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07-Dec-2020

Dear Prof. Narsa,

A manuscript titled Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors? (JAOC-12-2020-0204) has been submitted by Prof. I Made Narsa to the Journal of Accounting & Organizational Change.

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01-Mar-2021

Dear Prof. Narsa:

Manuscript ID JAOC-12-2020-0204 entitled "Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors?" which you submitted to the Journal of Accounting & Organizational Change, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The reviewer(s) have recommended major revisions to the submitted manuscript, before it can be considered for publication. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

I would also ask you to check that your final manuscript is prepared in line with the journal's manuscript preparation and style (in terms of formatting, headings, subheadings and referencing) which can be downloaded from the journal's website.

All Tables and Figures must be prepared in Words in an editable format. This is a production requirement. Please refer to a recent article with tables and figures published in the Journal of Accounting & Organizational Change for formatting, especially for borders/shading, caption/title, line spacing, etc. No colored tables and figures are acceptable - all must be black and white.

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Once again, thank you for submitting your manuscript to the Journal of Accounting & Organizational Change and I look forward to receiving your revision.

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Sincerely,
Prof. Zahirul Hoque
Editor, Journal of Accounting & Organizational Change
z.hoque@latrobe.edu.au

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:
It is an interesting paper, which is motivated by the development of dialogue and debate regarding company reporting in the form of sustainability reporting—which is separated from the annual report - or integrated reporting. This study examines which of the two reports is more valuable for investors, and also examines the interaction between non-financial information (in the form of SR/IR) and financial information.

However, the paper suffers from the lack of clarification, discussion and justification in all sections. Examples of this lack are as follows.

(1) No information was provided regarding sample countries of the study and the level of IR/SR disclosure in these countries.
(2) No justification was provided regarding the country selection and Why only Africa & Europe.
(3) No justification was provided regarding the control variables and their impact on value relevance of accounting information.
(4) No information was provided regarding the selection of GLS regression.
(5) No information was provided related to the correlation between the variables of the study.
(6) No clarification and justification were provide for the results of the study. Also, no link was found with previous studies.
(7) The discussion of the results and the link to re4search hypotheses was minimum with no enough support from the literature.
(8) No details were provided for the tables of the study.
(9) No enough justification and motivation were provided.
(10) No enough clarification and justification were provided regarding the moderating role of non-financial information.
(11) No enough justification was provided for additional analysis "We performed additional analysis using stock prices in a month and three months after the
end of the annual reporting period". Also, no enough discussion was provided.

In addition, there are minor issues including:
1. The abstract needs to be reviewed. for example, "Originality—Research on the value relevance of SR and IR has been carried out by several previous researchers separately, but to the best of the author's knowledge, studies comparing the value relevance of the two are still missing.
Practical Implication—Research on the value relevance of SR and IR has been carried out by several previous researchers separately, but to the best of the author's knowledge, studies comparing the value relevance of the two are still missing."
2. The author(s) needs to use the chorological tto list the references in the text. for example in page 3: (Burgstahler & Dichev, 1997; Collins et al., 1997; Gu, 2007; Lev &
Zarowin, 1999). Should be Burgstahler & Dichev, 1997; Collins et al., 1997; Lev &
Zarowin, 1999; Gu, 2007.
3. in Page 7: "The results showed that the IRSR was significantly negative, which means the value-relevance of SR is higher than that of SR". I think second SR should be IR.
4. The paper should be edited before resubmission.

Additional Questions:

Reviewer: 2

Recommendation: Reject

Comments:

Dear authors
your study is very interesting but this version cannot be published in this high ranking journal. I noted some points that can be improved but I suggest you to submit this paper to other journals.
Good luck for your new paper!

Additional Questions:

DEADLINE: 30-May-2021. If you need additional time to complete your revision please contact me to ask for an extension.

To go straight to your paper, click this link: *** PLEASE NOTE: This is a two-step process. After clicking on the link, you will be directed to a webpage to confirm. ***

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I Made Narsa <i-made-n@feb.unair.ac.id> 28 Mei 2021 05.09
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[Kutipan teks disembunyikan]
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Best Regards,
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Dear Reviewers,

We appreciate the opportunity to revise and resubmit our paper titled “Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investor?” We want to thank the reviewers for their critiques and revision recommendations. We think the revised paper is strengthened by them. We have followed the reviewer’s suggestions and comments, our response to the comments, and the location of changes made in the manuscript. Changes to the revised manuscript are marked in red. We have included the line numbers in the revised manuscript to help the reviewers identify our changes.

REVIEWER 1

Comments on Major Revisions:

1. No information was provided regarding sample countries of the study and the level of IR/SR disclosure in these countries.

   Author Response:
   Thank you for pointing this out. We insert Table 1A and Table 1B for detailed information about the selected sample. The revised text reads is as follows on **page 8 line 13-15**:

   > “The list of SR issuers was obtained from the global reporting website and IR issuers from the IIRC and global reporting website (Table 1A and Table 1B).”

2. No justification was provided regarding the country selection and why only Africa & Europe.

   Author Response:
   Thank you for pointing this out. The revised text reads as follows on **page 7 line 40-43 and page 8 line 1-18**:

   > “We selected several countries in Europe because companies in these countries were considered to have good reputations for managing their sustainability and environmental information and have been at the forefront of sustainability reporting (Loprevite *et al*., 2018; Landau *et al*., 2020), particularly in the UK and Germany (Schaltegger & Zvezdov, 2015) and France (Babourkados, 2018). Generally, sustainability disclosure has been promoted by the European Parliament in Directive 2014/95/EU which imposes a "public interest" on European entities to disclose non-financial information in their annual reports (Camodeca et al, 2018). Meanwhile, Africa (particularly South Africa) was chosen because it was the first country to introduce a *de facto* mandatory requirement for companies listed on Johannesburg Stock Exchange to prepare integrated reports in response to social, political, environmental, and economic challenges (Atkins & Maroun, 2015; Loprevite *et al*., 2018). In addition, South Africa has been one of the most active IR adopter countries and has also been the first and only country to date to require all its public-listed companies to publish their integrated reports (Hoang et al., 2020). Therefore, our sample consisted of 931 firm-years of SR issuers and 922 firm-years of IR issuers for the period from 2005 to 2019

located in Europe and Africa. These two continents were chosen because they were early adopters of IR. The list of SR issuers was obtained from the global reporting website and IR issuers from the IIRC website (Table 1A and Table 1B). Companies that issue SR are the companies that use GRI for reporting guidance. By using unbalanced panel data, this study retrieved data on accounting variables and stock prices used in our regression model obtained from the OSIRIS database."

3. No justification was provided regarding the control variables and their impact on the value relevance of accounting information.

   Author Response:
   We have added the suggested content to the manuscript on Section 3.2 [**page 8 line 21-35**]:

   "Bepari (2015) suggested that deteriorating financial health and extreme returns on equity can affect the value relevance of book value and earnings, thus our study controlled for the influence of these contextual factors, such as ROE, leverage, operating cash flows, and firm size. We estimated the model by including time and industry fixed effects to control for differences in time and industry type. Thus, we added the time dummy set (year) as one if the report is compiled as of December 31st and zero otherwise. We defined the industrial dummy as a two-digits of the SIC code (Abdollahi et al., 2020). Each country has a different background and context which can influence the findings. The economic and political system, the way rules and regulations are enforced as well as social-cultural factors of the community can also influence the findings (Kadri et al., 2009). Therefore, to minimize this effect, we control for the country effect, one for South Africa and zero for the rest. Models that do not control for the effects of these contextual factors will produce biased results (Bepari, 2015). To test H_1, we looked at the significance of the $IRSR_{it}$ coefficient. Meanwhile, to test H_2, we look at the significance of the interaction coefficient."

4. No information was provided regarding the selection of GLS regression.

   Author Response: We appreciate the reviewer's feedback. We made justification to the manuscript on **page 11 line 6-20**:

   "We used GLS regression because of heteroscedasticity and autocorrelation problems in testing the model. The problem of heteroscedasticity comes from a population with great variability so that OLS cannot be used. GLS assigns the same weight or level of importance to each observation, in such a way that it is able to produce BLUE estimators. GLS transforms the original OLS model, thus the variance of the disturbance is transformed into homoscedastic. Therefore, when using GLS, we apply OLS to the transformed model and this will produce a BLUE estimator. The procedure which transforms the original variables in such a way that the transformed variable satisfies the assumptions of the classical model and then applies OLS to them is known as the GLS method. In summary, the GLS is the OLS of the transformed variable that satisfies the standard least-squares assumptions. The same is true when there is autocorrelation. The beta estimator from GLS includes the autocorrelation parameter in the estimating formula, while the OLS formula just ignores it. That is why the GLS estimator is said to be BLUE and not the OLS estimator, in other words, the GLS estimator makes the most use of the available information."

5. No information was provided related to the correlation between the variables of the study.

Author Response: We appreciate the reviewer's feedback. We made justification to the manuscript on **page 11 lines 3-5** and we added **Table 4** in the revised manuscript as follows:

Table 4
Pearson Correlation Matrix

Variables	MVE	BVS	EPS	LnTA	IRSR	IRSR × BVS	IRSR× EPS	DER	ROE	CFO	BTM
MVE	1.0000										
BVS	0.7495	1.0000									
EPS	0.5290	0.6545	1.0000								
LnTA	0.2731	0.1456	0.1110	1.0000							
IRSR	-0.2550	-0.0983	-0.0983	-0.3837	1.0000						
IRSR×BVS	0.0328	0.0920	-0.0966	0.1523	0.2182	1.0000					
IRSR×EPS	0.0141	-0.0335	0.3392	-0.0349	0.0553	-0.2052	1.0000				
DER	0.0736	0.1625	0.0590	0.2004	-0.0638	0.0857	-0.1266	1.0000			
ROE	0.0034	-0.0299	0.0960	-0.0127	0.0081	-0.0093	-0.0486	0.0124	1.0000		
CFO	0.0145	-0.0188	-0.0074	0.0132	-0.0771	-0.0405	0.0117	-0.0517	0.0176	1.0000	
BTM	0.0056	0.063	-0.0153	0.0248	-0.0034	0.3062	-0.0611	0.0533	-0.0072	-0.0018	1.0000

Notes: Abbreviations: MVE = market value of equity; BVS = book value per share; EPS = earnings per share; LnTA = natural logarithm of total assets; IRSR = dummy variable of IR and SR; DER = debt-to-equity ratio; ROE = return on equity; CFO = operating cash flow/total asset; BTM = book-to-market ratio

Table 4 presents the pairwise correlation coefficient of the variables used in the analysis. The MVE and BVS as well as BVS and EPS have a high positive correlation (0.7495 and 0.6545 respectively). Meanwhile, the other pairs have a low correlation with each other.

6. No clarification and justification was provided for the results of the study. Also, no link was found with previous studies.

Author Response: We appreciate the reviewer's feedback and we pay thank you for taking the time to review our manuscript. Based on reviewer comments, we made adjustments to Section 4.2 (Regression Results) as follows (**page 11 line 6-41**):

"We used GLS regression because of heteroscedasticity and autocorrelation problems in testing the model. The problem of heteroscedasticity comes from a population with great variability so that OLS cannot be used. GLS assigns the same weight or level of importance to each observation, in such a way that it is able to produce BLUE estimators. GLS transforms the original OLS model, thus the variance of the disturbance is transformed into homoscedastic. Therefore, when using GLS, we apply OLS to the transformed model and this will produce a BLUE estimator. The procedure which transforms the original variables in such a way that the transformed variable satisfies the assumptions of the classical model and then applies OLS to them is known as the GLS method. In summary, the GLS is the OLS of the transformed variable that satisfies the standard least-squares assumptions. The same is true when there is autocorrelation. The beta estimator from GLS includes the autocorrelation parameter in the estimating formula, while the OLS formula just ignores it.

That is why the GLS estimator is said to be BLUE and not the OLS estimator, in other words, the GLS estimator makes the most use of the available information.

The first hypothesis was answered through the significance of the *IRSR* coefficient (Table 5). The results showed that the *IRSR* was significantly negative at the 1 percent level, with a coefficient = -16.75. This suggests that the value-relevance of SR is higher than that of IR (the first hypothesis was rejected). As with de Klerk & de Villiers (2012), we found a positive and significant association between financial information (book value and earnings) and the market value of equity as expected, but non-financial information (the *IRSR* in this study), the result showed that SR has a higher response than IR. Although de Klerk & de Villiers (2012) examined the value relevance of corporate responsibility reporting, it is implied that sustainability reporting is another form of corporate responsibility reporting. Similar results were obtained by Cardamone *et al*. (2012) in the context of social reporting. This suggests that the market still gives higher value-added to companies dealing with ethical, economic, environmental, and social issues.

The second hypothesis was answered through the significance of the interaction effect coefficient between *IRSR* and *BVS* and *EPS*. The results showed that the interaction coefficient for *IRSR* and *EPS* is positive and significant at the 1 percent level, with the coefficient = 0.56. This suggests that if there is an increase in financial information in the form of earnings per share, the market value of the company that issued the IR will be higher. Meanwhile, this does not apply to financial information in the form of book value per share, or in other words, the existence of book value per share information will have the same effect on the value of the company, whether it issued IR or SR."

7. The discussion of the results and the link to research hypotheses was minimum with no enough support from the literature.

<u>Author Response</u>: Thank you for taking your time to review our manuscript. We made rearrangement to Section 4.3.1 and 4.3.2 as follows (**page 13 line 9-22; page 14 line 1-17; and page 15 line 1-17**):

4.3.1. The Value-Relevance of Sustainability Reporting is Higher Than Integrated Reporting

This study tested two hypotheses, that IR has a higher value relevance to stock prices than SR for investors. The second hypothesis stated that the non-financial information contained in IR indirectly modifies the relevance of the financial variables in the form of BVS and EPS. The result of this study indicated that we should reject the first hypothesis. It suggests that sustainability reporting is considered to be of higher value by capital market investors than integrated reporting is. Conradie (2018) stated that a number of social and environmental scholars criticize the existence of integrated reporting that ignores the roots of social and environmental accounting (SEA). These critics are of the view that integrated reporting has a narrow focus and is aimed more at financial capital providers, so it does not provide equal treatment to all stakeholders. Basically, economic, social, and environmental issues are published in the company's sustainability report and this report discusses the company's attention to these three issues in detail. In particular, our study uses GRI as the basis for preparing a sustainability report. SR disclosed all company activities aimed at supporting SDGs and informs investors and other stakeholders in a balanced manner. It is for this kind of corporate concern that investors consider SR to be more valuable than IR. Investors continue to believe companies that do separate reporting for their annual reports and sustainability reports rather than integrated reporting.

Mcnally *et al.* (2017) found that IR is still not consistently regarded as a natural part of the business process, stakeholder involvement is limited, and guidelines for its preparation are considered to be a disclosure checklist. Furthermore, they noted that IR preparers themselves still do not believe that IR is taken seriously by investors, thus limiting the linkage between sustainability performance and IR. Based on interviews conducted by Chaidali & Jones (2017) with several IR preparers, the credibility of a single report is still in doubt by the preparers themselves and it seems that they are not sure of the benefits or beneficiaries of IR. These preparers reported problems stemming from a lack of adequate and clear guidance, the high cost of preparation, format, and length of reports which they believed could undermine IR's credibility.

4.3.2. IR publication has a value relevance because the information in the IR could reinforce the importance of accounting information

The second hypothesis stated that the publication of IR indirectly modifies the relevance of the financial variables in the form of BVS and EPS. The results of this study support this hypothesis. The result of our study indicated that the publication of IR is able to moderate the value-relevance of financial information through earnings per share, but not for book value. This is consistent with (Cortesi & Vena, 2019) that IR is able to increase company disclosure and reduce information asymmetry as well as improve the quality of reported earnings per share. This is consistent with Chiang *et al*. 2017 that good corporate governance tends to encourage a greater value relevance on earnings than on book value, although their study does not focus on aspects of corporate governance mechanisms. Corporate reporting is one of the company's communication methods for all stakeholders. The dramatic change in corporate reporting has led to full communication about non-financial aspects to complement the financial information so that stakeholders (especially investors) are able to assess the company's economic achievement, competitive advantage, and value creation.

8. No details were provided for the tables of the study.

   Author Response: We have added the suggested details to the revised manuscript as follows:

TABLE 2

Descriptive Statistics for Entire Sample

	Mean	Std. Dev	Min	Max
MVE	30.20	72.08	0.01	1,194.62
BVS	33.20	191.16	-8.05	4,549.88
EPS	2.14	15.64	-262.09	247.91
LnTA	15.11	2.20	7.20	21.10
DER	2.75	7.33	-77.99	84.48
ROE	6.76	24.44	-502.70	383.07
CFO	0.08	0.20	-4.13	3.59
BTM	0.95	10.91	-289.05	208.89

Notes: Abbreviations: MVE = market value of equity; BVS = book value per share; EPS = earnings per share; LnTA = natural logarithm of total assets; IRSR = dummy variable of IR and SR; DER = debt-to-equity ratio; ROE = return on equity; CFO = operating cash flow/total asset; BTM = book-to-market ratio

TABLE 3A

Descriptive Statistics for SR Issuers

	Mean	Std. Dev	Min	Max
MVE	48.49	95.97	0.01	1,194.62
BVS	55.86	265.84	-8.05	4,549.88
EPS	3.67	20.60	-262.09	247.91
LnTA	15.96	2.10	7.20	20.76
DER	3.22	8.92	-77.99	84.48
ROE	6.56	26.35	-502.70	383.07
CFO	0.10	0.24	-0.47	3.59
BTM	0.99	1.39	-0.39	19.37

Notes: Abbreviations: MVE = market value of equity; BVS = book value per share; EPS = earnings per share; LnTA = natural logarithm of total assets; IRSR = dummy variable of IR and SR; DER = debt-to-equity ratio; ROE = return on equity; CFO = operating cash flow/total asset; BTM = book-to-market ratio

TABLE 3B

Descriptive Statistics for IR Issuers

	Mean	Std. Dev	Min	Max
MVE	11.74	21.64	0.01	164.42
BVS	10.33	32.76	-4.41	426.67
EPS	0.60	7.66	-176.75	30.41
LnTA	14.25	1.93	9.07	21.10
DER	2.28	5.21	-6.06	78.86
ROE	6.95	22.34	-257.38	116.26
CFO	0.06	0.16	-4.13	0.53
BTM	0.92	15.41	-289.05	208.89

Notes: Abbreviations: MVE = market value of equity; BVS = book value per share; EPS = earnings per share; LnTA = natural logarithm of total assets; IRSR = dummy variable of IR and SR; DER = debt-to-equity ratio; ROE = return on equity; CFO = operating cash flow/total asset; BTM = book-to-market ratio

TABLE 5

Generalized Least Squares

Regression of Sustainability/Integrated Reporting to Market Value of Equity

	Coeff.	z-stat	p-value
Constant	-43.18	-4.92	0.000
BVS	0.27	35.04	0.000***
EPS	0.18	1.94	0.052**
IRSR	-16.75	-6.98	0.000***
IRSR*BVS	0.01	0.20	0.840
IRSR*EPS	0.56	2.77	0.006***
LnTA	4.88	8.95	0.000***
DER	-0.75	-5.09	0.000***
ROE	0.07	1.72	0.086*
CFO	4.78	0.94	0.350
BTM	-0.19	-1.85	0.065*
Number of observations			1,853
Wald chi2			2,974.07
Prob > chi2			0.0000

*** significant at 1%.
** significant at 5%.
* significant at 10%.

Notes: Abbreviations: MVE = market value of equity; BVS = book value per share; EPS = earnings per share; LnTA = natural logarithm of total assets; IRSR = dummy variable of IR and SR; DER = debt-to-equity ratio; ROE = return on equity; CFO = operating cash flow/total asset; BTM = book-to-market ratio.

TABLE 6

Generalized Least Squares
Regression of Sustainability/Integrated Reporting to
Market Value of Equity
(A Month and Three Months After Reporting Period)

	A Month After Reporting Period			Three Months After Reporting Period		
	Coeff.	z-stat	p-value	Coeff.	z-stat	p-value
Constant	-36.69	-2.03	0.043	-29.66	-1.30	0.193
BVS	0.27	19.69	0.000***	0.27	15.16	0.000***
EPS	0.21	1.18	0.237	0.19	0.83	0.405
IRSR	-18.47	-3.12	0.002***	-20.90	-2.80	0.005***
IRSR*BVS	0.73	8.04	0.000***	1.19	10.41	0.000***
IRSR*EPS	-3.65	-9.44	0.000***	-6.05	-12.42	0.000***
DER	-0.43	-1.66	0.097*	-0.11	-0.34	0.737
ROE	0.07	0.92	0.359	0.10	1.10	0.273
CFO	5.47	0.61	0.539	7.29	0.65	0.515
BTM	-0.66	-3.74	0.000***	-1.02	-4.60	0.000***
Country	-5.21	-0.75	0.451	-3.46	-0.40	0.691
Year	0.37	0.07	0.947	-2.03	-0.29	0.769

*** significant at 1%. * significant at 10%.

Notes: Abbreviations: MVE = market value of equity; BVS = book value per share; EPS = earnings per share; LnTA = natural logarithm of total assets; IRSR = dummy variable of IR and SR; DER = debt-to-equity ratio; ROE = return on equity; CFO = operating cash flow/total asset; BTM = book-to-market ratio.

9. No enough justification and motivation were provided.

Author Response: The introduction section has been updated, such that in the first paragraph as follow (**page 2 line 7-12**):

> "Financial statements are used to determine a value of a company as a whole. The accounting information contained in financial reports should aim to provide a basis for investors when making decisions. The amount of information disclosed by companies has increased sharply, for mandatory and/or voluntarily reasons, thus leading them to prepare various forms of reports, from traditional financial reports (annual reports), corporate governance reports, sustainability reports, to integrated reports (Cortesi & Vena, 2019). Those reports are made as a form of transparency for stakeholders, especially stockholders as their basis for decision making. Information is said to be relevant if it is able to make a difference in investment decisions. Therefore, information is said to be relevant if the information is useful and able to influence stock prices (Badu & Appiah, 2018). Most studies into value-relevance still emphasize the importance of accounting numbers for investors (Pierre Thijssen & Iatridis, 2016; Pierre Thijssen & Iatridis, 2016; Rodríguez García *et al.*, 2017; Elbakry *et al.*, 2017; Badu & Appiah, 2018; So *et al.*, 2018; Harakeh *et al.*, 2019; Gavana *et al.*, 2020), while there are still few studies examining the value relevance of non-accounting information to stock prices (Cortesi & Vena, 2019; Ricci *et al.*, 2020; Liao *et al.*, 2020; Sam & Zhang, 2020; Govindan *et al.*, 2021). However, when capital market participants perceive that the information provided by financial reports is inadequate, they will look for other sources of information, namely non-financial information."

Furthermore, we modify the second paragraph of the introduction as follows (**page 2 line 30-33**):

"Non-financial information is important because it can lead to future financial performance and success, which is important for the achievement of the main goals of the organization (Graham *et al.*, 2002; Wyatt, 2008; Orens & Lybaert, 2010). The current development of corporate reporting is integrated reporting (IR). Meanwhile, there are still many companies that publish sustainability reports (SR), which are separate from their financial information (annual reports). The purpose of this study is to determine which of these two types of reporting is more appreciated by capital market investors. Besides, this study aims to determine whether a company that publishes the IR has a value relevance because the information in the IR could reinforce the importance of the accounting information. Full disclosure is needed by decision-makers, especially external parties, and shareholders so that there is no asymmetrical information."

In addition, we also modify the findings paragraph of the introduction (the 6th paragraph) as follows (**page 3 line 47 and page 4 line 1-4)**:

"Our result indicated that SR had a higher value-relevance than IR. Sustainability reports are viewed as having a broader focus and prioritizing the roots of social and environmental accounting. Based on our findings, investors still view the importance of SR even though it is separated from AR because they consider that the company's attention to sustainability issues and activities is one of their main considerations when making investment decisions. Interestingly, we support the notion that companies that produce IR publications are indirectly able to change the relevance of financial information. This supports our initial assumption that investors will get a higher value for companies that issued the IR when the information contained therein is used in conjunction with the accounting information."

10. No enough clarification and justification were provided regarding the moderating role of non-financial information.

Author Response: Thank you for pointing this out. We have revised and rearranged Section 2.3 as follows (**page 6 line 33; page 6 line 46; and page 7 line 1-12**):

"2.3. IR publication has value relevance because the information in the IR could reinforce the importance of accounting information

Non-financial information is a complement to the financial information used by investors to make investment decisions. Apart from financial information, investors and other stakeholders increasingly need non-financial information to decide on an investment, credit, and other decisions. This means that financial reporting no longer meets the needs of investors and other stakeholders (Aureli *et al*., 2020).

Furthermore, the relevance of stand-alone financial information will only be significant when mixed with non-financial information. In the "new economy," financial information on knowledge-intensive and innovative companies will lose its value relevance. This is due to the increasing amount of stock trading based on non-financial information, thereby reducing the ability of stock prices to reflect accounting information (Vafaei *et al*., 2011; Dontoh *et al*., 2004).

We also want to examine whether IR publications influenced the relevance of accounting data, further helping to explain the market value of firms. To achieve this goal, following Cardamone *et al.* (2012) and Babourkados & Rimmel (2016) we included in our research model the IR variable both as a single independent variable and as an independent variable combined with financial information. We argue that IR publications can be considered by investors as a source of further information about traditional accounting variables that are considered value-relevant, such as BPS and EPS. In this case, the IR variable acts indirectly on the share price. By providing further disclosure of the value of BPS and EPS, IR can interact with them, thereby changing the importance of each individual piece of financial information. Based on this description, we develop the following hypothesis:

H_2: IR publication has value relevance because the information in the IR could reinforce the importance of accounting information.

11. No enough justification was provided for additional analysis "We performed additional analysis using stock prices in a month and three months after the end of the annual reporting period". Also, no enough discussion was provided.

    Author Response: Thank you for pointing this out. We have modified Section 4.4 as follows (**page 15 line 31-37 and page 16 line 1-5**):

    "We used the stock prices four months after the year-end reporting date to test for value relevance. To overcome the subjectivity of this stock price selection and to test the reliability of the results, we repeated the analysis with the robustness test as an additional analysis using stock prices one month and three months after the end of the financial year (Table 6). The result was consistent with the primary test that capital market investors value SR more when making investment decisions than IR. However, the robustness test shows different results for the second hypothesis, that IR publications have a higher relevance when used together with accounting information in the form of book value per share, but not for earnings per share. These differing results imply that the investor continues to consider financial information important and that this financial information will change his or her decision when used together with non-financial information, both contained in IR or SR."

Comments on Minor Revisions:

1. The abstract needs to be reviewed. For example, "Originality—Research on the value relevance of SR and IR has been carried out by several previous researchers separately, but to the best of the author's knowledge, studies comparing the value relevance of the two are still missing.
   Practical Implication—Research on the value relevance of SR and IR has been carried out by several previous researchers separately, but to the best of the author's knowledge, studies comparing the value relevance of the two are still missing."

Author Response: The abstract has been updated and we made modification as follows (**page 1 line 16-18; page 1 line 28-30; and page 1 line 37-41**):

> **Purpose—** This research is motivated by the development of dialogue and debate regarding company reporting in the form of sustainability reporting (SR)—which is separate from the annual report (AR)—or integrated reporting (IR). Research into SR and IR is still fascinating, and this study addresses the debate about them. This study examines which of the two reports is more valuable for investors, and also examines whether the IR has value relevance because the information in the IR could reinforce the importance of the accounting information.
>
> **Findings**— The results showed that SR had a higher value relevance than IR. However, when we interact the corporate reporting form with the accounting information, IR had value relevance because the information contained in the IR could reinforce the importance of the accounting information.
>
> **Practical Implication**—This study will support regulators in various countries to monitor the reporting practices of companies in those countries. The results of this study provide evidence that sustainability reports get a higher response than integrated reports. However, when interacted with accounting variables, information in the IR is considered to be more relevant than that found in the SR. Therefore, it is hoped that the results of this study will help International Integrated Reporting Council (IIRC) in reviewing IR practices around the world so that the implementation of IR practices can be realized in accordance with the mission that the IIRC wants to achieve.

2. The author(s) needs to use the chronological to list the references in the text. For example in page 3: (Burgstahler & Dichev, 1997; Collins et al., 1997; Gu, 2007; Lev & Zarowin, 1999). Should be Burgstahler & Dichev, 1997; Collins et al., 1997; Lev & Zarowin, 1999; Gu, 2007).

   Author Response: Thank you for pointing this out. The chronological list of references has been corrected on **page 3 line 36-37** in the introduction section and on **page 5 line 23-24** in Section 2.2:

   > "The value-relevance model used refers to previous research, by using the Ohlson (1995) model (Burgstahler & Dichev, 1997; Collins *et al.*, 1997; Lev & Zarowin, 1999; Gu, 2007)."
   >
   > "Initially, research on value-relevance was aimed at determining the value-relevance of financial information (Beaver, 1968; Ohlson, 1995; Burgstahler & Dichev, 1997; Collins *et al.*, 1997; Lev & Zarowin, 1999; Gu, 2007)."

3. On Page 7: "The results showed that the *IRSR* was significantly negative, which means the value-relevance of SR is higher than that of SR". I think the second SR should be IR.

   Author Response: Thank you for pointing this out. We have made correction on Section 4.2. as follows **(page 11 line 23-24)**:

"This suggests that the value-relevance of SR is higher than that of IR (the first hypothesis was rejected)."

4. The paper should be edited before resubmission.

   Author Response: We appreciate the reviewer's feedback. This manuscript has been proofread (the invoice attached).

REVIEWER 2

Comments:

1. Abstract
   a. It is not clear the distinction between SR and IR. For example, in Italy, some companies do not adopt IR or SR but they comply with the European Directive by drawing up a Non-Financial Statement that cannot be included in an SR or in an IR. I think this essential point should be reformulated.

      Author Response: Thank you for pointing this out. We have disclosed that SR companies are companies that issue SR based on GRI guidelines **(page 8 line 15 in the manuscript revised version)**, and we got that sample from the global reporting website. Thus, companies that did not prepare SR according to the GRI guidelines were not included in the sample.

   b. Findings do not provide a clear understanding of how non-financial information can complement financial information.

      Author Response: We made changes in the findings section of the abstract as follows:

      "The results showed that SR had a higher value relevance than IR. However, when we interact the corporate reporting form with the accounting information, IR had value relevance because the information contained in the IR could reinforce the importance of the accounting information."

   c. The authors argue that Europe and Africa were the early adopters of IR but the research focuses on SR and IR not only IR.

      Author Response: Thank you for pointing this out. Our research is based on the idea of the emergence of a new form of corporate reporting, namely the integrated reporting. We tested empirically whether the integrated report or sustainability report (which is separate from the annual report), is valued more by investors. Therefore, as a basis for sampling, we selected early adopters from IR first, namely Africa, and then followed by some European countries, then from this basis we looked for a sample of companies in those continents that prepared the SR as a comparison.

2. Introduction

This sentence is too vague: “The non-financial information is important because it can lead to future financial performance and success, which is important for the achievement of the main goals of the organization”.
The investors’ view is not clear. Please pay attention to this aspect.

Author Response: We appreciate the reviewer’s feedback. Traditionally, the information contained in financial reports has been useful in valuing companies. However, globalization and the transition to a new economy could reduce the value relevance of financial statement information, making it less relevant in determining the net share price (the firm value). Investors and financial analysts have relied on information outside the financial reports, that is non-financial information, to assess the firm value.

3. Data and methodology
The development of the value relevance analysis is good but the selection of the variables is not supported by the literature. There is a clear explanation of the two hypotheses, H_1 and H_2.

Author Response: Thank you for pointing this out. We have justified the selection of the variables on **page 8 line 21-35 of the manuscript revised version** as follows:

> “Bepari (2015) suggested that deteriorating financial health and extreme returns on equity can affect the value relevance of book value and earnings, thus our study controlled for the influence of these contextual factors, such as ROE, leverage, operating cash flows, and firm size. We estimated the model by including time and industry fixed effects to control for differences in the time and industry type. Thus, we added the time dummy set (year) as one if the report is compiled as of December 31st and zero otherwise. We defined the industrial dummy as a two-digits of the SIC code. Each country has a different background and context which can influence the findings. The economic and political system, the way rules and regulations are enforced as well as social and cultural factors of the community can also influence the findings (Kadri et al., 2009). Therefore, to minimize this effect, we control for the country effect, one for South Africa and zero for the rest. Models that do not control for the effects of these contextual factors will produce biased results (Bepari, 2015). To test H1, we looked at the significance of the IRSRit coefficient. Meanwhile, to test H2, we look at the significance of the interaction coefficient.”

3.1. Sample

a. What is the reason for selecting Europe and Africa? I have some doubts about the validity of this statement: “…they were early adopters of IR”. You have to support this statement but I think it is not correct.

   Author Response: Thank you for pointing this out. We have justified the sample selection on **page 7 line 40-43 and page line 1-18** as follows:

   > “We selected several countries in Europe because companies in these countries were considered to have good reputations for managing their sustainability and environmental information and have been at the forefront of sustainability reporting (Loprevite et al., 2018; Landau et al., 2020), particularly in the UK and Germany

(Schaltegger & Zvezdov, 2015) and France (Baboukardos, 2018). Generally, sustainability disclosures have been promoted by the European Parliament in Directive 2014/95/EU which imposes a "public interest" on European entities to disclose non-financial information in their annual reports (Camodeca et al., 2018). Meanwhile, Africa (particularly South Africa) was chosen because it was the first country to introduce a de facto mandatory requirement for companies listed on Johannesburg Stock Exchange to prepare integrated reports in response to social, political, environmental and economic challenges (Atkins & Maroun, 2015); (Loprevite et al., 2018). In addition, South Africa has been one of the most active IR adopter countries and has also been the first and only country to date to require all its public-listed companies to publish their integrated reports (Hoang et al., 2020). Therefore, our sample consisted of 931 firm-years of SR issuers and 922 firm-years of IR issuers for the period from 2005 to 2019 located in Europe and Africa. These two continents were chosen because they were early adopters of IR. The list of SR issuers was obtained from the global reporting website and IR issuers from the IIRC and global reporting website (Table 1A and Table 1B). Companies that issue SR are the companies that use GRI for reporting guidance. By using unbalanced panel data, this study retrieved data on accounting variables and stock prices used in our regression model obtained from the OSIRIS database."

b. There is no reason for the selected period.

Author Response: Thank you for pointing this out. When we collected the data, we found that the longest year in the global reporting database was 2005. Therefore, our research period was 2005 to the most recent year when this research was made (2019).

c. The databases are not defined in a detailed way. There is no a valid explanation about the selection process data.

Author Response: Thank you for pointing this out. Here is the detailed selection process data:

Sample of Sustainability Reporters	
Europe	
SR reporters (based on GRI website)	3,364
Observation period (2005-2019 or 15 years)	50,460
Nonprofit & non-listed companies, unavailable data	49,570
Total observation	890
South Africa	
SR reporters (based on GRI website)	197
Observation period (2005-2019 or 15 years)	2,955
Nonprofit & non-listed companies, unavailable data	2,914
Total observation	41
Total observation of Europe and Africa	**931**

Sample of Integrated Reporters	
Europe	
IR reporters (based on IIRC website)	161
Observation period (2013-2019 or 7 years)	1,127
Nonprofit & non-listed companies, unavailable data	913
Total observation	214
South Africa	
IR reporters (based on IIRC website)	153
Observation period (2013-2019 or 7 years)	1,071
Nonprofit & non-listed companies, unavailable data	363
Total observation	708
Total observation of Europe and Africa	**922**

4. Analysis and discussion

   4.1. Descriptive statistics

   There is a comment on the comparison between companies that issue SR and companies that issue IR. This information has to be linked to the two hypotheses.

   Author Response: Thank you for pointing this out. We have presented descriptive statistics for the overall sample in Table 2. We separated the descriptive statistics for each reporting form to obtain the subsample distribution only.

5. There are many typos and incorrect expressions.

   Author Response: We appreciate the reviewer's feedback. This manuscript has been proofread (the invoice attached).

RECEIPT & STATEMENT

DATE: 26 MAY 2021
INVOICE NO: IIP02

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Proofing	On completion and approval	26 MAY 2021

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16-May-2021

Dear Prof. Narsa,

Recently, you received a decision on Manuscript ID JAOC-12-2020-0204, entitled "Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors?." The manuscript and decision letter are located in your Author Centre at https://mc.manuscriptcentral.com/jaoc

This e-mail is simply a reminder that your revision is due soon.

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Yours sincerely,
Prof. Zahirul Hoque
Editor, Journal of Accounting & Organizational Change
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I Made Narsa <i-made-n@feb.unair.ac.id>

Journal of Accounting & Organizational Change - Decision on Manuscript ID JAOC-12-2020-0204.R1

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27-Jun-2021

Dear Prof. Narsa:

Manuscript ID JAOC-12-2020-0204.R1 entitled "Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors?" which you submitted to the Journal of Accounting & Organizational Change, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

While reviewer 2 has recommended acceptance of the revised version, reviewer 1 has recommended further major revisions to the submitted manuscript, before it can be considered for publication. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript. Please try to address the reviewer's concerns as I will make a final decision in the next round.

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Sincerely,
Prof. Zahirul Hoque
Editor, Journal of Accounting & Organizational Change
z.hoque@latrobe.edu.au

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:
TThe paper has been improved and most of my comments were addressed. However, there are some issues which need more work from the author(s).
(1) Introduction Section needs to provide more motivations and contributions of the study.
(2) The Correlation matrix provided in Table 4 presents only the relationship between explanatory variables (with no discussion of the relationship between the variables based on the P-value and justification of the high correlation (0.7495) between BVS and MVE; Multicollinearity problem). Also, the author(s) need to provide the correlation matrix between SR, IR and explanatory variables as well.
(3) Conclusion Section needs to be explore to provide the implications of the study for researchers, managers, policy makers, ...etc.

Additional Questions:

Reviewer: 2

Recommendation: Accept

Comments:
I appreciated this final version and I think it can be published on the journal in this version.
I recommend a final reading in order to avoid typos

Additional Questions:

DEADLINE: 26-Sep-2021. If you need additional time to complete your revision please contact me to ask for an extension.

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23-Aug-2021

Dear Prof. Narsa,

Your manuscript entitled "Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors?" has been successfully submitted online and is presently being given full consideration for publication in the Journal of Accounting & Organizational Change.

Your manuscript ID is JAOC-12-2020-0204.R2.

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Yours sincerely,
Journal of Accounting & Organizational Change Editorial Office

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[Kutipan teks disembunyikan]
--

Best Regards,
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Terima kasih informasinya Prof🙏
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04-Sep-2021

Dear Permatasari, Ika; Narsa, I Made

It is a pleasure to accept your manuscript JAOC-12-2020-0204.R2, entitled "Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors?" in its current form for publication in Journal of Accounting & Organizational Change. Please note, no further changes can be made to your manuscript.

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Thank you for your contribution. On behalf of the Editors of Journal of Accounting & Organizational Change, we look forward to your continued contributions to the Journal.

Yours sincerely,
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04-Sep-2021

Dear Permatasari, Ika; Narsa, I Made,

“Sustainability Reporting or Integrated Reporting: Which One is Valuable for Investors?”

Effective from September 2017, Emerald has removed the embargo period across all journals for the self-archiving of the Author Accepted Manuscript (AAM). This enables all of our authors to make their article open access via a ‘green’ route. The full text of the article may therefore become visible within your personal website, institutional repository (IR), subject repository, SCN signed up to the Voluntary STM Sharing Principles as soon as the final version has been published in the journal. It may also be shared with interested individuals, for teaching and training purposes at your own institution and for grant applications.

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This research is motivated by the development of dialogue and debate regarding company reporting in the form of sustainability reporting (SR)—which is separate from the annual report (AR)—or integrated reporting (IR). Research into SR and IR is still fascinating, and this study addresses the debate about them. This study examines which of the two reports is more valuable for investors, and also examines whether IR has value relevance because the information in the IR could reinforce the importance of the accounting information.

As with previous studies, we adopted a valuation approach—the Ohlson model—to assess the value relevance of non-financial information (in the form of SR/IR) and financial information. As a preliminary study, we used non-financial information as a binary variable, i.e., a group of companies that issue sustainability reports and a group of companies that issue integrated reports. Therefore, they complement and interact with the financial statements' information. We used panel data consisting of 931 firm-years of SR issuers and 922 firm-years of IR issuers in Europe and Africa in the period from 2005 to 2019.
The results showed that SR had a higher value relevance than IR. However, when we interact the corporate reporting form with the accounting information, IR had value relevance because the information contained in the IR could reinforce the importance of the accounting information.
This study will support regulators in various countries to monitor the reporting practices of companies in those countries. The results of this study provide evidence that sustainability reports get a higher response than integrated reports. However, when interacted with the accounting variables, information in the IR is considered to be more relevant than that found in the SR. Therefore, it is hoped that the results of this study will help International Integrated Reporting Council (IIRC) in reviewing IR practices around the world so that the implementation of IR practices can be realized in accordance with the mission that the IIRC wants to achieve.
Research into the value relevance of SR and IR has been carried out by several previous researchers separately, but to the best of the author's knowledge, there are no studies comparing the value relevance of the two.

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