

## Ownership, Firm Size and Financial Statement Integrity: Evidence from Property Sector in Emerging Market

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### ABSTRACT

*This research looks at the elements that influence the integrity of financial statements in property and real estate businesses listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023. Using a quantitative methodology and secondary data, the study especially investigates the influence of institutional ownership, managerial ownership, firm size, and leverage on financial statement integrity. Purposive sampling was used to choose a sample of 24 firms, giving 96 observations per company year. After removing outliers, 80 usable data points were evaluated using SPSS multiple linear regression. The data shows that institutional ownership, management ownership, and firm size have a considerable influence on financial statement integrity. However, leverage was shown to have no meaningful impact. These findings emphasize the relevance of ownership arrangements and firm size in encouraging open and accurate financial reporting in the Indonesian property and real estate industry.*

### Keywords:

*Institutional Ownership, Managerial Ownership, Firm Size, Leverage, Financial Statement Integrity.*

## 1. INTRODUCTION

Accounting and reporting frameworks constitute primary mechanisms through which organizations communicate decision-useful and contemporaneous information about their financial, social, and environmental performance to diverse stakeholder groups (Abdel-Halim et al., 2025). Financial statements are the final product of the accounting process and a primary indicator of a company's financial health and performance. Those are very essential for every stakeholder in making informed economic decisions. Accordingly, financial statements must present an honest and accurate account of a company's financial activities (Muchram et al., 2022) and uphold financial materiality frameworks streamline disclosure practices by emphasizing information deemed pertinent to capital market participants (Arian & Sands, 2024). High-quality financial reports provide management with key information on a financial position of one entity in a given accounting time (Putri & Andriani, 2022), and the role of auditor is to assure users of their



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accuracy, reliability, and faithful representation of economic reality (Faza' et al., 2025; Tanwaty & Moussa, 2023). Independent audit engagement serves as a cornerstone governance mechanism that substantiates the integrity of organizational financial reporting while concurrently attenuating information risk exposure across stakeholder constituencies (Samagaio et al., 2024).

The concept aforementioned before refer to financial statement integrity. Corporate executives, rather than accounting professionals, bear ultimate responsibility for ensuring the integrity and reliability of published financial statements (Comunale et al., 2006), and both relevance and faithful represent the core attributes of financial statement integrity (Kieso et al., 2019). These characteristics ensure that information is useful for decision-making and free from bias, misrepresentation, or material errors. Conservatism is often used as an indicator of reporting integrity, as it avoids overstating assets and income while promptly recognizing potential losses (Novianti & Isyнуwardhana, 2021; Savitri, 2016). By discouraging premature profit recognition and promoting timely loss acknowledgment, conservative reporting strengthens the credibility of financial statements.

Despite these principles, manipulation of financial statements remains a persistent issue that undermines stakeholder trust. Fraud detection and traceability continue to pose significant challenges under prevailing methodological and technological constraints, stemming from both the susceptibility to Type I and Type II errors in fraud assessment protocols and auditor hesitancy toward implementing advanced detection technologies (Kassem & Omoteso, 2024). Contrarily, documented instances reveal the pivotal role of financial statement integrity in ensuring market confidence and investor protection. Buana Cipta Propertindo, a publicly listed company, was found to be non-compliant with Statement of Financial Accounting Standards No. 44 due to the inclusion of borrowing costs in internal receivables, failure to recognize commission and land maturation costs as acquisition costs, and inadequate public infrastructure development, excluding facilities such as schools and places of worship (Siregar & Lestari, 2019). The amplified likelihood of financial misstatement and reporting integrity breaches resulting from insufficient alignment between internal audit mechanisms and governance oversight (Mertzanis et al., 2020). Such cases highlight the urgent need for companies-particularly those listed on IDX-to prioritize the financial reporting integrity.

Reliable statement is essential for investors and creditors in assessing a company's financial position, and achieving this requires adoption of sophisticated integrated assurance frameworks (Ecim & Maroun, 2025) such as implementation of emerging technology like blockchain (Majeed & Taha, 2024), strong internal controls and effective monitoring mechanisms to prevent fraud and ensure reported figures align with actual operations (Marlinda et al., 2022). The theory of agency offers a framework that may be used to get an understanding of how proper corporate

governance can help to reduce disputes between shareholders and management. Ownership structure, particularly institutional and managerial ownership is a significant factor in determining the conduct of corporations and the reliability of financial statements. Institutional ownership is often associated with stronger oversight due to its scale and influence, improving management discipline and reporting quality (Fajaryani, 2015). However, some evidence indicates that institutional investors may focus more on profit maximization than on enforcing reporting integrity (Hifnelda & Sasongko, 2021). In the case for managerial ownership, alignment of interests between managers and shareholders is expected to encourage more responsible management behavior (Hasanah et al., 2025). Yet excessive managerial control can reduce external oversight and increase the potential for manipulation (Suzan & Rizaldi, 2024).

Firm size is another factor that may influence reporting integrity. Larger companies tend to attract greater public and regulatory attention, which may incentivize transparent reporting (Rivandi & Pramudia, 2022). However, some research finds the integrity of the reporting does not seem to have a significant association with the size of the firm (Novitasari & Martani, 2022). Leverage, in addition to have an impact on reporting methods, it serves as a measurement of a company's power to fulfill its financial responsibilities. High leverage may create financial pressure, prompting management to manipulate reports to maintain investor and creditor confidence (Fatimah et al., 2020), while other studies report no significant association (Eftasari & Sarumpaet, 2025).

These results, which are inconsistent and occasionally conflicting, point to a gap in the research, drawing attention to the need of doing further empirical research. The aim of this research is to fill that vacuum by investigating the effect that institutional ownership, managerial ownership, firm size, and leverage have on the integrity of financial statements in the property and real estate industry in Indonesia. This sector is of particular interest due to its significant contribution to the national economy and heightened public scrutiny arising from past reporting scandals. By using purposive sampling on a multi-year dataset from verified IDX sources, the study captures a representative cross-section of Indonesia's property and real estate sector while controlling for data completeness and consistency. The empirical findings show that there is a strong link between financial statement integrity and institutional ownership, managerial ownership, and firm size, but no significant association with leverage.

These findings contribute to the extant literature by advancing theoretical knowledge and providing actionable insights for practitioners and regulators concerned with financial reporting quality. With its theoretical contribution, through the elucidation of the connection between, this paper addresses a gap in the existing body of research; financial reporting integrity, business characteristics, and corporate governance procedures. Financial statement integrity was not considerably impacted by leverage,

suggesting that stakeholders and investors do not take this element into account when evaluating the financial statement integrity of real estate and property enterprises. This finding suggests that future research, particularly in the context of poor nations, may examine a wide range of variables postulated to impact the reliability of financial statements. Practically, the results are expected to help companies strengthen governance structures, refine internal controls, and manage financial structures to improve transparency. They may also provide investors, creditors, and regulators with deeper insights into the conditions that foster trustworthy reporting, ultimately supporting greater accountability in Indonesia's capital market.

## **2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Agency Theory**

The connection between principals, who may include stockholders, and agents, who are often managers connection, is explained by agency theory, underlining the potential conflict due to different aims and information access (Izdihar & Karmudiandri, 2022). Jensen & Meckling (1976) further explain that certain managerial behaviors may indicate actions that create information asymmetry by concealing or withholding important information that should be communicated to the owners, thereby causing an imbalance of information that can mislead the principals in making future decisions regarding the company's operations.

Agency conflicts can arise from firm ownership and control split, which led to this hypothesis. Agency theory addresses information asymmetry, where managers, as agents, know more about the company's activities than proprietors. This disparity hinders shareholder supervision of managerial activity. Managers may use their informational advantage to act opportunistically, prioritizing personal interests over shareholder aspirations. Thus, business requires precise and transparent information to understand the company's past, present, and future. Companies need effective corporate governance-compliant ownership arrangements to resolve agency conflict.

Agency theory also argues that institutional and managerial ownership might improve monitoring and financial statement credibility. These ownership forms connect managerial behavior with shareholder interests, increasing financial transparency. Once distributed to stakeholders, financial statements eliminate ambiguity and provide reliable corporate trajectory information. Financial disclosures must be honest and trustworthy to reduce information asymmetry. Larger organizations are more visible and sophisticated, thus stakeholders expect high reporting standards. High-leverage corporations must publish more financial information. Large debt levels increase scrutiny from investors and creditors, in order to evaluate potential risks and repayment capacities that rely on financial documents.

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### **The Influence of Institutional Ownership on Financial Statement Integrity**

Investment firms, banks, and insurance companies are examples of entities that do not directly participate in a company's management but do own shares in the business. Information asymmetry and competing goals may lead to conflicts of interest between shareholders (the principals) and management (the agents), as stated in agency theory. Large institutional ownership can serve as an effective corporate governance mechanism by enhancing monitoring capacity, thereby compelling management to prioritize company performance and align with broader stakeholder interests. The credibility and integrity of financial reports may be enhanced by reducing fraudulent activities and opportunistic conduct via increased supervision. Putri & Andriani (2022) found that institutional ownership has a favorable and substantial influence on the integrity of financial statements, consistent with Fajaryani (2015), who emphasizes its role in fostering honest and reliable reporting. Accordingly, when institutional ownership is substantial, it encourages more stringent monitoring of managerial performance and maximization of firm value, thereby producing transparent and trustworthy financial reports. Based on this reasoning, the first hypothesis is proposed:

H1: Institutional ownership has an effect on financial statement integrity.

### **The Influence of Managerial Ownership on Financial Statement Integrity**

Managerial ownership denotes the proportion of shares held by executives and board members actively involved in corporate decision-making (Fajaryani, 2015). According to agency theory, managers' financial interests are more closely aligned with shareholders', which in turn reduces principal-agent conflicts. When managers hold a significant equity stake, they directly benefit from positive company performance and bear the consequences of poor decisions, fostering greater accountability in both operations and financial reporting. This alignment of interests encourages managers to act efficiently, avoid opportunistic behavior, and maintain the rightfulness of disclosed financial information. The other way around, research findings reveal substantial expectation asymmetry between auditors and board members regarding auditors' responsibilities in detecting malfeasance and evaluating fraud potential. This gap manifests through directors' systematic push to reallocate the fiduciary professional task for the audit function (Faza' et al., 2025). Studies by Hifnelda & Sasongko (2021) as well as Tamara & Kartika (2021) provide empirical support, showing that higher managerial ownership positively influences financial statement integrity. Thus, when managerial shareholding increases, so does the sense of responsibility to operate transparently and report truthfully, enhancing overall reporting quality. Based on this rationale, the second hypothesis is proposed:

H2: Managerial ownership has an effect on financial statement integrity.

**The Influence of Firm Size on Financial Statement Integrity**

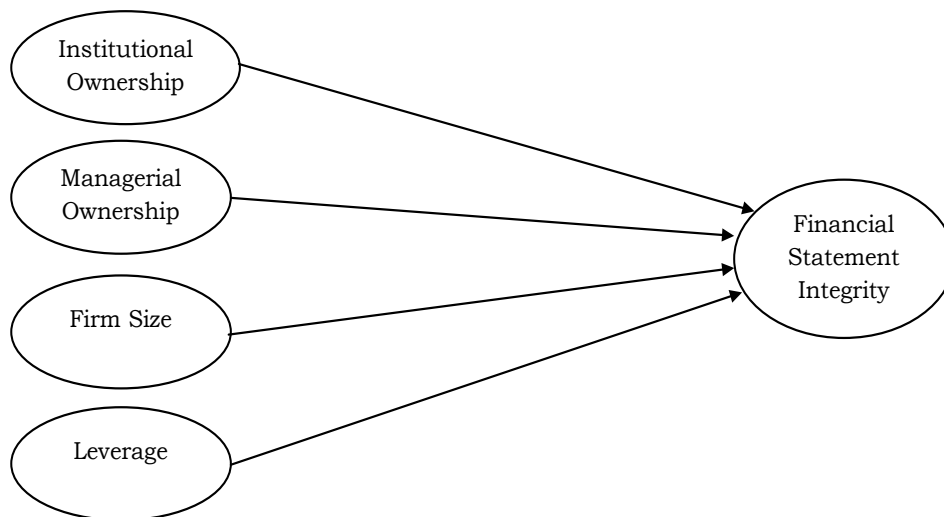
Firm size reflects the overall scale of a company, frequently calculated by market capitalization, number of workers, total assets, or sales (Saksakotama, 2014). Larger firms, characterized by significant assets and revenue generation, tend to attract greater attention and scrutiny from a wide range of stakeholders, including creditors and investors. This intensified monitoring environment increases pressure on management to present accurate and transparent financial reports, reducing information asymmetry and mitigating agency conflicts. Conversely, smaller firms may face less external oversight, potentially lowering the incentive to uphold high reporting standards. Empirical findings by Saad & Abdillah (2019) and Rivandi & Pramudia (2022) show that there is a positive and statistically significant correlation between the size of a firm and the integrity of its financial statements. This means that bigger companies are more likely to be transparent with their financial information. The third hypothesis developed from this line of reasoning is:

H3: Firm size has an effect on financial statement integrity.

**The Influence of Leverage on Financial Statement Integrity**

Leverage is a measure of how much debt a firm has in relation to its assets, indicating its capacity to meet short and long-term obligations. Insufficient internal audit function effectiveness adversely impacts firms' leverage management efficacy and overall financial performance quality (Omidiji et al., 2025). Firms with high leverage face greater scrutiny from both investors and creditors, as lenders rely heavily on accurate financial statements in the absence of sufficient collateral or personal guarantees from owners. While heightened monitoring might encourage transparency, high leverage can also increase pressure on management to manipulate financial results, delay the disclosure of poor performance, or engage in earnings management to meet debt covenants. These opportunistic tendencies are usually associated with excessive indebtedness, which leads to worse financial reporting integrity, according to research that was carried out by Fatimah et al. (2020) and Novianti & Isyнуwardhana (2021). Thus, leverage exerts a dual influence: it invites more oversight but also heightens the risk of distortion in reporting. The fourth hypothesis developed from this line of thinking is:

H4: Leverage has an effect on financial statement integrity.



**Figure 1  
Research Model**

**Table 1. Population Screening**

| Description                            | Number of Companies | Notes                                    |
|----------------------------------------|---------------------|------------------------------------------|
| Total companies in sector population   | 99                  | Based on IDX listings                    |
| Companies regularly included in sample | 76                  | Initial screening                        |
| Excluded: No complete annual reports   | 7                   | Missing required reports                 |
| Excluded: No available data            | 45                  | Missing key variables                    |
| Final sample                           | 24                  | With complete data for analysis          |
| Observation period                     | 4 years             | 2020–2023 (example; adjust if different) |
| Total firm-year observations           | 96                  | 24 companies × 4 years                   |
| Example sampled companies              | AMAN, ASRI, SMRA    | Names & stock codes from IDX             |

### **3. RESEARCH METHODS**

#### **Research Type**

This quantitative analysis uses secondary data. This research used 2020–2023 yearly financial reports from IDX-listed property and real estate companies. The research is focused on businesses that are involved in property and real estate due to their significant economic impact and frequent governance and financial reporting concerns (Suzan & Rialdi, 2024). The IDX web provided financial statistics also the supporting material. Analytical data is

transparent and reliable because this platform delivers full and publicly available corporate financial reports. The study's use of IDX data shows its dedication to rigorous empirical analysis using verified and standardized financial reports.

### **Data Collection Method**

Data collection strategies are used to obtain information for a research study, according to Sugiyono (2019). Secondary data for this study came from the yearly financial reports of property and real estate businesses listed on the IDX for the years 2020–2023. Documentation is used to collect data in this investigation. This method entails retrieving and reviewing financial data-containing papers, especially those publicly reported by corporations on the IDX website. Secondary data from the site is reputable due to its transparent and standardized financial reports.

### **Population and Sample**

This research includes all real issuers from estate and property on the IDX between 2020 and 2023. These firms comprise the sample's larger group. To produce a sample that meets research aims, this study uses purposive sampling. The following criteria were used to select companies for this study: (1) they had to be listed on the IDX in the real estate and property sector from 2020 to 2023; (2) they had to be listed consistently; (3) they had to have issued annual financial statements for the fiscal years ending December 31, 2020 to December 31, 2023; and (4) they had to have complete and accessible data for each research variable.

### **Operational Variables**

Sugiyono (2019) states that operationalizing variables allows researchers to draw relevant conclusions by identifying and measuring study characteristics. This study's dependent variable (Y) is financial statement integrity, which measures a company's financial reporting honesty. To show correct financial facts, financial statement integrity must be maintained. This study uses the conservatism index to assess financial statement integrity since conservative accounting practises avoid overstatement and misinformation (Fajaryani, 2015). Market-to-book ratio is used to measure conservatism (Beaver and Ryan, 2000). Financial reporting with a ratio above one suggests cautious accounting procedures and higher integrity. Integrity of Financial Statements (ILK) = Market Price/Book Value.

Institutional ownership (X1), managerial ownership (X2), firm size (X3), and leverage (X4) have an effect on the dependent variable. The proportion of a company's total shares held by financial institutions such as banks, insurance firms, or investment groups is known as its institutional ownership (Fajaryani, 2015). Directors and commissioners, who are responsible for making decisions, are considered to have managerial ownership (Fajaryani, 2015). Azaro et al. (2020) state that when dealing with data that often spans billions or trillions of dollars in currency, the natural logarithm (Ln) of total assets is used to determine the size of the organization. The

debt-to-asset ratio (DAR) is a measure of leverage which provides insight into the degree to which a company's assets are supported by debt. This ratio illustrates the financial risk of a corporation by dividing its total liabilities by its total assets (Fajaryani, 2015).

### **Data Analysis Method**

Examining the data from this research is performed by drawing valid conclusions from the collected data. The statistical software SPSS is employed to test and analyze the research hypotheses. The analysis begins with descriptive statistics to summarize the dataset, presenting measures such as minimum, maximum, mean and standard deviation. These descriptive measures provide an overview of sample characteristics and serve as a foundation for further analysis. Next, the regression model is evaluated for suitability and statistical reliability through classical assumption tests. The Kolmogorov–Smirnov (K-S) normality test is applied to determine whether the residuals are normally distributed, with a significance value above 0.05 indicating normality.

Ghozali (2018) states that multicollinearity is indicated by Tolerance values less than 0.10 and Variance Inflation Factor (VIF) values more than 10. Durbin–Watson (DW) test is used to detect autocorrelation, as a robust regression model should exhibit no correlation between residuals across time periods. Finally, the Glejser test is conducted to identify heteroskedasticity; the absence of heteroskedasticity is indicated when the significance value between the variables that are not dependent and the total residuals (ABS\_RES) exceeds 0.05 (Ghozali, 2018). According to Sunyoto (2016), a study model may be used to find out how factors such institutional ownership, managerial ownership, firm size, and leverage affect the integrity of financial statements. In order to test the hypothesis and determine the relationship among the variables, we will use the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information:

Y : Financial statements integrity

X<sub>1</sub> : Institutional ownership

X<sub>2</sub> : Managerial ownership

X<sub>3</sub> : Firm size

X<sub>4</sub> : Leverage

α : Intercept or constant term in the regression model

β<sub>1</sub>–β<sub>4</sub> : Regression coefficients representing the effect size of each independent variable

ε : Error term capturing unexplained variation

Hypothesis testing uses many statistical tests to draw conclusions. The R<sup>2</sup> coefficient, defined as the fraction of the dependent variable's variation that can be accounted for by the independent variables (Ghozali, 2018). A higher R<sup>2</sup> score, especially above 0.5, implies stronger explanation. If there is a significant relationship between the independent variables and the dependent variable, the simultaneous F-test will reveal it. A substantial joint

impact would be indicated by an F-statistic greater than the F-table value and a significance threshold lower than 0.05, allowing one to reject the null hypothesis. The partial t-test is another option that looks at how each independent variable is influencing the outcome. A statistically significant individual contribution to the model is indicated by a t-statistic larger than the value in the t-table and with a significance level lower than 0.05.

#### **4. RESULTS AND DISCUSSION**

##### **Descriptive Statistical Analysis**

This study focuses on the property and real estate sector firms for the 2020–2023 period in IDX. Companies' yearly financial statements were used in the study. The study population is 76 firms. Purposive sampling selected 24 companies that fit the criteria. Data were collected over four years, yielding 96 points. However, excessive values made numerous outliers during normality testing. This issue was resolved by removing 16 outlier data, lowering the sample size to 80 legitimate data entries for analysis. Descriptive statistical analysis summarizes and describes study data without generalizations (Sugiyono, 2019).

The descriptive analysis reveals distinct patterns across the variables examined as shown in Table 2. Institutional ownership averages 0.6825 with low variability at 0.18602, indicating that most firms have a strong presence of institutional investors, potentially contributing to more effective monitoring and governance. Managerial ownership averages 0.0614, with a standard deviation exceeding the mean, indicating that ownership stakes held by managers range from none to substantial levels across firms. Such variation can lead to differing incentive alignments between management and shareholders. The natural logarithm of total assets is used to assess the distribution of firm size across the company, showed low variability, with a mean of 27.7681, suggesting that the sample is dominated by mid-to-large firms whose market influence and resources may shape their financial reporting quality. Leverage, averaging 0.4333 of debt-to-equity, also displays moderate variability, highlighting differences in financing strategies, where some firms operate conservatively while others rely more heavily on debt, potentially influencing managerial decision-making and reporting behavior. In contrast, financial statement integrity demonstrates much greater variability with mean 97.1466 and standard deviation 216.53167. Financial statement integrity exhibits the widest dispersion, with extreme values reflecting considerable differences in governance quality, accounting practices, and compliance. These disparities suggest that while certain structural characteristics such as institutional ownership and firm size remain stable across the sector, variations in managerial incentives and integrity measures could be pivotal in explaining divergences in financial reporting outcomes.

**Table 2. Descriptive Statistical Analysis**

| <b>Variabel</b> | <b>N</b> | <b>Minimum</b> | <b>Maximum</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|-----------------|----------|----------------|----------------|-------------|-----------------------|
| INST            | 80       | 0.27           | 1.00           | 0.6825      | 0.18602               |
| MNJR            | 80       | 0.00           | 0.32           | 0.0614      | 0.09366               |
| SIZE            | 80       | 20.81          | 31.83          | 27.7681     | 2.63250               |
| LVRG            | 80       | 0.03           | 1.13           | 0.4333      | 0.23735               |
| FSI             | 80       | 0.18           | 959.16         | 97.1466     | 216.53167             |

Source: Data Processed

### **Classical Assumption Test**

The findings from the classical assumption tests show that the regression model meets all key statistical requirements. The analysis confirmed that, after addressing outliers and applying data transformation, the data are normally distributed, autocorrelation does not exist in the model, and multicollinearity does not exist among the independent variables, also no heteroskedasticity is present. Therefore, the model is deemed valid and suitable for regression analysis without any violations of classical assumptions that could compromise the accuracy of the results.

### **Hypothesis Test**

A multivariate linear regression model is used in this research to explore how institutional ownership, management ownership, firm size, and leverage affect financial statement integrity. The regression equation is  $ILK = 166.054 - 25.352X_1 - 17.068X_2 - 25.641X_3 - 3.654X_4 + e$ . The regression results show that institutional ownership ( $\beta = -25.352$ ,  $p = 0.000$ ), managerial ownership ( $\beta = -17.068$ ,  $p = 0.012$ ), and firm size ( $\beta = -25.641$ ,  $p = 0.000$ ) negatively affect financial statement integrity. These suggests that there is a correlation between poor financial reporting and elevated levels of these factors. In contrast, leverage ( $\beta = -3.654$ ,  $p = 0.186$ ) has a negative but statistically insignificant effect. According to these results, leverage is less important than ownership structure and firm size in determining the reliability of financial statements.

In addition, firm size ( $X_3$ ) has a negative coefficient of -25.641. Financial statement integrity declines by 25.641 percentage points for every one-unit increase in the size of the business. The smaller negative coefficient of -3.654 for leverage ( $X_4$ ) means that a 1-unit increase in leverage decreases integrity by 3.654 points, although this relationship is non-significant when tested with a p-value of 0.186. Overall, institutional ownership, managerial ownership, and firm size significantly reduce financial reporting integrity, while leverage has a weaker, non-significant effect. Managerial ownership, firm size, institutional ownership, and leverage were tested for their effects on financial statement integrity using a partial t-test. The judgment method compares the computed using a 5% significance level. Four independent variables with 80-sample size yield 75 degrees of freedom ( $n - k - 1$ ) and a table value of 1.99210.

**Table 3. Hypothesis Test Results**

| <b>Model</b> | <b>B</b> | <b>t</b> | <b>Sig.</b> | <b>Decision</b> |
|--------------|----------|----------|-------------|-----------------|
| INST (X1)    | -25.352  | -5.636   | 0.000       | H1 Accepted     |
| MNJR (X2)    | -17.068  | -6.146   | 0.000       | H2 Accepted     |
| SIZE (X3)    | -25.641  | -14.943  | 0.000       | H3 Accepted     |
| LVRG (X4)    | -3.654   | -1.334   | 0.186       | H4 Rejected     |

Source: Data Processed

According to the findings of the partial t-test, which were significant at the 5% level, with 75 degrees of freedom and a t-table value of 1.99210, three independent variables institutional ownership ( $t = -5.636$ ,  $p = 0.000$ ), managerial ownership ( $t = -6.146$ ,  $p = 0.000$ ), and firm size ( $t = -14.943$ ,  $p = 0.000$ ) have a statistically significant negative effect on financial statement integrity, leading to the acceptance of hypotheses H1, H2, and H3. In contrast, leverage ( $t = -1.334$ ,  $p = 0.186$ ) has little to no effect on the reliability of financial statements, resulting in the rejection of H4.

## DISCUSSION

### **The Effect of Institutional Ownership on Financial Statement Integrity**

This result indicate that institutional ownership has a significant negative relationship with financial statement integrity, which caused the initial hypothesis to be accepted. The result suggests that higher institutional ownership may not always enhance reporting quality; instead, it can create pressures for short-term financial performance that encourage aggressive accounting practices, thereby reducing integrity. However, according to agency theory, large-scale investors may keep a close eye on management because of their resources and expertise, conflicting objectives particularly the pursuit of short-term returns can undermine their monitoring role. In some cases, institutional investors may even tolerate earnings manipulation if it aligns with their financial goals. Prior studies, like those by Shleifer & Vishny (1997) and Kusnadi et al. (2015), support this interpretation, showing that institutional investors with close business relationships to the firm may be less inclined to challenge questionable accounting practices. Therefore, the findings align with theoretical expectations and prior research, suggesting that institutional ownership can, under certain circumstances, undermine the accuracy of financial report instead of making them stronger.

### **The Effect of Managerial Ownership on Financial Statement Integrity**

The results indicate that managerial ownership significantly influences financial statement integrity, but the relationship is negative, resulting in the acceptance of the second hypothesis in an unexpected direction. While agency theory often argues managers' and shareholders' interests are better aligned via management ownership, this alignment appears to diminish at high ownership

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levels. Excessive managerial ownership can reduce external oversight and foster managerial entrenchment, giving managers greater autonomy to prioritize personal benefits over transparent reporting. This interpretation resonates with entrenchment theory, which holds that concentrated managerial control can erode governance mechanisms, increasing the likelihood of opportunistic reporting behavior. Previous research by Morck et al. (1988) has also observed that beyond a certain threshold, managerial ownership may harm reporting quality rather than enhance it (Sinulingga et al., 2020). The evidence from this study supports that in the observed context, higher managerial ownership correlates with weaker financial statement integrity.

### **The Effect of Firm Size on Financial Statement Integrity**

The study finds that firm size significantly affects financial statement integrity, but in a negative direction, leading to the acceptance of the third hypothesis in an unanticipated way. Larger companies are often subject to more regulatory scrutiny and investor attention, which theoretically should improve transparency. However, the complexity of their operations, diverse lines of business, and dispersed ownership structures can actually create more opportunities for earnings management or selective disclosure. This outcome aligns with the political cost hypothesis, which argues that large firms may strategically manage reported earnings to avoid political attention, additional regulation, or higher taxation. Supporting this perspective, empirical work by Putri & Andriani (2022) as well as Rivandi & Pramudia (2022) has documented similar tendencies, showing that in certain contexts, firm size can be associated with a decline in reporting integrity.

### **The Effect of Leverage on Financial Statement Integrity**

The analysis reveals that leverage does not have a statistically significant effect on financial statement integrity, leading to the rejection of the fourth hypothesis. Although higher leverage often implies increased financial risk and could incentivize managers to manipulate earnings to maintain creditor and investor confidence, the results suggest that this effect is not consistent across firms. Strong governance mechanisms, effective external audits, and robust regulatory oversight may counteract the potential negative influence of debt pressure. Furthermore, creditors themselves often impose monitoring requirements and maintain close scrutiny of leveraged firms, which can deter unethical reporting practices. The findings of Fatin & Suzan (2022) similarly indicate that leverage alone is not a decisive factor in determining reporting quality, as its impact is mediated by other corporate governance and operational factors. An alternative plausible explanation relates to opportunistic impression management embedded in financial narratives; wherein strategic linguistic complexity serves to obfuscate transparent communication and potentially mask unfavorable performance outcomes (Jugnandan & Willows, 2022). Such narrative complexity impairs stakeholders' ability to identify performance decline driven by unrestrained leverage utilization,

thereby compromising leverage's validity as a meaningful determinant of financial statement integrity.

## **5. CONCLUSIONS AND SUGGESTIONS**

The analysis and hypothesis testing reveal several key findings. Financial statement integrity is severely compromised by institutional ownership, indicating that large institutional shareholders are prone in mitigating data accuracy and fostering opportunistic managerial behavior. Managerial ownership also negatively influences reporting integrity, as managers with a direct equity stake are more likely to prioritize maintain their personal benefit instead of maintain transparent reporting practices. Firm size likewise shows a negative effect, with larger firms benefiting from complexity of its operation and more opportunities to perform fraudulent activities in its financial statements. In contrast, leverage has no discernible effect on the integrity of financial statements, suggesting that debt levels may be less influential than governance mechanisms and ethical standards in determining reporting quality.

This study adds to the existing literature on corporate governance and financial reporting integrity by providing empirical evidence from Indonesia, with a particular focus on the property and real estate development sector. It extends agency theory by demonstrating that ownership structures specifically institutional and managerial ownership and firm characteristics such as size significantly influence financial statement integrity. Although leverage is theoretically linked to agency conflicts, its effect appears context-dependent and less pronounced in this setting. Based on the practical implications, the results emphasize how important it is for boards of directors and CEOs to develop governance procedures, including enhanced institutional monitoring and managerial incentives aligned with shareholder interests to mitigate financial statement fraudulent activity. The users of financial reports are encouraged to assess reporting quality not only through profitability indicators but also by examining governance attributes such as ownership composition and firm size. Regulators may use these insights to refine governance policies aimed at fostering transparency and accountability across firms of varying sizes.

Despite its contributions, this study has certain limitations. The scope is restricted to specific ownership and firm characteristic variables, excluding other potentially relevant governance factors such as board independence, audit quality, and ownership concentration. The observation period and sample size may also limit the generalizability of the results. Consideration should be given in the future research in broadening the scope of the model to include more governance factors, extending the observation period, and incorporating a broader sample of companies across different sectors. Such enhancements would result in a more thorough knowledge of the determinants that drive or hamper the integrity of financial reports and would make it possible to draw further conclusions that are more generalizable.

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