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FINANCIAL LEVERAGE AND IDIOSYNCRATIC RISK IN INDONESIA: DOES INTEGRATED REPORTING MATTER?

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Abstract
This study empirically examines the association between financial leverage and idiosyncratic risk. This study also includes integrated reporting elements as moderating variables. This study employs a quantitative approach with secondary data obtained from the www.idx.co.id, www.finance.yahoo.com, and related company websites. The research population includes companies engaged in the manufacturing sector, listed on the IDX in 2016–2020, with a sample of 450 companies based on purposive sampling. The data analysis method used is panel data regression analysis. This study finds that financial leverage positively affects idiosyncratic risk. Also, this study suggests that integrated reporting strengthens the positive effect of financial leverage on idiosyncratic risk. This study indicates that the Financial Services Authority of Indonesia should increase the policy of integrated reporting implementation by the listed companies.

INTRODUCTION

High risk in stocks reflects the uncertainty of returns that investors will receive in the future, namely deviations between investment results and expected returns (Firmansyah, et al., 2020; Hartono, 2017). One of the risks of stock investment that needs to be faced is a capital loss. A capital loss is a loss caused by the purchase price of shares higher than the selling price of shares (Permata & Ghoni, 2019). The rise and fall of stock prices are natural because the value or price of shares is determined by the demand and supply of shares in the capital market (Permata & Ghoni, 2019). External factors or internal factors can influence the cause of the decline in stock prices. An example of a company's external factors is the COVID-19 pandemic that affects macroeconomic fundamentals. Furthermore, an example of a company's internal factors that can lower stock prices is a drastic drop in the stock price of General Electric Co. (GE) the United States on August 15, 2019, which was 11% to the level of US$ 8.01 per share, due to allegations that GE had manipulated financial statements (Sulmaihati, 2019).

Another example is the drastic decline in the share price of PT Tiga Pilar Sejahtera Tbk (AISA) Indonesia to touch Rp 212 per share on June 26, 2018, due to news that AISA was threatened not to be able to pay off maturing bonds or default (Wareza, 2018). Then another example is the shares of PT Perusahaan Gas Negara Tbk (PGAS) Indonesia which experienced a drastic decline of 6.95% on January 4, 2021, from the closing at the end of last year to a position of Rp. 1,540 per share due to the loss of a tax dispute of Rp. 3.06 trillion (Triatmodjo, 2021).

Based on the concept of the capital asset pricing model (CAPM), stock risk (total risk) comes from market factors (i.e., systematic risk) and company factors (i.e., non-systematic risk) (Butar-Butar, 2020). The systematic or market risk (general risk) is part of the total risk arising from macro factors (events outside the company's activities) that affect all companies, such as inflation, recession, and others. Meanwhile, unsystematic or idiosyncratic risk is a specific risk from a company affected by certain operational conditions or events (Chang et al., 2015). It comes from internal companies, such as liquidity, bankruptcy, and lawsuits. In line with the CAPM concept, investors cannot diversify systematic risk. However, the idiosyncratic risk can be minimized through portfolio diversification by considering the right combination of stocks to reduce risk without reducing the return received, such as the Markowitz diversification method (Hartono, 2017). Suppose the risk analysis is not carried out correctly. In that case, it will result in investors suffering capital loss because of the difference between the stock price when the investor sold the current stock and the stock price when the investor first bought the stock. In line with market efficiency theory, investors will react quickly to new information and act rationally in making investment decisions. It will cause stock prices to move according to the economic content of the data (Butar-Butar, 2020).

In modern financial management practices, managers as company representatives are demanded by shareholders to achieve company goals, namely increasing company value and shareholder welfare (Nuringsih, 2010). However, in line with agency theory, managers are assumed to be rational individuals so that the motivation that influences managers' choices of certain policies is to maximize their interests (Hadiprajitno, 2013). This agency conflict between managers and shareholders can lead to information asymmetry, which is a condition when managers generally have more information about the operating position of the entity and the actual financial position of shareholders (Scott, 2015). To predict the company's performance and future stock price increases, investors (shareholders) need to reassess the impact of policies and decisions taken by managers. Therefore, the manager's approach plays an important role in idiosyncratic risk that can trigger high volatility in stock prices. Some manager policies impact the company, such as accrual accounting, debt, and tax management.

Based on the literature review, many studies have been conducted to find the determinants of idiosyncratic risk due to the increasing awareness of investors about the importance of idiosyncratic risk. Idiosyncratic risk is determined by factors from the company so that the majority of independent variables in previous studies use determinants from the company aspect. Research on the effect of firm fundamentals (e.g., profitability, size, dividend payout, and liquidity) on idiosyncratic risk was conducted by Hsu & Jang (2008), Vozlyublennaia (2013) and Dalbor et al. (2014), employing data from the United States; Liu et al. (2014) using data from Australia; Kumari et al. (2017) using data from India; and Januardi & Afrianto (2017) and Firmansyah, et al. (2020) using data from Indonesia. Furthermore, In terms of non-financial company information, research on the effect of corporate governance on idiosyncratic risk was conducted by Chen et al. (2016) using data from Taiwan and Ghafoor et al. (2019) using data from Pakistan; research on the effect of CSR disclosure on idiosyncratic risk was conducted by Tzouvanas et al. (2020) using data from Europe and Kong et al. (2020) with using data from China; research on the effect of institutional ownership on idiosyncratic risk was conducted by Vozlyublennaia (2013) and Chichernea et al. (2015) using data from the United States and Firmansyah, et al. (2020) and Butar-Butar (2020) using data from Indonesia, analysis on the effect of manager competence on idiosyncratic risk was driven by Tan & Liu (2016) using data from Australia and Wu et al. (2020) using data from China, and earnings quality was conducted by Firmansyah, et al. (2020), Firmansyah & Suhanda (2021), Widyansyah et al. (2021) using data from Indonesia, Zhou et al. (2016) using data from China, Rajgopal & Venkatachalam (2011) and Zang (2012) using data from the United States.

Debt policy is intended so that the company has an optimal debt ratio (financial leverage) to help the company's cash flow become smoother and maximize financial efficiency and effectiveness in implementing the company's operational activities. Maintaining optimal financial leverage is very important for companies because companies with high financial leverage will face a higher cost of capital (El-Deeb, 2019). Companies with high debt can experience a large interest expense, leading to financial distress and the risk of bankruptcy (Nuringsih, 2010). Also, financial leverage tends to boost investor response negatively (Chandra & Rusliati, 2019). Several studies on the effect of financial leverage on idiosyncratic risk have been carried out using data from Indonesia, including Butar-Butar (2020), which concluded that financial leverage positively affects idiosyncratic risk. At the same time, Januardi & Afrianto (2017) concluded that financial leverage does not affect idiosyncratic risk.

Furthermore, several previous studies have also been tested using data from the United States, including Dalbor et al. (2014), Hsu & Jang (2008), Markarian & Gill-de-Albornoz (2012), Vozlyublennaia (2013) concluded that financial leverage has a positive effect on idiosyncratic risk. Based on the results of a literature review, research examining the effect of financial leverage on idiosyncratic risk has been carried out in Indonesia with inconsistent results. In contrast, in the United States, it has been carried out (Dalbor et al., 2014; Hsu & Jang, 2008; Markarian & Gill-de-Albornoz, 2012; Vozlyublennaia, 2013) with consistent results.

This study aims to examine the association between financial leverage and idiosyncratic risk empirically. This examination can be applied to research in Indonesia because the use of data on companies in Indonesia in testing idiosyncratic risk is relevant to previous studies that used companies in emerging markets such as Kumari et al. (2017) using data from India, Ghafoor et al. (2019) using data from Pakistan, Chen et al. (2016) using data from Taiwan, and Kong et al. (2020), Wu et al. (2020), Zhou et al. (2016) employing data from China.

This study also includes implementing integrated reporting elements as moderating variables in the association between financial leverage and idiosyncratic risk, which were rarely used in previous studies. In Indonesia, an integrated reporting approach is neither an obligation nor a voluntary disclosure (Bhimantara & Dinarjito, 2021; Chariri, 2019; Kustiani, 2016; Pamungkas et al., 2021, 2022) because there is no official rule confirming that the integrated reporting framework must guide the report companies. However, the annual report concept that has been applied in Indonesia is closer to the idea of integrated reporting because it combines elements of integrated reporting, including strategy, performance, and organizational prospects, management records, corporate governance, financial reports, as well as reports on social and environmental activities. one integrated report. Based on agency theory, integrated reporting elements disclosure can reduce information asymmetry about company management that can occur between managers (agents) and investors (principles) (Sari et al., 2020) and increase firm value (Komar et al., 2020). In line with stakeholder theory, company information disclosure with a broader and more relevant perspective based on integrated reporting elements based on the integrated reporting framework can bring managers closer to stakeholders, especially investors (shareholders), because integrated reporting elements can provide a series of information. To increase investor confidence and firm value, several studies have proven that the application of integrated reporting elements can increase firm value, such as research by Barth et al. (2017), Lee & Yeo (2016), and Tlili et al. (2019) using data from South Africa; El-Deeb (2019) using data from Egypt; Cooray et al. (2021) using data from Sri Lanka; and Komar et al. (2020) using data from Indonesia. Thus, the implementation of integrated reporting by the company can align the interests of managers and investors. In addition, this application can increase the transparency of information provided by managers to investors.

This study employs two control variables as controls, namely company size and operating cash flow, to represent the company's characteristics. Several studies have shown that firm size reduces idiosyncratic risk because small company shares are riskier than large company shares. These studies include research by (Dalbor et al., 2014; Hsu & Jang, 2008; Markarian & Gill-de-Albornoz, 2012; Vozlyublennaia, 2013) using data from the United States (Chen et al., 2016) using data from Taiwan, research by (Kong et al., 2020; Zhou et al., 2016) using data from China, (Kumari et al., 2017) using data from India, as well as research by (Firmansyah, et al., 2020; Januardi & Afrianto, 2017) using data from Indonesia. Furthermore, several studies have proven that operating cash flow reduces idiosyncratic risk. Companies with higher operating cash flows are less risky than companies with smaller cash flows.

METHOD

The samples in this study were obtained from the data of manufacturing companies listed in the Indonesia Stock Exchange (IDX) covering the period of 2016-2020. The initial point of observation is 2016, following the enactment of the newest regulation of annual reports (Regulation of the Financial Services Authority of Indonesia No. 29/POJK.04/2016 on Annual Report of Listed Companies). This study employs financial statements and annual reports obtained from the IDX website (www.idx.co.id) and the company's sources. This study uses historical stock price data retrieved from www.finance.yahoo.com to estimate idiosyncratic risk. This study obtained 450 observations through purposive sampling, as shown in Table 1.

Table 1. Research Sample

Sample Criteria	Amount
All manufacturing companies are listed on the Indonesia Stock Exchange (IDX) as of December 31, 2020.	193
Less:	
Companies listed after 31 Desember 2015	-59
Companies that were suspended, delisted or relisted during the 2016 – 2020 period.	-6
Companies that apply accounting periods other than January – December.	-2
Companies with incomplete financial statements from 2010 to 2020 and incomplete annual reports from 2016 to 2020.	-23
Companies with dormant stocks for at least one whole year during the 2016-2020 period.	-8
Companies with negative equity.	-5
Number of qualified companies	90
Observation periods (years)	5
Number of observations	450

Source: Data Processed

To estimate the idiosyncratic risk (IDIORISK), this study employs the market model (IDIORISKMM) following Firmansyah, et al. (2020) and Widyansyah et al. (2021). The market model is the regression of the returns on the stock against the returns on the market. Following Firmansyah, et al. (2020) and Widyansyah et al. (2021), the annualized idiosyncratic risk is estimated as the standard deviation of the monthly residual from the regression equation below. According to Kaplan (2013), the standard deviation of daily, weekly, monthly, or quarterly stock return data can be annualized by multiplying it with the square root of the number of days, weeks, months, and quarters period so that it can transform into an estimate of annual volatility (Firmansyah, et al., 2020). Therefore, to obtain annual idiosyncratic risk, this research multiplies the standard deviation of the monthly residuals generated from the following equation with $\sqrt{12}$.

$$R_{it} = \beta_0 + \beta_1 R_{Mt} + \varepsilon_{it}$$

R_{it} is the company's monthly stock return, R_{Mt} is the monthly stock return from the Composite Stock Price Index (CSPI), and ε_{it} is the residual of the equation. Financial leverage was estimated using the debt to equity ratio (DER), calculated as total liabilities divided by total equity. High DER value indicates that the company's needs for financing are mostly met from debt. DER has been used previously by Januardi & Afrianto (2017), Tlili et al. (2019), and Vozlyublennaia (2013).

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equities}}$$

Integrated reporting is proxied by integrated reporting index (IR index), based on the 76 indicators on eight elements of integrated reporting according to the Integrated Reporting Framework published by IIRC in 2013. This index assesses the presence of integrated reporting elements in the company's annual report. Integrated Reporting Framework is a principles-based document and does not set standards for integrated reporting or integrated thinking (IIRC, 2013). Therefore, this study will assess the elements in the integrated reporting index by following the integrated reporting checklist by El-Deeb (2019), Lee & Yeo (2016), Pamungkas et al. (2021, 2022), and Stent & Dowler (2015). To arrive at the IR index, the following model is employed:

$$IR = \frac{\text{Total Integrated Reporting Indicator Values}}{\text{Maximum Number of Integrated Reporting Indicators}}$$

Each indicator's value is estimated using the content analysis method of the financial statements and the company's annual report. A higher IR index would imply better implementation of integrated reporting elements. To control for other company-specific characteristics and increase the research model's robustness, this research employs two control variables, i.e., company size (SIZE) and operating cash flow (CFO). SIZE has been proven to reduce idiosyncratic risk by Chen et al. (2016), Januardi & Afrianto (2017), Kong et al. (2020), Vozlyublennaia (2013) as larger companies tend to experience higher public scrutiny, have more analyst following, and more likely to hire the big four audit companies. Thus, misconduct might result in a high litigation cost.

$$Size_{it} = \text{In Total Assets}$$

Meanwhile, CFO has been proven to reduce idiosyncratic risk by Chang et al. (2015), Firmansyah, et al. (2020), and Rajgopal & Venkatachalam (2011) since higher CFO indicates higher returns that investors can expect from the company's cash flow. CFO divided by average total assets measured operating cash flow in this study.

$$CFO = \frac{CFO}{\text{Average Total Assets}}$$

The data analysis of this study used multiple linear regression for panel data. To test hypothesis 1 employs model 1 and hypothesis 2 employs model 2 as follows:

$$IDIORISKMM_{it} = \beta_0 + \beta_1 DER_{it} + \beta_2 SIZE_{it} + \beta_3 CFO_{it} + \varepsilon_{it} \quad \ldots\ldots(1)$$

$$IDIORISKMM_{it} = \beta_0 + \beta_1 DER_{it} + \beta_2 SIZE_{it} + \beta_3 CFO_{it} + \beta_3 IR_{it} + \beta_3 (DER_{it} \times IR_{it}) + \varepsilon_{it} \quad \ldots\ldots(2)$$

Where $IDIORISKMM_{it}$ stands for idiosyncratic risk using the market model of the company i in year t, and DER_{it} stands for financial leverage of the company i in year t, while IR_{it} stands for integrated reporting indeks of the company i in year t, and $SIZE_{it}$ refers to the size of the company i in year t, in addition CFO_{it} represents operating cash flow the company i in year.

RESULTS

Descriptive statistics aim to provide an overview of the research sample data so that the data presented becomes more informative and easier to understand. The descriptive statistics in this study include the mean (mean), median, minimum value, maximum value, and standard deviation (standard deviation). The results of the descriptive statistics of this research data are presented in Table 2.

Table 2. Descriptive statistics

Var	Obs.	Mean	Med.	Max.	Min.	Std. Dev.
IDIORISKMM	450	0.4162	0.3113	2.9557	0.0428	0.3736
DER	450	1.0998	0.8874	8.2613	0.0272	0.9602
IR	450	0.5793	0.5526	0.9079	0.3421	0.1152
SIZE	450	28.8185	28.5408	33.4945	25.6405	1.6628
CFO	450	0.0773	0.0646	0.5706	-0.2181	0.1052

Source: Data Processed

The average IDIORISKMM is 0.4162, with a mean value of 0.3113. The greater the IDIORISKMM value, the greater the idiosyncratic risk of the company. The maximum value of 2.9557 is the largest idiosyncratic risk given by the company in the selected sample, and the minimum value of 0.0428 is the smallest idiosyncratic risk given by the company in the selected sample. There is no IDIORISKMM value below zero in the sample. Based on purposive sampling, companies with stock returns of zero for one full year for each year of observation are excluded from the sample because the idiosyncratic risk cannot be determined. The standard deviation of IDIORISKMM is 0.3736, is less varied or has a small distribution of data variables.

The standard deviation value of DER is 0.9602, which is smaller than the average, 1.0998. It shows that the DER value is less varied or has a small distribution of data variables. The DER value is less varied because, in the sample selection, companies that have negative equity are excluded from the sample. After all, the value of the financial leverage proxy will be negative (biased). The average DER value is 1.0998 with a median value of 0.8874, which indicates that most manufacturing companies have total debt that is approximately equal to total equity. Manufacturing companies, on average, apply balanced funding between funding through debt and funding through the capital.

Furthermore, the value of the standard deviation of the IR (integrated reporting index) is 0.1152, smaller than the average, which is 0.5793. It shows that the IR value is less varied or has a small distribution of data variables. The IR value is less varied because most manufacturing companies have implemented Financial Services Authority Regulation (OJK) Number 29/POJK.04/2016 concerning the Annual Report of Issuers or Public Companies which is currently the main reference in preparing annual reports for companies operating in Indonesia. This rule aligns with the elements of integrated reporting, although it does not fully follow the rules based on the Integrated Reporting Framework. The maximum value of IR is 0.9079, and the minimum value is 0.3421. The greater the IR of the company, the company's annual report tends to apply integrated reporting elements well. However, the average value of IR is 0.5793, and the mean value is 0.5526. The average value and mean value can be low considering that the IR index assessment range is from 0 to 1. It shows that, on average, manufacturing companies only apply approximately half of the contents of the integrated reporting elements. This condition is caused by the nature of the disclosure of integrated reporting in Indonesia, which is still voluntary. The elements that have the weakest application are elements of the business model and performance elements that have just been met, on average 44.8% and 35.4%, respectively, of the maximum value for each element, while elements that have a high level of application are elements of the organizational overview and external environment. and elements of the future outlook that have been fulfilled by an average of 81.2% and 98.2% of the maximum value for each element.

The average value of SIZE is 28.8185 which indicates that the average sample companies have total assets of approximately IDR 3,27 trillion or USD 225,52 million (USD 1 = IDR 14,500). Higher SIZE value portrays larger companies by total assets. However, the median of 28.5408 shows that about half of the sample companies have total assets below average. The standard deviation of SIZE (1.6628) is far below average suggesting that the variability of the company size in the sample is low. Meanwhile, CFO has an average value of 0.0773. A positive CFO indicates a higher operating cash inflow than outflow. The median of 0.0646 shows that the amount of operating cash flow of about half of the sample companies is below average. The standard deviation of CFO (0.1052) is above average suggesting that the variability of the operating cash flow among sample companies is high.

Furthermore, after performing the Chow test, Hausman test and Lagrange Multiplier (LM) test, the fit model use the random-effects model for model 1 and the fixed-effect model for model 2. The summary of the results of hypothesis testing is in Table 3.

Table 3. The Summary of Hypothesis Test Results

	Model 1				Model 2			
Var	Coeff	t-Stat	Prob.		Coef	t-Stat.	Prob.	
C	0.7839	1.9387	0.0266	**	-0.1892	-0.0662	0.4736	
DER	0.0600	2.8635	0.0022	***	-0.4115	-2.3899	0.0087	***
CFO	-0.2735	-1.4484	0.0741	*	0.1729	0.6863	0.2464	
SIZE	-0.014	-1.0145	0.1554		0.0150	0.1517	0.4397	
IR					0.0924	0.1024	0.4592	
IR*DER					0.8811	2.7431	0.0032	***
R^2		0.0283				0.4189		
Adj. R^2		0.0217				0.2650		
F-stat.		4.3256				2.7225		
Prob(F-stat.)		0.0051				0.0000		

Note: ***, **, * indicates 1%, 5%, and 10% significance level respectively

As shown in Table 3, the coefficient and probability value of financial leverage (as proxied by DER) in model 1 is 0.06 and 0.0022 respectively. The positive coefficient suggests a positive association between DER and idiosyncratic risk where higher DER would imply higher idiosyncratic risk. The probability value of 0.0022 suggests a significant association at a 1% significance level, thus, hypothesis 1 is accepted. To investigate the moderating effect of Integrated Reporting on the relationship between financial leverage and idiosyncratic risk, this research uses IR*DER as a proxy to represent the interaction between integrated reporting and financial leverage. As shown in model 2, the coefficient and probability value of IR*DER is 0.8811 and 0.0032 respectively. The positive coefficient depicts a positive moderating effect of integrated reporting on this relationship. A positive moderating effect would suggest that integrated reporting strengthens the positive association between financial leverage and idiosyncratic risk. The probability value of 0.0032 suggests a 1% significance level, thus, hypothesis 2 is accepted.

DISCUSSION

The test result suggests that financial leverage is positively associated with idiosyncratic risk. The result of this study is in line with Butar-Butar (2020), Hsu & Jang (2008), Markarian & Gill-de-Albornoz (2012), and Vozlyublennaia, 2013)). This study can confirm the results of previous studies because increasing debt can create additional risks (Vozlyublennaia, 2013). The result of this study is not relevant to Januardi & Afrianto (2017). This difference is caused by selecting variables and proxies in the research model of Januardi & Afrianto (2017), which is not the same as this study. Based on the theory of market efficiency related to the semi-strong market hypothesis, information about the application of debt policies with high financial leverage can reduce the company's stock price because investor trust can decrease, thereby increasing idiosyncratic risk. When debt is announced, the flow of stock price movements will be more volatile because the market will react to the information provided by the company. Hence, it shows that financial leverage can increase the risk borne by the company (Modigliani & Miller, 1958). The risk caused by financial leverage is idiosyncratic because this risk is caused by specific factors related to company strategy and management decision-making (Hsu & Jang, 2008; Pamungkas et al., 2022). Investors consider that companies with relatively higher financial leverage have a higher level of financial risk because there is a possibility that the company cannot meet its financial obligations and become bankrupt (Maverick, 2021). A high level of financial leverage may indicate that the company's performance cannot finance its operations, so it needs to seek more debt instruments. This will result in a higher level of financial risk because an increase in debt will rise in interest. The company must provide sufficient money to pay off the debt and interest at maturity.

Financial risk relates to the company's ability to generate sufficient cash flow to make interest payments on financing or meet other debt-related obligations (Maverick, 2021). Financial risk can be associated with debt financing, cash leases, and cash bankruptcy risk (Gabriel & Baker, 1980). Companies must obtain additional EBIT to compensate for the other hazards arising from financial decisions (Gunarathna, 2016). Suppose the

company continues to apply high financial leverage to continue to issue debt to pay off other debts, and there is no improvement in strategy from management. In that case, investor trust can decrease because investors are worried that the company will have difficulty paying off its debts. Therefore, the average DER value in the sample of manufacturing companies is 1.0998 with a median value of 0.8874 (see the results of descriptive statistics in Table 2), which shows that most manufacturing companies have a total debt approximately equal to total equity.

Suppose the debt policy can increase income by an amount greater than the cost of debt (interest). In that case, investors (shareholders) can expect profits because debt can be used to finance company growth (Fernando, 2021). However, in line with agency theory, companies with excessively high debt can create a conflict of interest because investors worry that their rights cannot be fully fulfilled, thereby reducing investor trust and increasing idiosyncratic risk. If the company goes bankrupt, then legally, creditors' rights must take precedence over investors' ownership (shareholders). Based on the bankruptcy law in Indonesia, it is regulated in Indonesian Act No. 37 of 2004 concerning Bankruptcy and Postponement of Debt Payment Obligations), each separatist creditor can exercise his rights as if there was no bankruptcy of the company (Undang-Undang RI, 2004). These separatist creditors include the Trustees (holders of material guarantees) as parties who represent the interests of bondholders in the capital market (Sulaiman, 2017). Meanwhile, shareholders (investors) obtain the remaining capital after all debts are paid following the proportion of share ownership. In addition, the company's assets have the potential to be sold below the value of their assets in the event of a financial crisis in the company so that shareholders are threatened with the loss if this condition occurs (Öztürk et al., 2016).

When debt is announced, the current stock price movement will be more volatile because the market will react to the financial leverage information provided by the company, thereby lowering the company's stock price. Implementing a debt policy with high financial leverage will lower stock prices due to decreased investor trust. The decline in investor confidence can be caused by investors' views that companies with high financial leverage tend to be riskier because they pose financial risks. There is a possibility that the company cannot fulfill its financial obligations and become bankrupt. Applying financial leverage that is too high for the company can cause a conflict of interest because investors are worried that their rights cannot be fully fulfilled. It has an impact on increasing idiosyncratic risk. If the company goes bankrupt, then legally, creditors' rights must take precedence over investors' ownership (shareholders).

Furthermore, the test result suggests that integrated reporting strengthens the positive effect of financial leverage on idiosyncratic risk. Based on stakeholder theory, the implementation of integrated reporting should meet the needs of investors for transparency in debt management and the company's long-term strategy. A high level of transparency can increase investor trust in the company because investors assume that the financial statements reported by the company are of high quality so that the stock market price will increase (Suripto, 2019). Companies need to disclose more information in integrated reports to reduce agency costs in overcoming the problem of information asymmetry (El-Deeb, 2019).

However, based on this research test, the information gap between agents and stakeholders cannot be resolved through integrated reporting because when companies implement integrated reporting, it increases the positive effect of financial leverage on idiosyncratic risk. The idiosyncratic risk posed by debt policy has even increased. To overcome severe agency problems in companies, information transparency should be used to reduce conflicts that arise between stakeholders (Armstrong et al., 2010). The integrated reporting approach in its application cannot provide better communication between companies and investors because the integrated reporting approach cannot meet the interests of stakeholders, especially investors regarding the information needed about strategies and business models and prospects in the future, which will encourage the organization to achieve its goals (IFAC, 2017). Implementing integrated reporting does not result in managers taking intermediary actions, providing company reports that present adequate information to stakeholders. The implementation of integrated reporting can increase information asymmetry. It should change numerical information into complete details in the form of additional non-numerical information that can explain numerical information (Bhimantara & Dinarjito, 2021). It has resulted in an increase in information asymmetry between managers and shareholders. In addition, the information in integrated reporting is more profitable for creditors in seeing the company's condition, so it is easier for companies to obtain funding from debt sources. However, this condition makes the company riskier considering that the use of debt is more, the company can experience financial difficulties or even financial distress.

Implementing quality integrated reporting should bring the company closer to stakeholders and gain social consensus (Vitolla et al., 2019). Although, on average, manufacturing companies apply organizational overview and external environment elements, strategy and resource allocation elements, and future outlook elements well, respectively, at 81.2%, 66.1%, and 98.2% of the maximum value element. Elements of the organizational overview and external environment can provide important information related to the competitive landscape and the company's position in the market. With this element, the company will be able to convey factors such

as the threat of new competition and substitute products, the bargaining power of customers and suppliers, and the intensity of competitive competition. It can convey the relevance of the company's condition to market forces, economic stability, industry trends, globalization, speed and the effects of technological change (IIRC, 2013). However, this information is one-sided information claimed by the company considering that there is currently no independent external party that assesses the quality of the integrated reporting implementation by the company. The implementation of integrated reporting resulted in investors' need for transparency in debt management. The company's long-term strategy could not be fulfilled so that investors' trust in the company's condition in the future is reduced.

CONCLUSION

Implementing a debt policy with high financial leverage will lower stock prices due to decreased investor trust. Investors consider that companies with high financial leverage tend to be riskier because they pose financial risks. In addition, applying financial leverage that is too high for companies can cause a conflict of interest because investors are worried that their rights cannot be fully fulfilled. Investors' needs for transparency in debt management and the company's long-term strategy have yet to be met for companies that implement integrated reporting. This condition resulted in a lack of investor confidence in the company's sustainability. Implementing integrated reporting benefits creditors and increases the asymmetric information gap. In addition, there is still no independent party that assesses the quality of the implementation of integrated reporting, resulting in this application being only a one-sided claim from the company.

Several limitations exist in this research. First, this study only uses a sample of 90 companies in the five-year study period and focuses on debt policy. Future studies can use other variables such as tax avoidance and accrual quality to depict other manager policies. Also, future studies can employ A larger sample of companies with a study period of more than five years can reduce statistical errors. The results of this study can be used as a basis for additional analysis by investors in making investment decisions. Based on the results of this study, investors can estimate the amount of idiosyncratic risk based on their debt management (financial leverage) because high financial leverage can lead to high idiosyncratic risk. Third, as an institution that implements an integrated regulatory and supervisory system for all activities in the financial services sector in the capital market, the Indonesia Financial Services Authority will continue to conduct analysis and evaluation related to the effectiveness of several regulations, policies, and practices or business processes in Indonesian capital market.

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