indonesia Stock Exchange until the end of 2017, and it met the following criteria: The companies must have had trading activity for the previous six months or more, and their data must have been included in the Corporate Image Index during the research year, which indicates a positive reputation for the business.

Based on the criteria above, 34 companies meet the requirements, and a total of 5 years of data have been collected, resulting in 170 samples suitable for testing. Data is sourced from various origins, such as IDX and corporate websites for financial reports. Stock price data is obtained from either Yahoo Finance or Investing.com, depending on which source provides more comprehensive information. Table 1 presents the result of sample selection.

Table 1. Sample selection.

No.	Criteria	Total
1	Number of companies registered on the Indonesia Stock Exchange as of 2017.	549
2	Number of companies that have not actively traded for more than six months.	(87)
3	Number of companies not found in the corporate image index during the research period.	(413)
4	Number of companies with incomplete data	(15)
	The number of selected companies	34
	The total selected sample for five years.	170

3.2. The Model of Analysis

The relationship between research variables, as stated in the hypothesis, is delineated in the analytical model, as illustrated in Figure 1.
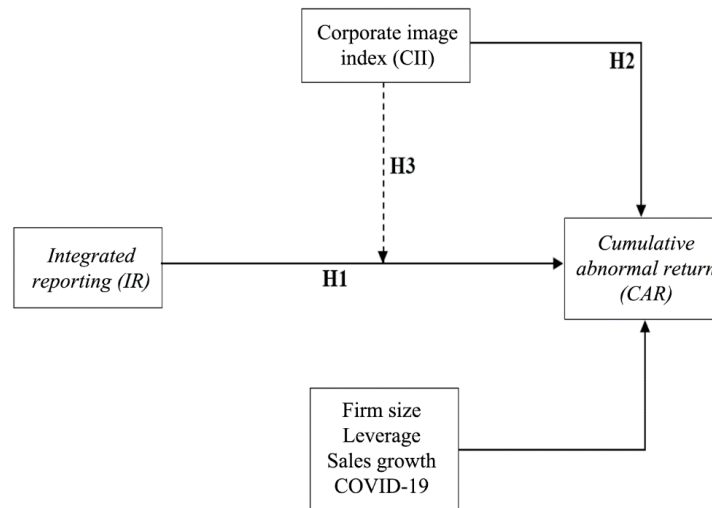
692

Figure 1. The analysis of model.

There are some control variables in this study, such as leverage, sales growth, company size, and COVID-19. These all have the potential to influence how the market responds (Juniarti et al., 2023; Priscilla et al., 2023; Ruan & Liu, 2021; Velte, 2017; Wahl et al., 2020). The following equation model also presents the analysis.

$$CAR_{i,t} = \beta_0 + \beta_1 IR_t + \beta_2 CII_t + \beta_3 IR_t * CII_t + \beta_4 SIZE_t + \beta_5 LEV_t + \beta_6 GROWTH_t + \beta_7 COVID19_t + \varepsilon$$

(1)

IR serves as the independent variable in this investigation. IR is a categorical variable that receives a score of 1 if the company implements it and 0 otherwise (Ching & Gerab, 2017; Karaman et al., 2020). Second, the dependent variable is the market response. To assess the impact of events, decisions, or specific external circumstances on a company's financial performance and market value, it is vital to measure market response. This procedure involves the analysis of stock price fluctuations, investor activity, and general market sentiment. This is conducted to understand the market's perception of new information. Cumulative Abnormal Return (CAR) is a commonly employed method in the financial sector to assess market reactions. The capacity of CAR to include value-relevant information is one of its advantages, as it assesses the impact of new information on investor behavior (Kothari & Warner, 2007; MacKinlay, 1997; Sun & Wen, 2023). Furthermore, CAR records both instantaneous responses and subsequent modifications over a designated timeframe after an occurrence. It is highly adaptable for assessing market efficiency and investor sentiment, as it can be tailored to different industries and events (Al-Shattarat & Al-Shattarat, 2017; Brown & Warner, 1985). In this study, the publishing date of the IR is regarded as the event date. The event window and event duration must be established to guarantee measurement precision (Brown & Warner, 1985; MacKinlay, 1997). This study performed the estimation phase from 120 days to six days prior to the event date, while the event period encompasses five days before and after the occurrence (Campbell, Lo, MacKinlay, & Whitelaw, 1998). MacKinlay (1997) and Campbell et al. (1998) indicate that other procedures are employed to compute the Cumulative Abnormal Return (CAR). Abnormal return (AR) is calculated as the difference between actual return and predicted return, as expressed in the following equation.

$$AR_t = R_t - E(R_t) \qquad (2)$$

The abnormal return in period t is determined by subtracting the actual return at time t (Rt) from the predicted return at time t (E(Rt)). The actual return is the outcome of stock investments conducted over a specified duration. Rt can be determined by dividing the initial stock price by the final stock price; alternatively, it can be expressed as follows.

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}} \qquad (3)$$

The next step is calculating the expected return, which is the return that investors expect from an investment they make. The expected return can be calculated by.

$$E(R_t) = [\alpha + (\beta \; x \; R_m) + \epsilon_t] \qquad (4)$$

The results of the calculations above will be accumulated by calculating Cumulative Abnormal Return (CAR) within the event period (-5, 0, +5). CAR is calculated using the formula.

$$CAR = \sum_{t-1}^{n} AR_{it} \qquad (5)$$

The Corporate Image Award's Corporate Image Index (CII) serves as a moderating variable in the study, assessing the company's reputation. The CII measures a company's reputation based on public assessments. A company is considered to have a good reputation if it has a CII value above 1. Four dimensions namely quality, performance, responsibility, and stakeholder interests, including the public, management, market, and journalists measure a company's CII. We generate this score by assessing management (40%), shareholders and the market (30%), journalists (20%), and the public or society (10%).

The control variables in this study include company size (SIZE), leverage (LEV), sales growth (GROWTH), and COVID-19. The size of a corporation is quantified by the natural logarithm of its total assets (Juniarti et al., 2023; Velte, 2017). Leverage (LEV) is the ratio of total debt to total assets (Ruan & Liu, 2021). The sales growth (GROWTH) is calculated by subtracting the previous year's sales from the current year's sales and then scaling the result by the previous year's sales (Juniarti et al., 2023; Wahl et al., 2020). Lastly, COVID-19 is a dummy variable designated as 0 prior to the pandemic and 1 during the year of its occurrence.

4. RESULTS AND DISCUSSION

4.1. Descriptive Analysis

Tables 2–5 present sample profiles based on industry sector, adoption and non-adoption of IR, and profiles based on the period before and after COVID. Tables 2–5 offer sample profiles based on industry sector, adoption and non-adoption of IR, and profiles based on the time before and after COVID. Table 2 examines nine industry sectors based on their distribution. The dataset shows sector distribution, with 32% of the sample coming from the finance sector. This is followed by non-primary consumer goods at 21% and primary consumer goods at 15%. In contrast, sectors such as Raw Materials, Industry, and Transportation and Logistics account for only 3% of the sample, indicating their limited representation in the data. The Corporate Image Index (CII) indicates the perceived reputation and image of companies across various sectors. Infrastructure achieves the highest CII score of 1.782, indicating that firms within this sector uphold a robust corporate reputation. Primary Consumer Goods (1.756) and Non-Primary Consumer Goods (1.596) exhibit comparably strong reputations. The industry sector exhibits the lowest Corporate Image Index (CII) at 0.291, indicating significant challenges in its corporate image. The finance industry leads in size and leverage, while infrastructure and primary consumer goods top in corporate reputation. CAR helps transportation and logistics have the best market perception, while energy has significant growth potential. This report highlights sector financial and reputational diversity.

Table 2. Sample profile by industry sector.

No.	Industry sector	Industry composition (%)	CII	Firm size	Leverage	Growth	CAR
1	Raw materials	3%	1.509	13.440	0.176	-0.005	-0.019
2	Non-primary consumer goods	21%	1.596	12.497	0.397	-0.044	-0.009
3	Primary consumer goods	15%	1.756	13.160	0.448	0.086	-0.022
4	Energy	9%	0.822	13.665	0.529	4.541	-0.037
5	Infrastructure	9%	1.782	13.539	0.589	0.078	-0.019
6	Health	6%	0.976	12.373	0.256	0.097	0.004
7	Finance	32%	1.211	14.271	0.816	0.092	-0.001
8	Industry	3%	0.291	12.236	0.750	0.392	-0.002
9	Transportation and logistics	3%	1.026	12.662	0.715	0.282	0.023

Table 3 shows that the average CII for companies that adopt IR is not significantly different from that of companies that do not adopt IR. Both groups have similar reputations. Similarly, regarding company size, there is no significant difference between adopting and non-adopting companies. There also appears to be no significant difference in leverage between the two groups. However, the higher average leverage in companies that adopt IR suggests that these companies use more capital loans or have higher debt levels compared to those that do not adopt IR.

The average GROWTH variable in companies that adopt IR is 0.0501, which is higher than in companies that do not adopt it. This evidence indicates that companies implementing IR tend to have higher annual revenues compared to those that do not. The growth rate of companies adopting IR exceeds that of non-adopters. Additionally, the average CAR for companies not adopting IR is negative, which is inversely related to the average CAR in companies that do adopt IR. This data suggests that the market response is more favorable toward companies that implement IR compared to those that do not.

Meanwhile, in the sample group before and during COVID-19 (Table 4), there were almost no differences in variable profiles except for company growth. Before the COVID-19 pandemic, the average GROWTH was 0.0955. During the pandemic, growth was nearly zero, indicating that the company was not expanding.

Table 3. Descriptive statistics for the sample group that adopted IR vs non-adopters.

Variable	Adopters (N=115)				Non-adopters (N=55)			
	Mean	S.D.	Min.	Max.	Mean	S.D.	Min.	Max.
CII	1.511	0.7226	0.2910	3.105	1.497	0.6377	0.180	2.624
Firm size	31.0	2.044	27.26	35.06	30.26	1.739	27.2	33.0
Leverage	0.5409	0.2626	0.0925	0.9447	0.4521	0.2235	0.1406	0.8801
Growth	0.0550	0.1960	-0.7708	0.8501	0.0049	0.2068	-0.8719	0.3581
CAR	0.0056	0.0550	-0.1290	0.1425	-0.0153	0.0472	-0.1443	0.1035

Table 4. Descriptive statistics for sample group before and during COVID-19.

Variable	Before COVID-19 (N=102)				During COVID-19 (N=68)			
	Mean	S.D.	Min.	Max.	Mean	S.D.	Min.	Max.
CII	1.578	0.7379	0.2060	3.105	1.399	0.6135	0.180	2.867
Firm size	30.81	2,011	27.20	35.06	30.69	1.936	27.36	34.80
Leverage	0.5160	0.2443	0.0925	0.9447	0.5065	0.2686	0.1161	0.9222
Growth	0.0009	0.2297	-0.8719	0.8501	0.0955	0.1273	-0.4376	0.6706
CAR	-0.0003	0.0518	-0.1328	0.1227	-0.0024	0.0561	-0.1443	0.1425

Table 5. Descriptive statistics for full sample.

Variable	Mean	S.D.	Min.	Max.
CII	1.5064	0.694	0.180	3.105
Firm size	30.76	1.98	27.20	35.06
Leverage	0.5122	0.2536	0.0925	0.9447
Growth	0.0388	0.2003	-0.8719	0.8501
CAR	-0.0012	0.0534	-0.1443	0.1425

We select the most appropriate model for this research data before testing the hypothesis. First, a Chow test is conducted to determine whether the model is a Fixed Effect or a Common Effect. The results of the Chow test show a p-value of 0.81059, so the null hypothesis (H0) is accepted, indicating that the best model is the Common Effect Model. Considering that the optimal model is the Common Effect, the next step is to perform the Breusch-Pagan test to decide whether the best model is the Effect or Random Effect. The results of the Breusch-Pagan test show a p-value greater than 0.05, which means that H0 is accepted, confirming that the best model is the Common Effect. Next, we will test the hypothesis using the Common Effect model. Table 6 presents a summary of tests to determine the best model.

Table 6. A summary of tests.

Test summary	Chi-square statistic	p-value
Chow test	2.986	0.811
Breusch-pagan test	7.740	0.356

To prevent data bias from year to year, we conducted an autocorrelation test before further analysis (Table 7), which yielded the following results: The Durbin-Watson value ranged from 1.5 to 2.5, indicating no significant autocorrelation. Specifically, a Durbin-Watson value of 2.298 suggests weak or very slight negative autocorrelation but remains within normal limits. Therefore, there is no indication of significant autocorrelation in this data. The analysis can proceed without concern for autocorrelation issues.

Table 7. Autocorrelation test.

Model	R	R square	Adjusted R-squared	Std. error of the estimate	Durbin-Watson
1	0.240a	0.058	0.023	0.053	2.298

Note: a. Predictors: (Constant), GROWTH, CII, IR, FS, COVID, LEV
Dependent variable: CAR

Table 8 compares test results for each model (Common Effect, Fixed Effect, and Random Effect models).

Table 8. The comparison of test results for each model.

Variable	Fixed effect model		Random effect model		Common effect model	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
const	–0.5952	0.5840	0.0838	0.3089	0.0838	0.3104
IR	-	-	-	-	0.0036	0.0869
CII	–0.0063	0.8395	–0.0036	0.8689	–0.0031	0.7894
IR*CII	0.0052	0.8915	0.0117	0.3925	0.0116	0.3938
Firm Size	0.0186	0.6094	–0.0034	0.7891	–0.0033	0.2514
Leverage	0.0527	0.6061	0.0344	01312	0.0343	0.1331
Growth	–0.0185	0.4836	–0.0170	0.4383	–0.0171	0.4394
COVID-19	–0.001	0.8700	–0.0000	0.9956	–0.0001	0.9956

The results of hypothesis testing can be compared to panel regression results using the Common Effect model (Table 9). However, testing is conducted without the moderating variable so that the model can be viewed in its entirety before the variable is introduced. The two test results are presented in Table 7.

Table 9. The results of hypothesis testing (Panel data).

Variable	Model-exclude moderating variable			Model-include moderating variable		
	Coef.	t-ratio	p-value	Coef.	t-ratio	p-value
const	0.0937	1.103	1.886	0.582	1.018	2.156
IR	0.0208	2.344	0.0203	0.0036	1.147	0.0869
CII	0.0054	0.8974	0.3708	–0.0031	–0.0268	5.482
IR*CII				0.081	5.938	2.735
Firm Size	–0.0029	–0.9992	0.0319	–0.0033	–1.151	1.746
Leverage	0.0337	1.483	0.1400	0.238	1.509	0.924
Growth	–0.0163	–0.7441	0.4579	–0.0171	–0.7751	3.051
COVID-19	–0.0003	–0.0451	0.9641	–0.0001	–0.0055	6.914

The first hypothesis tests whether IR has a positive effect on market response. Table 9 shows a positive and significant IR coefficient of 0.0208 with a p-value of 0.0203 (<0.05), meaning that H1 is accepted. Testing H1 by including the moderating variable still shows consistent results, where the positive IR coefficient is 0.0038, and the p-value is 0.0869 (<0.1). The second hypothesis tests the influence of CII on market response. The test results show

a positive CII coefficient of 0.0054, but the p-value is 0.0378 (>0.05), so H2 is rejected. The results of testing H2 after entering the moderating variable turned out to be no better, so the decision to still use H2 was rejected. With a p-value of 0.3938, testing the moderating variable in the analysis model shows that it has a positive effect, but it is not statistically significant. This indicates that H3 is not supported. The control variables in this model were also not proven to significantly influence changes in CAR.

This study's hypothesis tested the average data per company over five years to confirm the test outcomes. Table 10 shows that IR consistently affects market response in both models, with and without moderation. CII has not been shown to moderate that influence. This is because the research sample's CII values are high and similar for IR and non-IR enterprises. The findings of this study indicate that the sample used for testing the hypothesis is appropriate. The results are consistent with those of earlier tests that used panel data with 170 observations.

Table 10. Additional testing using the average data per company for 5 years.

Variable	Model-exclude moderating variable			Model-include moderating variable		
	Coef.	*t-ratio*	*p-value*	*Coef.*	*t-ratio*	*p-value*
const	0.1452	1.3406	0.1912	0.1348	3.6304	0.0067
IR	0.0160	1.7319	0.0947	0.0223	1.9865	0.0822
CII	0.0135	1.6499	0.1106	0.0120	1.8808	0.0968
IR*CII				-0.0036	-0.4667	0.6532
Firm Size	-0.0064	-1.6656	0.1073	-0.0062	-4.3950	0.0023
Leverage	0.0448	1.5518	0.1324	0.0518	3.5001	0.0081
Growth	-0.0290	-0.6663	0.5109	-0.0806	-4.5657	0.0018
COVID-19	-0.0021	-0.2627	0.7948	0.0014	0.4858	0.6401

This research aims to examine the market response to the implementation of IR by companies listed on the Indonesia Stock Exchange and the role of reputation in moderating the influence of IR adoption on market response. The test results support the first hypothesis that the market responds to companies that implement IR compared to those that do not. This result aligns with signaling theory, which states that companies can provide positive signals to the market by improving the quality of their reporting. This finding supports previous research showing the market's positive response to companies implementing IR (Cosma et al., 2018; Nakajima & Inaba, 2022). The market appreciates IR, which combines reports to provide additional information relevant to investment decisions. Although there are still a few companies that implement IR in Indonesia, the market in Indonesia responds well to companies that do so.This finding is different from Hsiao and Kelly (2018) which revealed that the Taiwanese market responded differently. They could be more enthusiastic about implementing IR because of transparency issues regarding social and environmental responsibility reporting.

Further analysis indicates that reputation does not affect market response. Company reputation must remain consistent to influence market response. The reputation variable profile (CII) is the same for sample groups that use and do not use IR. This could be one of the reasons why hypothesis 2 is not supported. Several samples of companies with high reputations show a small increase in market response around the publication date of the annual report and tend to be similar to companies with low reputations. Jao and Jimmiawan (2018) found similar results where the company's reputation, as shown through the CII value, did not have a significant influence on abnormal returns.

The test results also indicate that reputation does not moderate the influence of IR on market response, thus rejecting H3. The findings of this research differ from those of Afrin and Rahman (2023), who show that corporate reputation moderates the relationship between corporate sustainability reporting and investment decisions. Sample profiles that show similarities in reputation indices between companies that implement and do not implement IR can influence test results. The small number of samples that have CII data can undoubtedly affect the similarity of data between sample groups and subsequently influence the results.

5. CONCLUSION, IMPLICATIONS AND FUTURE RESEARCH

The findings of this study provide important insights into the implementation of IR and its impact on market responses across companies listed on the Indonesian Stock Exchange.

The adoption of IR has a positive effect on market response, as evidenced by data, despite the fact that business reputation does not substantially influence market reactions to IR, as measured by the Corporate Image Index (CII). The findings indicate that the market places a high value on comprehensive and precise reporting, regardless of the company's prior reputation.

This research has an impact on investors, standard setters, and companies. Companies should contemplate the implementation of IR due to its ability to alter market perception and response. This is consistent with signaling theory, which underscores the importance of comprehensive and transparent reporting. Companies must effectively communicate their financial and non-financial performance through IR in order to elicit a favorable market response.

Investors can evaluate the company's dedication to transparency and comprehensive reporting through the use of IR, which can serve as a positive indicator when formulating investment decisions. When evaluating investment potential, they should prioritize the implementation of IR over relying solely on the business's reputation. Policymakers should promote the adoption of IR practices by a greater number of businesses to improve market transparency and efficiency. The market will benefit from the establishment of strict IR regulations and rules, which will improve the quality and uniformity of reports.

This research proposes a variety of topics that may be pursued in the future. A more comprehensive understanding of the relationship between reputation and market reaction to IR can be achieved by expanding the sample size to include a greater number of companies, particularly those with complete CII data. The effectiveness of IR can be demonstrated by comparing the impact of IR adoption on market responses across various countries, which highlights the influence of cultural, regulatory, and market variables. The aspect of corporate reputation could also be further explored in future research. Furthermore, studying the adoption and impact of IR within specific industries or sectors can reveal sector-specific benefits and obstacles, leading to more tailored recommendations for businesses and governments.

The findings of this study provide important insights into the implementation of IR and its impact on market responses across companies listed on the Indonesian Stock Exchange. The adoption of IR has a positive effect on market response, as evidenced by data, although business reputation does not substantially influence market reactions to IR, as measured by the Corporate Image Index (CII). The findings indicate that the market places a high value on comprehensive and precise reporting, regardless of the company's prior reputation.

This research has an impact on investors, standard setters, and companies. Companies should consider implementing IR due to its ability to influence market perception and response. This approach aligns with signaling theory, which emphasizes the importance of comprehensive and transparent reporting. Companies must effectively communicate their financial and non-financial performance through IR to elicit a favorable market response. Investors can assess a company's commitment to transparency and comprehensive reporting through IR, which can serve as a positive indicator when making investment decisions. When evaluating investment potential, they should prioritize the implementation of IR over relying solely on the company's reputation. Policymakers should promote the adoption of IR practices by more businesses to enhance market transparency and efficiency. The market will benefit from the establishment of strict IR regulations and rules, which will improve the quality and consistency of reports.

This research suggests a range of potential future research topics. A more comprehensive understanding of the relationship between reputation and market reaction to IR can be achieved by expanding the sample size to include a higher number of companies, particularly those with complete CII data. You can assess how well IR works by examining how the adoption of IR has changed market responses in different countries. This demonstrates how cultural, regulatory, and market factors can influence results. The aspect of corporate reputation could also be further explored in future research. Additionally, studying how IR is used and its effects on specific industries or sectors can

reveal benefits and challenges unique to those sectors. This can lead to more tailored recommendations for businesses and governments.

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