

-RESEARCH ARTICLE-

DO INSTITUTIONAL OWNERSHIP AND COMPANY VALUE PREDICT FINANCIAL STATEMENT INTEGRITY?

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—Abstract—

This study seeks to produce empirical evidence by investigating the impact of institutional ownership (IO) and company value (CV) on financial statement integrity

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and the moderating effect of profitability on the relationship between IO and CV and financial statement integrity. To accomplish the purpose of the study, information was gathered from the fifteen companies with the highest market capitalization on the Indonesian Stock Exchange (IDX) from 2008 to 2021. Using the ARDL model, this investigation employed multiple regression analysis techniques. The study's findings indicate that company value significantly impacts financial statement integrity, and profitability's mediating effect on the association between IO and CV and financial statement integrity was also found to be significant. However, no significant effect of institutional ownership on financial statement integrity has been identified. The significant contribution of the current study's findings to academics, practitioners, and investors in the context of Indonesia has numerous implications. In addition, the findings of this study provide policymakers and other interested parties with empirical evidence.

Keywords: institutional ownership, company value, profitability, Indonesian stock exchange (IDX)

1. INTRODUCTION

The purpose of publishing financial statements is to provide information about a company's performance over a specific period. According to [Nurullah et al. \(2022\)](#) and [Okpala \(2012\)](#), it is essential that financial statements contain accurate information about the company and do not contain information that misleads the decision-making process. Following this regulation, the integrity of financial statements is a requirement for all companies compiling financial statements. According to [Malau and Murwaningsari \(2018\)](#), the integrity of financial statements is essential in the company's communication with its stakeholders. Since a company's financial statement depicts its overall financial condition and aids investors in making investment decisions, honesty and integrity must be essential to the financial statements. Many companies are increasingly manipulating their financial statements today, indicating that sound corporate governance has not been applied accurately ([Safta et al., 2020](#)).

Indonesia is experiencing an integrity crisis, particularly concerning financial governance in the government and private sectors. In each country, financial statement manipulation controversies involve many companies ([Hakimah et al., 2019](#); [Ikbāl et al., 2020](#); [Pratama et al., 2020](#); [Sibuea et al., 2022](#); [Tambunan et al., 2022](#)). In 2009, one of the most prominent controversies involved PT Waskita Karya. In 2004-2008, the company manipulated its financial statements to overstate its value by \$500 billion, and in 2019 the company was again under suspicion for corruption in 14 projects ([Srikandhi et al., 2020](#)). [Ikbāl et al. \(2020\)](#) noted that one of the state-owned companies, PT Garuda Indonesia Tbk, was the target of financial statement manipulation in 2019. The respective airline was suspected of manipulating its financial statements. The company artificially inflated its profits to accomplish specific objectives. According to the audit results, the company lost 244 million dollars and recorded a profit of \$8,09,840. [Figure](#)

1 depicts misconduct in the financial statements of Indonesian companies in multiple sectors, highlighting the country's low levels of financial statement integrity.

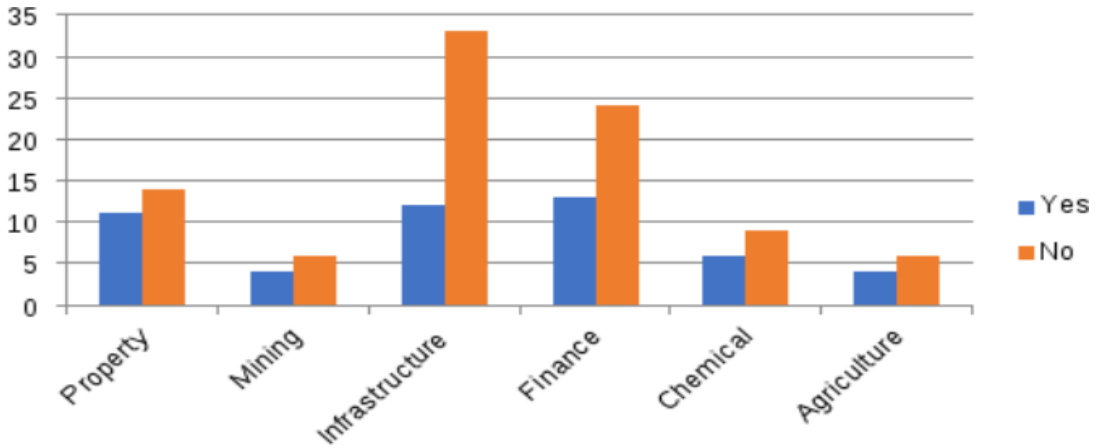


Figure 1. Low Levels of Financial Statement Integrity in Indonesia (Illustration of Fraud in Financial Statements of Multiple Sectors)

Source: (Hermityetti, 2022)

Parinduri et al. (2019) and Utami et al. (2019) analyze the impact of significant determinants on the integrity of financial statements. They note that institutional ownership, the number of shares held by institutions, is significantly associated with financial stability. A high level of institutional ownership will provide investors with greater oversight. Higher institutional ownership, according to Susilowati et al. (2017), Utami et al. (2019), and Budiharjo and Irawan (2020), leads to a greater capacity for investor supervision, which has the potential to prevent opportunistic behavior and financial statement manipulation. According to Abbas and Siregar (2021), a company's value is determined by the number of assets it possesses, as companies with a higher value have a more significant number of stakeholders. Consequently, the company's value is associated with the integrity of financial statements, indicating that the higher the company's value, the higher the level of integrity in financial statements. Pradika and Hoesada (2018) note that most financial controversies involve high-value corporations because they have more stakeholders. In contrast, Lubis et al. (2015); Monica et al. (2015) contend that the value of a company is not always strongly correlated with the accuracy of its financial statements. According to Dirman (2020) and Safitri and Bahri (2021), a company's profitability is its ability to generate high profits, which indicates its excellent performance. Accordingly, it can be stated that increased profitability reflecting inaccurate financial statements would increase the value of shareholders' and investors' interests.

Existing literature on financial statement integrity contains numerous voids, as previous studies remain inconsistent. Consequently, this study tends to reexamine the issue by

analyzing the impact of institutional ownership level and company value on financial statement integrity. Moreover, as the number of scandals involving fraud and corruption in the financial statements of Indonesian firms rises, there is a shortage of research that examines the influence of significant factors on financial statement integrity. To fill these gaps, this study aims to (a) analyze the impact of institutional ownership level, (b) investigate the impact of company value, and (c) investigate the moderating effect of profitability on the financial statement integrity of Indonesian companies. This study makes significant contributions by expanding the relevant literature and providing policymakers and audit committees with important information about factors influencing financial statement integrity.

2. LITERATURE REVIEW

2.1 Institutional Ownership And Financial Statement Integrity

Corporate governance of an institution or any organization is called institutional ownership. In other words, institutional ownership is the proportion of shares held by a specific organization in the business market, and it is the key for an organization to improve the integrity of its financial statement (Parinduri et al., 2019; Pratami et al., 2022; Tambunan et al., 2022). In addition, financial statement integrity refers to a company's financial position regarding its assets (Dura, 2022; Mujiatun et al., 2022; Nurdiniah & Pradika, 2017; Priharta & Rahayu, 2019).

The extent of institutional ownership significantly impacts the reliability of any organization's financial statements. According to a recent study (Salem et al., 2019; Tambunan et al., 2022), the level of institutional ownership positively affects the company's financial statement. In this regard, however, the long-term impact of organizational ownership on the financial statement of any particular organization presents a vast research opportunity. (Pradika & Hoesada, 2019) The company's financial integrity will increase as its market share increases (Pradika & Hoesada, 2019). The argument supports this elaborated in research (Wan et al., 2020) that a high level of institutional ownership promotes the strength and financial capability of the company by attracting investors and enhancing the operating efficiency of the company, which ultimately makes the institution financially strong and significantly influences the integrity of the financial statement of the organization, thereby boosting the economy of the country.

H1: Hence, it proposed that the level of institutional ownership significantly impacts financial statement integrity.

2.2 Company Value and Financial Statement Integrity

Every company that contributes to the economic stability of a nation possesses a set of values that enables it to increase its financial outcomes and profit values, known as the company's value (Purwanti, 2020). In other words, company value is the perceptions of

a company that comes from the managerial staff of the organization or the investors regarding the success level of the institution while managing all the resources available;e to the organization for increasing its financial statement integrity, which results in an efficient stock price of the company in the business market globally and locally as well (Berzkalne & Zelgalve, 2014; Wafiyudin et al., 2104).

It is believed that company value has a significant impact on the financial statement of an organization. According to research conducted by Wistawan et al. (2015), organizations operating on a large scale in the business markets are facing demands from stakeholders or investors to present the financial statements of the company to analyze the financial status of the company's stocks in the market. This is contingent on the company's values shared by the staff with their investors based on the company's actual financial condition. The company's value helps attract investors (Butticè et al., 2021). They receive more attention from various parties, which is the ultimate path for the organization to maintain the integrity of its financial statements and thrive in the global and local business markets (Butler, 2022).

H2: Hence, proposed that company value significantly influences the integrity of financial statements.

2.3 Mediating Role of Profitability

In recent years, the global business market has changed, and organizations must maintain their global image by enhancing their corporate values, which include the ownership of the institution and the values of the company; this is the ultimate route for the company to improve the integrity of its financial statement and to develop its financial status as well (Lyeonov et al., 2019). In addition, the organizations should adopt the changes demanded by the stakeholders or the investors, which will ensure their flexibility, allow them to function effectively, and, most importantly, integrate the institution's financial statement (Gu et al., 2020; Riddiough et al., 2020). In addition, profitability will mediate between the level of institutional ownership, company value, and the integrity of the organization's financial statement because profitability refers primarily to a statistical analysis of the business firm that interprets future outcomes and profits. According to a recent study (Oggero et al., 2020), any business's profitability is correlated with its financial statements' reliability. Moreover, profitability influences institutional ownership and the value of the company by suggesting a suitable plan for the company's strong financial development, which significantly mediates the relationship between the level of institutional ownership, company values, and the development of the institution's financial statement (Riepe et al., 2022).

Today, stakeholders are increasingly interested in receiving a return on their investments in a company. Profitability mediates the organization with potential financial status assumptions and future investor forecasts (De Lucia et al., 2020). In addition, profitability influences the organization's corporate values, including the level of

institutional ownership and the company's value. It thus develops the organization's financial status as a mediator for the financial statement's accuracy.

H3: Profitability plays a significant role in maintaining the relationship between the level of institutional ownership and financial statement integrity.

H4: Profitability significantly mediates the relationship between company value and the integrity of financial statements.

2.4 Conceptual Framework

The theory used for the development of relational literature between institutional ownership, the value of the company, profitability, and financial statement integrity is known as "Corporate Social Responsibility (CSR)," which encourages the company to develop its values of the company, which enables the company to operate transparently and to become financially strong as well (Barauskaite & Streimikiene, 2021). The theory of Corporate Social Responsibility can also be defined as the company's ability to adapt to the needs of its stakeholders to improve their well-being, thereby enhancing the institution's financial standing and contributing to economic growth (Lu et al., 2020). Based on the theory of CSR, the conceptual framework of this research has been developed by keeping in mind the various variables responsible for the development of the company and the improvement of the integrity of its financial statement, where the level of institutional ownership and company value has a significant influence on the integrity of the financial statement. Profitability plays a mediating role between them.

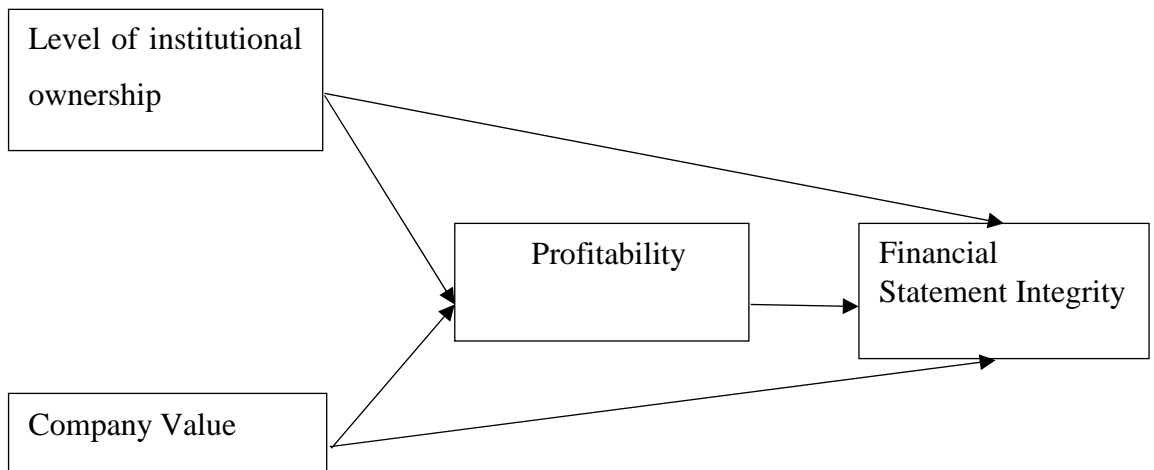


Figure 2. Conceptual Framework

3. METHOD

The quantitative analysis of the impact of three variables on the integrity of financial statements was the objective of this study's associative research design. Corporate annual

reports and financial statements from the Indonesia Stock Exchange (IDX) websites and each company were gathered as secondary data. The first fifteen IDX companies with the highest market capitalization from 2008 to 2021 were chosen as a sample for this research. Purposive sampling was employed as a sampling technique, which, according to [Campbell et al. \(2020\)](#), is a suitable method when researchers are attentive to the required population size. The study employs 15 sample companies that meet the purposive sampling criteria outlined in [Table 1](#):

- Companies with the most significant market capitalization between 2008 and 2021
- Companies that did not specify their financial statement in rupiah
- Companies that published their entire annual financial report data

Table 1. A Sampling of this Study as Per the Criteria

No	Explanation	Deduction	Total
1	Firms with the highest market capitalization on IDX from 2008 to 2021	-	15
2	The companies published annual and financial reports from 2008 to 2021	-	15
3	The companies demonstrate complete data	-	15
		The total sample for this study, as per the criteria	15

The financial statement integrity was the dependent variable in the study, while the level of institutional ownership and company value was dependent. In addition, profitability was utilized as moderating variable, and the measurement of each variable is presented in [Table 2](#).

Table 2. Measure and SOURCE of VARIABLES

Variable	Equation	Source
Financial statement integrity	Conservatism = stock market price/ book value of shares = total equity/ outstanding shares	(Nurdiniah & Pradika, 2017)
Institutional Ownership	KI = [the number of institutional shares/ outstanding shares] x 100%	(Nashier & Gupta, 2016)
Company value	Size = Ln total assets	(Solikhah et al., 2019)
Profitability	RNOA = Sales/ Net Operating Assets x Operating Income After Depreciation/ Sales	(Konchitchki & Patatoukas, 2014)

Multiple regression analysis on the above equation will be helpful to the researcher because it provides a positive or negative association between independent and moderator variables and dependent variables or the effect of increased or decreased values of independent and moderator variables on the value of dependent variables. Consequently, this study employs multiple linear tests, which, according to [Brown \(2009\)](#), is more effective than fundamental linear analysis because it incorporates the inferences drawn from the degree of correlation in each independent variable. Multiple linear regression was conducted using the FMOLS and CCR techniques. Next, the researcher employed FMOLS and CCR, the two fundamental techniques for estimating variable coefficients when investigating long-run relationships between variables. The author has utilized the FMOLS method, as illustrated by the equation below.

$$\beta_F = \frac{\sum_{i=1}^N \sum_{t=1}^T (x_{i,t} - \bar{x}_i)^2}{\sum_{i=1}^N \sum_{t=1}^T (\sum_{i=1}^N (x_{i,t} - \bar{x}_i) \hat{\delta}_{i,t} - T \hat{\delta}_{su})^{-1}}$$

In this equation, $\hat{\delta}_{i,t}$ is the transformed variable of the financial statement integrity due to endogeneity correction, and the serial correlation correction of FMOLS is represented by $\hat{\delta}_{su}$

Thus, the regression equation was estimated as follows,

$$FSI_{it} = \alpha + \beta_1 IO_{it} + \beta_2 CV_{it} + \beta_3 PROF_{it} + \varepsilon_{it}$$

Where:

- FSI = Integrity of financial statements
- IO = Institutional ownership
- CV = Company value
- PROF = Profitability

A series of tests, including the panel unit root, descriptive analysis, and diagnostic tests, were used to determine the efficacy and precision of the determinants.

4. RESULTS

The data and model are deemed more precise and robust if the data is usually distributed. The skewness, kurtosis, and Jarque-Bera tests were applied to evaluate the normality of the data. According to [Osborne and Waters \(2002\)](#), [Hair et al. \(2010\)](#), and [Byrne \(2013\)](#), the kurtosis and skewness values should fall between -+2 and -+7. The empirical results presented in [Table 3](#) indicate that the data followed a normal distribution. In addition, measures of dispersion and central tendency are depicted in the table. Between 2008 and 2021, the mean value of the FSI was 2.38, the CV was 11.81, the IO was 0.298, and the PROF was 15.6. The tiny values for standard deviation indicate that the dispersion of the data was minimal.

Table 3. Normality Statistics

	CV	FSI	IO	PROF
Mean	11.81565	2.380593	0.298372	15.61557
Median	11.80688	1.075336	0.323850	9.565000
Maximum	14.30335	16.30322	0.578800	95.95000
Minimum	8.807173	0.232600	0.056000	0.500000
Std. Dev.	1.336136	3.060076	0.141061	16.97276
Skewness	-0.094718	2.094714	-0.070654	2.563117
Kurtosis	2.208070	7.297867	1.978391	10.78214
Jarque-Bera	5.801595	315.2010	9.306958	759.8504
Probability	0.054979	0.000000	0.009528	0.000000
Sum	2481.287	499.9244	62.65820	3279.270
Sum Sq. Dev.	373.1190	1957.090	4.158720	60207.59
Observations	210	210	210	210

Table 4 illustrates the relationship between the variables. The correlation matrix facilitates the model's evaluation of linear associations and multicollinearity. Multicollinearity is suspected when the correlation coefficients of the independent variables exceed 0.8; however, since all factors have reported values below 0.6, the issue does not exist. Moreover, the degree of linearity between the variables is unquestionably present, as the values range between 0.3 and 0.6, indicating a moderate correlation (Khan et al., 2022).

Table 4. Correlation

	CV	FSI	IO	PROF
CV	1			
FSI	0.2580554	1		
IO	0.1540453	-0.084209	1	
PROF	0.3740767	0.5857054	0.2150552	1

The unit root test was used to evaluate the variables' integration order in the subsequent testing phase. By demonstrating that none of the four variables exceeded the acceptable integration order (I (0) and I (1)), the unit root test substantiated the data's suitability for the application of the FMOLS and CCR estimation models as opposed to other simple methods such as cointegration alone. The results of the unit root test based on the ADF test are shown in Table 5. The variables were found to be stationary at both the first difference and the level; therefore, FMOLS and CCR techniques are preferable to other simple analyses, such as least squares and fixed and random effects.

Table 5. Unit Root Tests

Variable	Level	Δ
CV	-3.937003**	-14.77094***
FSI	-3.418703*	-15.16330***
IO	-3.146956	-14.43130***
PROF	-4.191030**	-14.87452***

After establishing the existence of stationarity, the researcher utilized the FMOLS estimation method to determine the associations between the variables. The researcher hypothesized that institutional ownership (IO) and company value (CV) would affect the companies' financial statement integrity. Since the financial integrity and reporting scrutiny has increased since the financial crises of 2008 (Pagliari & Wilf, 2021), data from 15 firms listed on the Jakarta stock exchange between 2008 and 2021 were collected. The effect of company value on financial statement integrity was positive and statistically significant, as shown in Table 6. A percentage increase in CV would result in a 26% increase in the integrity of financial statements. This suggests that a larger company would emphasize sustaining ethical conduct and reporting following industry and accounting standards. The differentiated term for institutional ownership suggests that the impact on financial statement integrity was positive and considerable. According to previous research, institutional investors have access to superior expertise and resources and can therefore promote superior strategies and policies for financial statement integrity. Significant and positive effects of profitability on financial statement integrity were also observed. Thus, a percentage increase in IO and PROF would increase FSI by 32.65% and 4.6%. The R^2 for the model was 0.9149 before adjustment, and after adjustment, it was 0.9115, thus suggesting that over 90% of the variation in FSI was predicted by CV, PROF, and IO.

Table 6. FMOLS Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FSI(-1)	0.964870	0.020158	47.86477	0.0000
CV	0.263402	0.098598	2.671481	0.0082
CV(-1)	-0.262650	0.095650	-2.745952	0.0066
IO	-3.645310	0.780073	-4.673036	0.0000
IO(-1)	3.265406	0.788723	4.140116	0.0001
PROF	0.046468	0.007917	5.869622	0.0000
PROF(-1)	-0.045834	0.008032	-5.706206	0.0000
C	0.279655	0.528047	0.529603	0.5970
@TREND	-0.001132	0.001033	-1.095291	0.2747
R-squared	0.914923	Mean dependent var		2.396358
Adjusted R-squared	0.911503	SD dependent var		3.070555
SE of regression	0.913441	Sum squared resid		166.0406
Long-run variance	0.371460			

The estimation was repeated using the CCR technique, and it was determined that the nature of the findings and interrelationships remained unchanged. In addition, the mediation effect of PROF was found to be statistically significant. With increased profitability, the IOs are more concerned with the upkeep of the reporting systems' integrity.

Table 7. CCR Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FSI(-1)	0.964522	0.020077	48.04009	0.0000
CV	0.020036	0.495462	0.040438	0.9678
CV(-1)	-0.022846	0.487644	-0.046850	0.9627
IO	-1.791817	3.796449	-0.471972	0.6375
IO(-1)	1.452307	3.756427	0.386619	0.6995
PROF	0.029685	0.038285	0.775352	0.4391
PROF(-1)	-0.029227	0.037892	-0.771330	0.4414
C	0.318520	0.530121	0.600843	0.5486
@TREND	-0.001214	0.001030	-1.178583	0.2400
R-squared	0.907576	Mean dependent var		2.396358
Adjusted R-squared	0.903861	SD dependent var		3.070555
SE of regression	0.952066	Sum squared resid		180.3796
Long-run variance	0.371460			

In addition to evaluating the stability of the estimates, diagnostic tests for homoscedasticity and serial correlation were also conducted. The results of the analyses for serial correlation and heteroscedasticity are presented in Tables 8 and 9. It can be confirmed that the null hypotheses for both tests were denied; consequently, neither serial correlation nor heteroscedasticity was detected in the data or error terms. Thus, the estimates were deemed reliable and accurate.

Table 8. Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.323587	Prob. F(2,198)	0.7239
Obs*R-squared	0.680903	Prob. Chi-Square(2)	0.7114

Table 9: Heteroskedasticity Test: ARCH

F-statistic	0.127358	Prob. F(2,204)	0.8805
Obs*R-squared	0.258139	Prob. Chi-Square(2)	0.8789

5. DISCUSSION

Numerous scandals in Indonesia have been linked to falsifying financial statements to increase the company's profits (Purwati et al., 2022; Theresa Dwi Hastuti et al., 2015).

It emphasizes the need to emphasize the significance of financial statement integrity. Based on this perspective, this study examines the factors that influence the integrity of financial statements. To achieve the study's objectives and reach a valid conclusion, the literature review will assist in formulating three significant hypotheses concerning the influence of institutional ownership, company value, and the mediating role of profitability. ARDL was used for multiple regression analysis in the analysis. The study results indicate that institutional ownership has a negligible effect on financial statement integrity, whereas company value and profitability have a significant effect.

The study's first hypothesis asserts that institutional ownership (IO) significantly impacts financial statement integrity. According to the study's findings, this hypothesis was supported, and IO was found to have a significant impact on financial statement integrity. This result contradicts the findings of [Nurdiniah and Pradika \(2017\)](#), who analyzed the financial statement integrity of firms listed on the Indonesian Stock Exchange (IDX) between 2013 and 2015 and found that IO does not affect the financial statement integrity of firms listed on the IDX. However, [Khaddafi et al. \(2018\)](#) analyzed the manufacturing industries (2013-2015) in Indonesia, and their findings indicate that IO has a significant impact on the financial statement integrity of Indonesian Manufacturing Firms. Moreover, [Savitri \(2016\)](#) indicates that IO significantly impacted the financial statement integrity of 138 selected Indonesian Stock Exchange companies in 2014. The second hypothesis of this study asserts that company value (CV) significantly impacts financial statement integrity. According to the study's findings, the pertinent hypothesis was confirmed, and a significant impact of CV on financial statement integrity was identified. Numerous existing studies support this result, as [Zhai et al. \(2015\)](#) demonstrate that the company's value and corporate culture substantially affect the integrity of non-state-owned businesses. Afzali's research demonstrates that a company's culture and values positively influence the financial statement's integrity. This study's third hypothesis proposes that profitability substantially mediates the relationship between IO, CV, and financial statement integrity. Based on the findings, the hypothesis was confirmed, and a substantial mediating role for profitability was identified. [Abdullah and Ahmed \(2020\)](#) examine the impact of corporate profitability on the non-financial sector of Muscat for 2019 and find a significant impact on profitability. In contrast, [Sormin \(2021\)](#) examines the influence of profitability on financial statement integrity for firms listed on the Indonesian Stock Exchange (2017-2020) and finds that profitability does not affect financial statement integrity. Using a sample of LQ-45 index companies from the Indonesian Stock Exchange, [Rahmadi et al. \(2022\)](#) also analyzed the effect of profitability on financial statement integrity. Their findings indicate that profitability does not affect financial statement integrity.

6. CONCLUSION

This study's primary objective is to examine the influence of institutional ownership (IO) and company value (VC) on financial statement integrity and the moderating effect of

profitability. The fifteen Indonesian Stock Exchange companies with the highest market capitalization from 2008 to 2021 were selected for the sample. The information was gathered and organized from the official websites of the Indonesian Stock Exchange and the companies. According to the study's findings, several significant factors can impact the accuracy of financial statements. Among the three examined factors, it was determined that company value and institutional ownership significantly impact financial statement integrity, which suggests that companies with higher values are more likely to draft their financial statements with integrity. In addition, profitability substantially mediated the relationship between IO and VC and financial statement integrity.

7. IMPLICATIONS OF THE STUDY

This research has numerous implications, as it contributes to the literature on the financial statement integrity of Indonesian corporations. The findings of this study illustrate financial statement highlights of Indonesian companies for investors; furthermore, the relevant findings aid policymakers and practitioners of Indonesian firms in carefully considering the roles of institutional ownership, customer value, and profitability when preparing their financial statements. In addition, this study emphasizes the importance of financial statement integrity in Indonesia, but the findings are pertinent to audit committees of all organizations worldwide.

8. LIMITATIONS AND FUTURE RESEARCH INDICATIONS

Despite its significant contribution, this study has numerous limitations that will allow future research to produce more robust findings. This study utilizes the data of the fifteen companies with the highest market capitalization listed on the Indonesian Stock Exchange (IDX), so it does not discuss the financial statement integrity of other categories of Indonesian companies. It paves the way for future research to analyze the findings of this study in the context of companies in various sectors of other developing nations. Secondly, this study was limited by its time frame, as data was collected from firms between 2008 and 2021; future studies can address this limitation by using a longer time frame to generate more generalized results. Finally, the impact of internal variables was analyzed, whereas many external factors, such as KAP, were not. Future researchers should consider these limitations when conducting their investigations.

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