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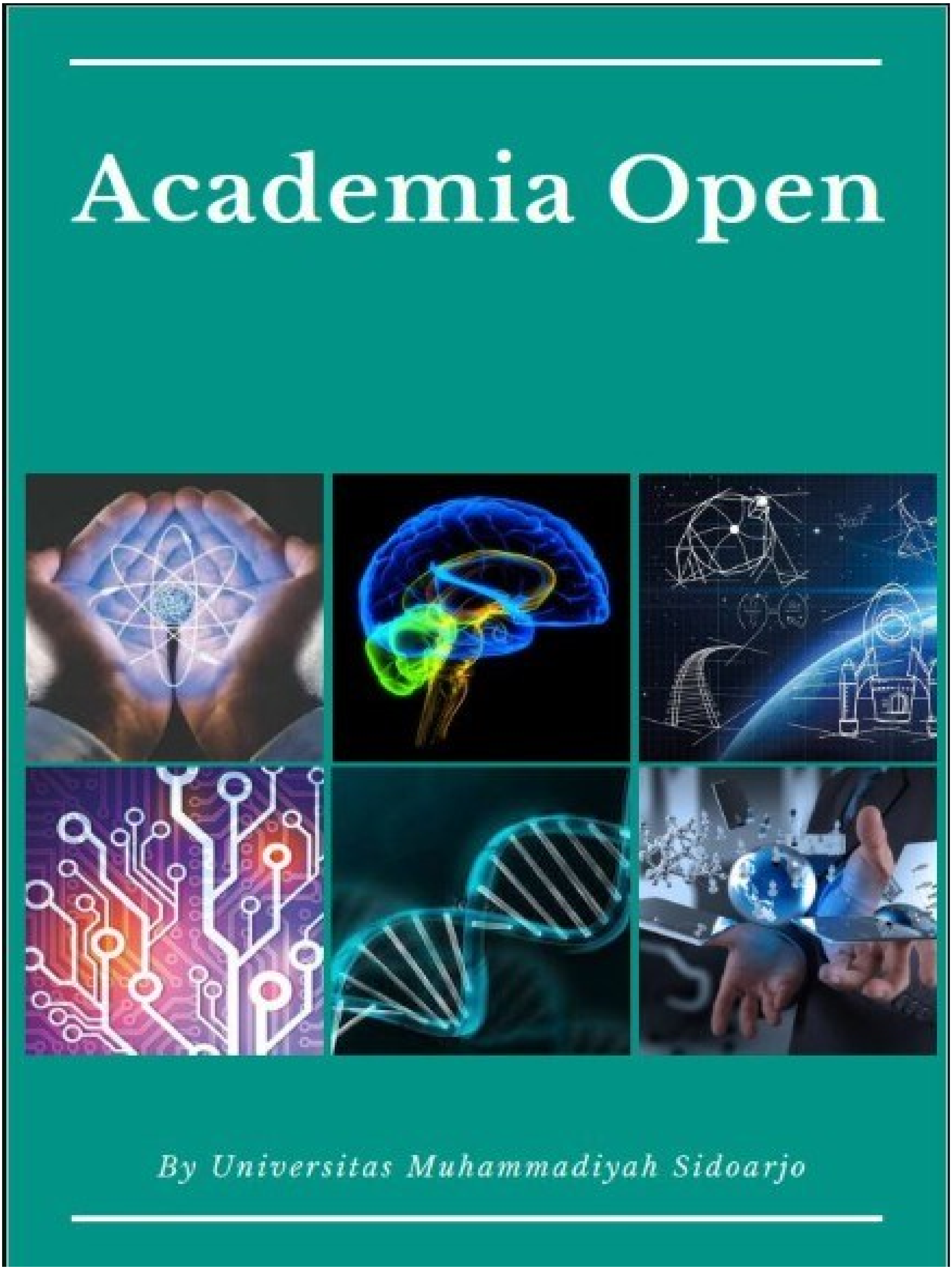

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Integrated Reporting Quality Mediates Governance Mechanisms and Firm Value

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Abstract

General Background Corporate reporting has shifted toward integrated disclosure to address rising demands for transparency, accountability, and long-term value creation. **Specific Background** Within state-owned enterprises, complex ownership structures and restructuring programs intensify information asymmetry, making credible reporting mechanisms increasingly relevant. **Knowledge Gap** Prior empirical evidence on the links between corporate governance, capital structure, reporting practices, and firm value remains inconsistent, while studies rarely apply a quality-based measure of Integrated Reporting or examine its mediating role in emerging market SOEs. **Aims** This study examines whether Integrated Reporting quality mediates the relationships between corporate governance mechanisms, leverage, and firm value in Indonesian state-owned enterprises. **Results** Using panel data from 21 firms during 2021–2024 and multiple regression with Sobel testing, the findings show that board of directors, board of commissioners, audit committee, and leverage are positively associated with Integrated Reporting quality. Integrated Reporting quality is positively related to firm value and partially mediates the relationships between governance mechanisms, leverage, and firm value, while institutional ownership shows a weaker direct role. **Novelty** The study introduces a quality-based Integrated Reporting measurement emphasizing coherence, connectivity, and decision usefulness, extending signaling theory within the SOE context. **Implications** The results underscore Integrated Reporting quality as a strategic transmission mechanism linking governance and financial structure to market valuation, highlighting its relevance for transparency and long-term value creation in state-owned enterprises.

Highlights:

- Internal oversight structures are closely associated with higher coherence and connectivity of corporate disclosures.
- Reporting quality functions as a transmission mechanism linking oversight arrangements and leverage to market valuation.
- Capital structure pressures encourage more comprehensive integration of financial and non-financial information.

Keywords: Corporate Governance, Integrated Reporting Quality, Firm Value, SOEs

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Introduction

Corporate reporting has evolved from a financial information orientation towards a more comprehensive disclosure model that integrates strategy, governance, performance, and value creation [1], [2], [3], and [4], reflecting increasing attention to agency conflict mitigation and the role of integrated reporting in enhancing firm value. This development is driven by increasing stakeholder expectations for transparency and accountability, particularly regarding sustainability and long-term value [5] and 6]. Integrated Reporting emerged as a framework that links financial and non-financial information into one coherent narrative, enabling users to understand how an organization creates value over time [7]; [8]; [9]; [10]; [11]; [12]. Corporate governance plays a central role in supporting reporting quality because an effective governance structure encourages discipline, monitoring and transparency of information [13] and [14]. Meanwhile, financial performance, especially capital structure as reflected through the level of leverage, also influences market perceptions of the company's risk and value. This research was conducted on state-owned enterprises, not private companies, because the context of state-owned enterprises provides the most appropriate space to test the effectiveness of signaling mechanisms in conditions of high information asymmetry.

According to Signaling Theory, company management sends signals to the market to reduce uncertainty and enhance investors' perceptions of the company's value. In the context of state-owned enterprises (SOEs), information asymmetry is greater than in private companies due to the complex ownership structure of the government as principal and management as agent, as well as the presence of political and social pressures on decision-making. These conditions make the need to send credible signals even more crucial for the market to accurately assess the company's intrinsic value.

However, the signals sent through Good Corporate Governance (GCG) are often insufficient to reassure investors, as GCG practices in state-owned enterprises tend to be formalistic and do not fully reflect actual performance. Therefore, Integrated Reporting (IR) is a new, more comprehensive form of signaling, encompassing financial, strategic, risk, governance, and sustainability dimensions, capable of fully demonstrating a company's value creation process.

Empirical evidence regarding the relationship between governance, leverage, reporting quality, and firm value remains mixed, creating a relevant research gap that warrants further investigation. Inconsistencies in results regarding the determinants of firm value are evident. Return on Assets tends to consistently have a positive effect on firm value [15]; [16]; [17]; [18]. However, the influence of the Debt to Equity Ratio still shows mixed results; some are significantly negative [15]; [19], significant positive [17]; [20], or has no significant effect [16]. In addition, the role of institutional ownership as a management control factor has not provided consistent evidence in increasing company value [11] and [23]. Recent research has begun to highlight the role of Integrated Reporting but is limited to mediating the relationship between financial leverage and firm value [12] and [24], and the characteristics of the board of directors in improving the quality of Integrated Reporting and company value [23] [1], [2], [3], and [4], reflecting increasing attention to agency conflict mitigation and the role of integrated reporting in enhancing firm value. This development is driven by increasing stakeholder expectations for transparency and accountability, particularly regarding sustainability and long-term value [5] and 6]. Integrated Reporting emerged as a framework that links financial and non-financial information into one coherent narrative, enabling users to understand how an organization creates value over time [7]; [8]; [9]; [10]; [11]; [12]. Corporate governance plays a central role in supporting reporting quality because an effective governance structure encourages discipline, monitoring and transparency of information [13] and [14]. Meanwhile, financial performance, especially capital structure as reflected through the level of leverage, also influences market perceptions of the company's risk and value. This research was conducted on state-owned enterprises, not private companies, because the context of state-owned enterprises provides the most appropriate space to test the effectiveness of signaling mechanisms in conditions of high information asymmetry[21].

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understanding of the determinants of firm value comprehensively.

Literature Review and Hypothesis

In the context of state-owned enterprises, this condition has become increasingly important since the government implemented the restructuring and transformation of state-owned enterprises (2021-2024) which emphasizes transparency, accountability, and long-term value creation.

However, most previous research in Indonesia has been limited to examining the direct influence of Good Corporate Governance (GCG) and capital structure (DER) on firm value, without considering the role of Integrated Reporting (IR) as a communication instrument that can strengthen signals of reform and transparency during restructuring. In fact, theoretically, IR is a form of "high-quality signal" that reflects the integration of a company's strategy, risk, and performance. In the context of state-owned enterprise restructuring, IR can serve as a credibility signal that demonstrates a commitment to good governance and the creation of public value.

The basic theory used in this research is the signaling theory. This theory explains that under conditions of information asymmetry, the party with more information (in this case, management) can send signals to external parties (investors or shareholders) indicating the company's actual condition. These signals can include financial reports, good corporate governance practices, profitability, or capital structure. The purpose of sending these signals is to reduce uncertainty and increase investor confidence in the company's prospects and value [2] and [22]. Good governance practices and financial ratios are interpreted by investors as positive signals that increase the perception of the company's value. In line with [24], managerial decisions regarding capital structure also serve as signals of confidence in the company's ability to meet financial obligations. Therefore, signaling theory provides a strong foundation for explaining how companies use their internal mechanisms to shape market perceptions and increase the company's value in the eyes of investors [22].

Based on theoretical foundations and previous empirical findings, this study positions corporate governance and financial performance as antecedent variables of reporting quality. Reporting quality, in the context of Integrated Reporting, is treated as a mediating mechanism linking internal governance structure and financial condition with external market responses in the form of firm value. Hypothesis development is aimed at explaining the direct and indirect relationships between these variables from a signaling theory perspective.

The first relational proposition in this study explains that stronger corporate governance mechanisms are expected to drive higher quality Integrated Reporting because effective oversight, monitoring, and control functions motivate management to disclose more comprehensive, relevant, and consistent information that meets stakeholder needs. This argument leads to the expectation that corporate governance has a positive influence on reporting quality.

H1a: An independent board of directors has a positive influence on the quality of Integrated Reporting

H1b: An independent board of commissioners has a positive influence on the quality of Integrated Reporting

H1c: Audit committee independence has a positive influence on the quality of Integrated Reporting

H1d: Institutional ownership has a positive influence on the quality of Integrated Reporting

The second relational proposition states that financial performance, as reflected through leverage, can influence the level of reporting disclosure. Firms with higher leverage tend to face greater supervisory pressure from creditors and investors, which may motivate them to provide clearer and more credible reporting. Based on this, leverage is expected to influence reporting quality, although the direction and magnitude of this relationship may depend on financial policies and the corporate governance environment.

H2: Debt to Equity Ratio has a positive effect on Integrated Reporting

The next relational proposition explains the relationship between corporate governance and firm value. A stronger governance structure is expected to improve investor perceptions because it signals better control, accountability, and risk management. Through this mechanism, corporate governance is expected to have a positive influence on firm value. Similarly, financial performance and leverage are expected to be related to firm value because capital structure conditions are considered by investors in assessing risk, growth potential, and sustainability of returns.

H3a: An independent board of directors has a positive effect on firm value

H3b: An independent board of commissioners has a positive effect on firm value

H3c: An audit committee has a positive effect on firm value

H3d: Institutional ownership has a positive effect on firm value

Reporting quality is then positioned as an intermediary mechanism linking internal drivers (governance and leverage) with external market responses. High-quality Integrated Reporting provides a richer and more credible picture of value creation, which strengthens market confidence and can translate into higher firm value. Therefore, reporting quality is expected to

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have a positive effect on firm value and, at the same time, mediate the effects of corporate governance and financial performance on firm value.

H4: Integrated Reporting has a positive effect on firm value

Integrated Reporting (IR) is viewed as a strategic reporting mechanism that integrates financial and non-financial information to explain the firm's value creation process in a sustainable manner. Drawing on signaling theory and stakeholder theory, the adoption of IR reduces information asymmetry and enhances investor confidence, thereby positively affecting firm value. The effectiveness of the board of directors in strategic decision-making, the supervisory role of the board of commissioners, and the audit committee's responsibility for ensuring reporting quality encourage greater transparency and accountability through higher-quality Integrated Reporting. Furthermore, institutional ownership, as an external monitoring mechanism, pressures management to disclose more comprehensive and integrated information, while the firm's capital structure, as reflected by the Debt-to-Equity Ratio, increases the need for integrated disclosures to explain financial risk management and financing strategies. Accordingly, Integrated Reporting functions as a mediating variable that bridges the effects of corporate governance mechanisms and financial characteristics on firm value, thereby strengthening the relationships between the board of directors, board of commissioners, audit committee, institutional ownership, Debt-to-Equity Ratio, and firm value.

H5a: Integrated Reporting mediates the effect of the board of directors on firm value

H5b: Integrated Reporting mediates the effect of the board of commissioners on firm value

H5c: Integrated Reporting mediates the effect of the audit committee on firm value

H5d: Integrated Reporting mediates the effect of institutional ownership on firm value

H5e: Integrated Reporting mediates the effect of the Debt-to-Equity Ratio on firm value

Methods

This study applies a quantitative design with an explanatory approach. The sampling technique used purposive sampling in accordance with the characteristics of the required research variables. The type of data used is secondary in the form of panel data, with the selection of samples of state-owned enterprises (SOEs) Indonesia during the period 2021-2024. This study was conducted on SOEs, not private companies, because the SOEs context provides the most appropriate space to test the effectiveness of signaling mechanisms in conditions of high information asymmetry. SOEs is undergoing restructuring and transformation 2021-2024, where companies are required to provide real signals of transparency, efficiency, and accountability to the public, data collected from annual reports sourced from the Indonesia Stock Exchange (IDX) and BUMN websites. Based on the explanation above, the number of observations in this study can be seen as follows:

Table 1. Data Sample

Description	Total data
Number of SOEs	27
SOEs that do not meet the sampling criteria	5
SOEs that meet the sampling criteria observation year	22
Tahun pengamatan	x 4
Total observations	88

Corporate value is the market's perception of a company's performance and prospects, as reflected in its stock price and other financial indicators. Corporate value represents the extent of shareholder wealth and is one of the primary goals of corporate financial management, namely maximizing corporate value to provide long-term benefits to shareholders [25].

$$Tobin's\ Q = \frac{Stock\ market\ value}{Company\ net\ worth}$$

Board of Directors Independence is operationalized by measuring the proportion of independent members of the Board of Directors compared to the total number of members of the Board of Directors in the company during the reporting period. This variable is measured quantitatively using a ratio scale, based on the total number of board of directors listed in the company's annual report [38]. This definition refers to previous studies such as [39]; [40] serta [41] which states that board independence plays a significant role in the effectiveness of corporate governance and has the potential to influence company value. It is formulated as follows:

$$Board\ of\ Directors = \frac{Independence\ Board\ of\ Directors}{Total\ Board\ of\ Directors}$$

Independent commissioners are members of the board of commissioners who have no significant financial or personal relationship with the company. Their role is to act as neutral supervisors free from the influence of management interests [26].

$$Board\ of\ Commissioners = \frac{Independence\ Board\ of\ Commissioners}{Total\ Board\ of\ Commissioners}$$

The audit committee in this study refers to the extent to which audit committee members do not have any personal, financial, or professional interests or relationships with the management of the company they supervise. Audit committee independence is measured based on the percentage of audit committee members who come from outside the company (non-executives) to the total audit committee members, and is expressed on a ratio scale [27].

$$Audit\ Committee = \frac{Independence\ Audit\ Committee}{Total\ Audit\ Committee}$$

Institutional ownership in this study is defined as the proportion of a company's shares owned by institutions or professional bodies such as pension funds, banks, insurance companies, mutual funds, and other financial institutions. In this study, institutional ownership is measured using the ratio of the number of shares owned by institutional investors to the total shares outstanding in the company, with a ratio measurement scale of [27].

$$Institutional\ Ownership = \frac{Number\ of\ Shares\ Owned\ by\ Institutional\ Investors}{Total\ Shares\ Outstanding}$$

The Debt to Equity Ratio is operationally defined as a ratio used to measure the extent to which a company's assets are financed by debt compared to its equity. This ratio indicates the proportion of a company's funding that comes from creditors versus shareholders [28]. Which states that DER is an important indicator in assessing a company's financial performance which can ultimately influence the company's value.

$$DER = \frac{Total\ Liability}{Total\ Equity}$$

The quality of Integrated Reporting in this study is measured based on the framework developed by the International Integrated Reporting Council (IIRC), which classifies reporting information into eight main dimensions, namely: organizational overview and external context, governance, business model, risks and opportunities and internal control, strategy and resource allocation, performance, prospects, and the basis for preparing the report.

The content aspect evaluates the extent to which an integrated report conforms to IIRC principles. This assessment covers eight content elements (strategy and resource allocation, overview of the organization and external environment, performance, risks and opportunities, basis of presentation, governance, business model, and future prospects) and two fundamental concepts (value creation process and capital). Information related to these ten elements is scored between 0 (no information) and 5 (high quality). Therefore, the maximum content score for each integrated report is 50 [29], [30].

This study tested the hypothesis using multiple linear regression analysis through the coefficient of determination test, which includes the R value, Adjusted R-Squared, F-test, and t-test. The statistical testing process was carried out with a significance level (α) of 5%, as is commonly applied in regression analysis. The research data were processed using a cross-sectional approach combined according to the needs of the analysis model.

Results and Discussion

Descriptive statistics show that corporate governance variables, namely the board of directors, board of commissioners, audit committee, and Integrated Reporting quality, have a relatively stable data distribution with a small difference between the mean and standard deviation values, thus not indicating any extreme deviations in the data distribution. In contrast, institutional ownership variables show higher variation, reflecting the heterogeneity of ownership structures between companies. More striking differences appear in financial variables, where DER and Tobin's Q have a very wide range of values and the presence of outliers, especially in companies with high leverage and extreme market valuation conditions.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Board of Directors	88	0.100	0.400	0.188	0.053
Board of Commisioners	88	0.250	1.000	0.610	0.163
Audit Committee	88	0.143	0.667	0.424	0.137
Institusional Ownership	88	0.000	0.832	0.118	0.104
DER	88	-5.062	16.765	3.309	3.931
IR Quality	88	0.600	0.920	0.813	0.060
Tobins Q	88	-4920.898	13.574	-107.306	719.222
Valid N (listwise)	88				

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The test results presented in Table 3 indicate that the variables of corporate governance mechanisms and financial performance have a strong and statistically significant relationship with the dependent variable in both regression models. Model 1 examines the effect of governance and leverage on Integrated Reporting quality, while Model 2 includes Integrated Reporting quality as a mediating variable in its relationship to firm value.

In Model 1, corporate governance mechanisms consisting of the board of directors ($\beta = 0.651$; $t = 11.711$; $p < 0.01$), the board of commissioners ($\beta = 0.608$; $t = 11.139$; $p < 0.01$), and the audit committee ($\beta = 0.310$; $t = 5.805$; $p < 0.01$) are proven to have a positive and significant effect on the quality of Integrated Reporting. This finding indicates that the stronger the oversight function and governance mechanisms, the higher the level of integration and quality of corporate reporting disclosures. Institutional ownership has a positive effect but is only significant at the 10 percent level ($\beta = 0.101$; $t = 1.901$; $p < 0.10$), which indicates that the external monitoring role of institutional investors is relatively weaker compared to internal governance mechanisms. Meanwhile, leverage proxied through DER shows a positive and significant influence ($\beta = 0.409$; $t = 7.692$; $p < 0.01$), which implies that companies with higher leverage levels tend to be encouraged to present more credible and integrated reporting as a form of signaling and fulfilling monitoring pressures. The model's explanatory power is relatively high, with a value of $R^2 = 0.791$ and Adjusted $R^2 = 0.779$, which means that around 78–79 percent of the variation in the quality of Integrated Reporting can be explained by governance and financial structure variables.

In Model 2, the quality of Integrated Reporting, entered as a mediating variable, shows a very strong and significant positive effect on firm value ($\beta = 0.695$; $t = 17.427$; $p < 0.01$). This result indicates that higher quality of integrated reporting is associated with increased market perception and firm valuation, thus strengthening Integrated Reporting's function as a credibility signaling mechanism for investors. The governance variable remains significant, but with a significant decrease in coefficients compared to Model 1, particularly for the board of directors ($\beta = 0.245$; $t = 5.583$; $p < 0.01$) and the board of commissioners ($\beta = 0.159$; $t = 3.694$; $p < 0.01$). This pattern indicates the occurrence of partial mediation, where some of the influence of governance on firm value is transmitted through the quality of Integrated Reporting.

In contrast to Model 1, institutional ownership becomes fully significant in Model 2 ($\beta = 0.198$; $t = 4.735$; $p < 0.01$), indicating that external monitoring by institutional investors is more correlated with firm value when reporting quality is factored into the model. Conversely, the effect of the audit committee becomes insignificant ($\beta = 0.007$; $t = 0.177$; $p > 0.10$), indicating that the audit committee's contribution to firm value operates more through its role in strengthening reporting quality, rather than through a direct channel to market valuation. Leverage still shows a positive and highly significant effect ($\beta = 0.511$; $t = 12.163$; $p < 0.01$), so capital structure remains an important determinant of firm value even after the inclusion of mediating variables. The model's explanatory power increased significantly in Model 2, with a value of $R^2 = 0.871$ and Adjusted $R^2 = 0.862$, and the F test showed that the model was simultaneously significant at the 1 percent level.

Overall, the comparison of the two models provides empirical support for the mediating role of Integrated Reporting quality in the relationship between corporate governance and firm value. The decrease in the governance coefficient after the inclusion of mediating variables, accompanied by a significant effect of reporting quality on firm value, indicates that governance influences firm value not only directly but also indirectly through increased reporting credibility and integration.

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This finding is consistent with the signaling theory framework, where high-quality integrated reporting serves as a strategic signal that strengthens investors' perceptions of governance discipline, financial resilience, and long-term value creation prospects.

Table 3. Hypothesis Test

Model		B	t	Sig.
1	(Constant)		210.405	0.000***
	Board of Directors	0.651	11.711	0.000***
	Board of Commisioners	0.608	11.139	0.000***
	Audit Committee	0.310	5.805	0.000***
	Institusional Ownership	0.101	1.901	0.061*
	DER	0.409	7.692	0.000***
2	(Constant)		2.813	0.006***
	Board of Directors	0.245	5.583	0.000***
	Board of Commisioners	0.159	3.694	0.000***
	Audit Committee	0.007	0.177	0.860*
	Institusional Ownership	0.198	4.735	0.000***
	DER	0.511	12.163	0.000***
	IR Quality	0.695	17.427	0.000***
		Model 1		**Model 2**
R^2		0.791		0.871
Adj. R Square (R^2)		0.779		0.862
F-Statistics		62.181		91.330
Sig.		.000[b]		.000[b]
No. of observations 88				
Notes: * significant at 1%; ** significant at 5% level; * significant at 10% level.**				

The test results indicate that the quality of Integrated Reporting is more influenced by the strength of internal governance mechanisms and capital structure compared to external oversight mechanisms, as reflected in the positive and significant influence of the board of directors, board of commissioners, audit committee, and DER on the quality of integrated reporting, while institutional ownership has no significant influence. These findings indicate that internal corporate actors have a strategic role in integrating financial and non-financial information, ensuring transparency, and directing reporting towards long-term value creation, in line with signaling theory which emphasizes the importance of internal oversight and control functions [31]. In addition, the positive influence of DER indicates that pressure from creditors encourages companies to improve reporting quality as a means of reducing information asymmetry and increasing accountability [32]. On the other hand, the insignificance of institutional ownership indicates that institutional investors have not actively encouraged Integrated Reporting practices, possibly due to their focus on short-term financial performance, as also found in recent studies which state that the quality of Integrated Reporting is more determined by internal governance commitment than external ownership pressure [29] and [33]. Thus, these results confirm that strengthening the internal governance structure and capital structure management are key factors in driving improvements in the quality of Integrated Reporting in companies.

On the other hand, the board of directors, board of commissioners, institutional ownership, DER, and the quality of Integrated Reporting showed a significant influence on firm value, while the audit committee did not have a significant direct influence. This finding indicates that the increase in firm value is more influenced by governance mechanisms that have a direct relationship with strategic decision-making and market perception, such as the role of the board of directors and board of commissioners in determining policy direction, institutional ownership as a signal of investor confidence, DER as a reflection of funding structure, and the quality of Integrated Reporting as a means of reducing information asymmetry and increasing corporate transparency. The significance of the quality of Integrated Reporting strengthens the perspective of signaling theory, which states that comprehensive and integrated information disclosure can increase investor confidence and is ultimately reflected in increased firm value [31] and [32]. On the other hand, the insignificant direct influence of the audit committee indicates that the role of the audit committee is more indirect, namely through improving the quality of reporting and internal governance, rather than as a factor that is directly appreciated by the market, as was also found in previous studies [29], [34]. Thus, the results of this test confirm that company value is not only formed by the existence of certain governance mechanisms, but also by the effectiveness of these mechanisms in producing quality and relevant information for stakeholders, so that testing the mediating role of Integrated Reporting is important to explain a more comprehensive path of influence between corporate governance and company value.

The mediation role testing in this study was conducted using the Sobel test and showed that the quality of Integrated Reporting (IR) significantly mediated the relationship between the board of directors and firm value (effect = 0.452; z-sobel = 35.773; $p < 0.001$), as well as between the board of commissioners and firm value (effect = 0.422; z-sobel = 56.065; $p < 0.001$). This finding confirms that some of the influence of internal governance mechanisms on firm value does not occur

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directly, but rather is transmitted through improvements in the quality of integrated reporting. Effective boards of directors and boards of commissioners encourage management to present more comprehensive, integrated, and long-term-oriented information, thereby increasing investor confidence and market valuation of the company. These results are in line with signaling theory, which states that high-quality information disclosure is a positive signal to the market [31], and supported by [2] and [24] which found that board effectiveness plays an important role in improving the quality of IR which has an impact on company value.

Significant mediation was also found in the relationship between the audit committee and firm value (effect = 0.215; z-Sobel = 39.996; $p < 0.001$). Although the audit committee does not directly influence firm value, the presence of IR quality as a mediating variable makes this influence significant. This indicates that the audit committee's primary contribution is more indirect, namely through increasing the credibility, reliability, and integration of information in corporate reports. This finding reinforces the view that the market does not directly respond to the presence of an audit committee, but rather values the output of this oversight function in the form of better reporting quality [34], [35]. Thus, IR quality becomes the primary means for the audit committee to transmit the added value of governance into corporate value.

Furthermore, the quality of Integrated Reporting was also shown to mediate the relationship between institutional ownership and firm value (effect = 0.070; z-sobel = 14.066; $p < 0.001$). Although institutional ownership does not have a direct significant effect on IR quality, the significant mediation effect indicates that institutional investors are more responsive to the quality of information disclosed by a company than simply the ownership structure. Institutional investors tend to value companies that are able to present high-quality integrated reporting as a signal of transparency, accountability, and long-term sustainability, which ultimately increases the company's value [36]. These findings suggest that the role of institutional oversight becomes more effective when channeled through credible reporting mechanisms.

The strongest mediation in this study was demonstrated in the relationship between Debt to Equity Ratio (DER) and firm value (effect = 0.284; z-Sobel = 63.174; $p < 0.001$). These results indicate that leverage is not solely perceived as an indicator of financial risk, but also encourages companies to improve the quality of their reporting in an effort to reduce information asymmetry and confirm risk management capabilities to the market[37] [38]. Companies with higher levels of leverage have a greater incentive to present quality Integrated Reporting to signal credibility and sustainability to investors

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and creditors [29], [32]. Thus, IR quality acts as a crucial transmission mechanism in linking capital structure to perceptions of firm value, while strengthening the argument that integrated reporting is a strategic instrument in the context of modern corporate governance and financing[39].

Overall, the Sobel test results provide strong empirical evidence regarding the mediating role of Integrated Reporting quality in explaining the relationship between corporate governance, leverage, and firm value[40]. These findings confirm that the impact of governance and financial structure on firm value is not only direct but also indirect through improved integrated reporting quality. These results are consistent with signaling theory, which states that high-quality reporting signals credibility, transparency, and the prospect of long-term value creation to investors[41].

Table 4. Sobel Test

Hipotesis	Information	Koefisien	T test	sig
H12	The Role of IR Quality in Board of Directors Relations > Firm Value	0.452	*35.773	*0.000
H13	The Role of IR Quality in Board of Commisioners Relations > Firm Value	0.422	*56.065	*0.000
H14	The Role of IR Quality in Audit Committee Relations > Firm Value	0.215	*39.996	*0.000
H15	The Role of IR Quality in institutional ownership Relations > Firm Value	0.070	*14.066	*0.000
H16	The Role of IR Quality in DER> Firm Value	0.284	*63.174	*0.000

Note: Calculation of the mediation effect H12-H16

0.651 x 0.695=0.452

0.608 x 0.695=0.422

0.310 x 0.695=0.215

0.101 x 0.695=0.070

0.409 x 0.695=0.284

* Sobel test results

The quantitative assessment of Integrated Reporting (IR) quality shows that governance, capitals, and the value creation process are the most dominant indicators among Indonesian state-owned enterprises. This pattern explains why IR effectively mediates the relationship between corporate governance, financial structure, and firm value[42].

The dominance of governance indicates that IR functions as an extension of corporate governance by enhancing accountability and credibility. This supports the mediation results, where governance affects firm value both directly and indirectly through IR quality. High disclosure on capitals and value creation further strengthens IR's signaling role by clarifying how multiple forms of capital contribute to long-term value, thereby reducing information asymmetry.

Conversely, lower scores on outlook and risk disclosures suggest that IR practices remain more backward-looking than forward-oriented. Despite this limitation, the presence of significant partial mediation confirms that governance- and value-based disclosures alone are sufficient to position IR as a strategic transmission mechanism. Overall, these findings reinforce the study's novelty by demonstrating that IR quality actively mediates the impact of governance on firm value, extending signaling theory within the context of state-owned enterprises in emerging markets.

The Mediating Role of Integrated Reporting Quality

Table 5. Average Scores of Integrated Reporting Quality Indicators (2021–2024)

Rank	Integrated Reporting Quality Indicator	Average Score	Level of Dominance
1	Governance	4.52	Very High
2	Capitals (fundamental concept)	4.48	Very High
3	Value Creation Process (fundamental concept)	4.44	Very High
4	Performance	4.32	High
5	Basis of Presentation	4.27	High
6	Business Model	4.10	Moderate–High
7	Strategy and Resource Allocation	4.08	Moderate
8	Organizational Overview and External Environment	4.06	Moderate
9	Risks and Opportunities	3.98	Moderate–Low
10	Outlook	3.95	Low

Conclusion

This study concludes that corporate governance plays a significant role in strengthening reporting quality and contributing to increased firm value. Financial performance, through leverage, exhibits a partial effect on reporting quality and firm value. Reporting quality acts as a mediating variable, strengthening the influence of governance mechanisms on firm value, reinforcing the importance of transparent and integrated disclosure for stakeholders. The implications of this study

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emphasize the need for companies to strengthen governance effectiveness and enhance reporting integration as part of strategic communications to investors. This study is limited by sample size and disclosure measurement, so further research could expand the sectoral scope, extend the observation period, or employ alternative analytical approaches.

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