The Influence Of Institutional Ownership, Managerial Ownership, Leverage And Firm Sizes On Integrity Of Financial Statements

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The Influence Of Institutional Ownership, Managerial Ownership, Leverage And Firm Sizes On Integrity Of Financial Statements

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Background: *This study aims to examine the effect The Influence Of Institutional Ownership, Managerial Ownership, Leverage And Firm Sizes On Integrity Of Financial Statements*
Materials and methods: *The data used in this study are secondary data from financial statements of companies listed on the Indonesia Stock Exchange in Real Estate sector Company in 2015 – 2017.. By using purposive sampling, this study obtained 40 company samples. This study uses multiple linear regression analysis to partial test using the t statistical test and simultaneous test using the ANOVA statistical test.*
Results: *The results showed that the that institutional ownership has a significant positive effect on the integrity of financial statements; 2) Managerial ownership has a significant positive effect on the integrity of financial statements; 3) Leverage has a significant positive effect on the integrity of financial statements; 4). Firm Size has not significant positive on integrity of financial statements .*
Keywords: *Integrity of Financial Statements, Institutional, Managerial, Leverage, Company Size*

I. Introduction

In the Basic Framework for the Presentation of Financial Statements, there are four main qualitative characteristics, namely understandable, relevant, reliability and comparable. according to the Indonesian Accounting Association (IAI, 2014). But in reality realizing the integrity of good and honest financial statements is a difficult thing. Proven many cases of manipulation of financial statements. Many companies that make financial statements do not have integrity according to the rules in force, where the information created and presented is incorrect and unfair to be used by users of financial statements.. The purpose of financial statements is to provide information about the financial position, performance and changes in the company's financial position in a certain period that is useful for a large number of users in making decisions in accordance with ((IAI, 2014).

Market to Book Value (MBV) aims to measure how far or the difference between the company's market value and book value (Brigham & Houston,2016). The benefit of the Market To Book Value (MBV) is to find out how much the stock price is on the market compared to the book value of its shares. The higher this ratio, the higher the value of the company. Where the book value will move to follow company performance which can be seen from the company's financial statements (Hartono, 2000).

According to Widiastuti, M., Midiastuty, P., & Suranta, E. (2013) and Pernamasari and Wahyudi (2019)., Institutional ownership is ownership of shares by external institutions. Institutional parties include insurance companies, banks, investment companies and ownership by other institutions. Institutional ownership is an experienced investor so that he can monitor more effectively (Andi Priharta, 2017). Research Wulandari et.al. (2014), shows that institutional ownership has a positive influence on the integrity of financial statements. However, different results were obtained in the study of Mirda Ratna

Sari and Sri Rahayu (2014) and concluded that there was a negative influence between institutional ownership and the integrity of financial statements.

Managers are treated not merely as external parties who are paid for the benefit of the company but are treated as shareholders. This ownership will align management interests with shareholders. Research Wulandari et.al. (2014) shows that managerial ownership has a positive influence on the integrity of financial statements. However, different results were obtained in the study of Mirda Ratna Sari and Sri Rahayu (2014) which concluded that there was a negative influence between managerial ownership and the integrity of financial statements.

According to Brigham and Houston (2016) the existence of debt in running a company is measured by financial ratios, namely leverage. The leverage ratio is used to measure how much assets the company has come from debt or capital, so that this ratio can determine the company's position and liabilities. Research conducted by Ida Gayatri (2013), shows that leverage affects the integrity of financial statements. Meanwhile, different from the research conducted by Fajaryani (2015), shows that leverage does not have a significant effect on the integrity of financial statements.

The size of the company is the average of total net sales for the year in question for the next several years. A large size company is assumed with a large amount of assets and a high level of income so as to generate high profits (Brigham and Houston, 2016). Conversely, if sales are smaller than variable costs and fixed costs, the company will suffer losses. According to research Fajaryani (2015) shows that company size has a positive effect on the integrity of financial statements.

Based on the background of the problem and the differences in the results of previous studies, the authors take the title of the study "The Effect of Institutional Ownership, Managerial Ownership, Leverage and Firm Size on the Integrity of Financial Statements (Study of Real Estate Companies on the Indonesia Stock Exchange in 2015-2017)".

Based on the background that has been described above, the author determines the formulation of the problem as follows:
1. Does Institutional Ownership affect the Integrity of Financial Statement?
2. Does Managerial Ownership affect the Integrity of Financial Statement?
3. Does Leverage affect the Integrity of Financial Statement?
4. Does Firm Size affect the Integrity of Financial Statement?

II. Literature Reviews

Agency Theory

According to Jensen and Meckling (1976) agency theory is a contract in which one or more people (principals) govern other people (agents) to perform a service on behalf of the principal and authorize the agent to make the best decision for the principal Agency theory is often referred to as theory which underlies the application of good corporate governance because it explains the relationship between management and the owner. According to Aryani & Budhiarta (2014) Conflicts of interest between principals and agents are called agency problems

Integrity of Financial Statement

The integrity of financial statements is the extent to which financial statements present information honestly, fairly and clearly. Information is said to be neutral if it is free from efforts to prioritize the interests of certain groups or provide benefits to certain parties. Financial information must also be free from material errors (free from error) that can mislead users to fulfill the power of faithful representation (Kieso et al, 2014: 44-45).

In this study, measurement of the integrity of financial statements is carried out using Market To Book Value (MBV). Where the book value will move to follow company performance which can be seen from the financial statements of the company (Hartono, 2000   ).

$$MBV = \frac{\text{Stock Price Market}}{\text{Stock Book Value}}$$

InstitutionalOwnership

Institutional ownership is ownership by external institutions. Institutional parties include insurance companies, banks, investment companies and ownership by other institutions (Widiastuti, M., Midiastuty, P., & Suranta, E, 2013), According to Nuraina (2012) Institutional ownership is the percentage of shares of companies owned by institutions or institutions (insurance companies, pension funds, or other companies.

$$\text{Institusional Ownership} = \frac{\text{Number of share by institution}}{\text{Number of share outstanding}}$$

Managerial Ownership

According to Imanta, D., & Satwiko, R. (2011). "Managerial ownership is the ownership of company shares by the manager or in other words the manager is also a shareholder at the same time". According to Jansen (1986) states that the greater proportion of management ownership in companies will be able to unite the interests between managers and shareholders.

$$\text{Managerial Ownership} = \frac{\text{Number of share by Manager}}{\text{Number of share outstanding}}$$

Leverage

Leverage reflects a company's ability to meet all of its obligations aimed at some of the equity capital used to pay off debt (Rodoni and Ali, 2010: 123). According to Brigham and Houston (2014: 53) measure how much companies use funding from debt. The ratio of total debt to own capital is the ratio of the total debt held by the company to its own capital (equity).

$$DAR = \frac{\text{Total Debt}}{\text{Total Asets}}$$

Firm Size

Company size is the average of total net sales for the year in question for the next several years, Brigham and Houston (2016). A large size company is assumed to have a large amount of assets and a high level of income so as to generate high profits.

Research Model

Based on the literature review and the results of previous studies and the problems that have been raised, there may be a relationship between Institutional Ownership affect, Managerial Ownership, Leverage, Firm Size affect the Integrity of Financial Statement as a basis for making hypotheses then formulated with the following framework of thought:

Leverage

Firm Size

Integrity of Financial Statement
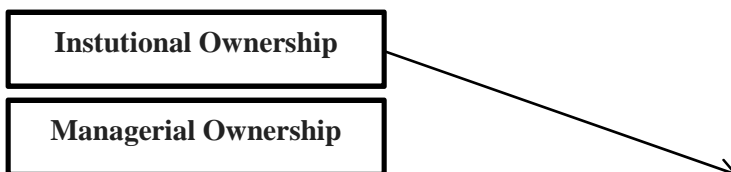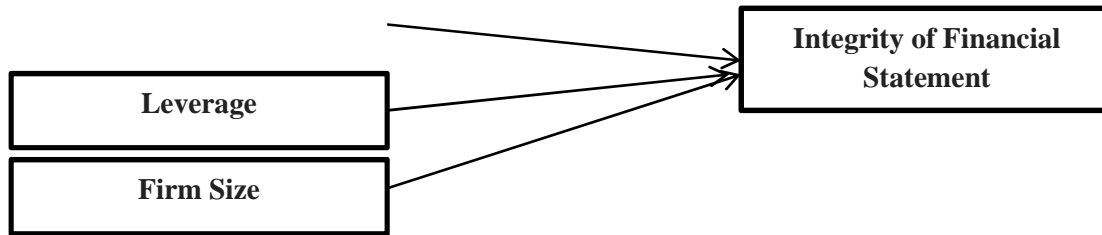
Figure 1: Research Model
Source: the results of the author's processing

Hypotheses

Based on the existing problems and objectives to be achieved, the authors draw three hypotheses, namely:

H_1 = Effect of Institutional Ownership on Integrity of Financial Statement

H_2 = Effect of Managerial Ownership on Integrity of Financial Statement

H_3 = Effect of Leverage on Integrity of Financial Statement

H_4 = Effect of Firm Size on Integrity of Financial Statement

III. Methodology

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The population of this research is the Real Estate Sector companies listed on the Indonesia Stock Exchange in 2015-2017 as many as 40 companies. The sampling method in this study is using purposive sampling method. Purposive sampling is a sampling method based on certain criteria (Chandrarin, 2017: 127). The sample used in this study was selected based on the following criteria:

1. Companies manufacturing basic and chemical industry sectors were listed on the Indonesia Stock Exchange in 2015-2018

2. The company owned data is complete and in accordance with the variables studied

IV. Results and Discussion

Descriptive statistics include minimum, maximum, mean and standard deviation. The research variable data includes the dependent variable Company Value and independent variables include Capital Structure and Return On Equity. The results of the descriptive statistical anlysis are shown in table 1:

1. The Integrity of Financial Statement has an average value of 1.4663. While the standard deviation is 1.95273. This indicates that the variable value of the company is not normally distributed, because the standard deviation is greater than the average value of the variable.

2. Institutional Ownership has an average value of 0,5938. While the standard deviation is 0,38688. This indicates that the Institutional Ownership variable is normally distributed, because the standard deviation value is smaller than the average value of the variable.

3. Managerial Ownership has an average value of 0,0292. While the standard deviation is 0,10578. This indicates that the variable Managerial Ownership is not normally distributed, because the standard deviation is greater than the average value of the variable.

4. Leverage has an average value of 25,7431. While the standard deviation is 17,70842. This indicates that the variable Leverage is normally distributed, because the standard deviation is smaller than the average value of the variable.Firm Size has an average value of 28,9735. While the standard deviation is 1,42593. . This indicates that the variable Firm Size is normally distributed, because the standard deviation is smaller than the average value of the variable.

Table 1, Descriptive Statistic Results
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ILK	96	,09	12,77	1,4663	1,95273
KI	96	0,00	3,21	,5938	,38688
KM	96	0,00	,65	,0292	,10578
DAR	96	2,37	78,73	35,7431	17,70842
SIZE	96	25,11	31,67	28,9735	1,42593
Valid N (listwise)	96				

Source : Secondary data processed 2020

1. Classic assumption test

A model is declared good for predictors if it has the best liner unbiased estimator properties (Gujarati, 2013). Besides that, a regression model is said to be quite good and can be used to predict if it passes a series of econometric assumptions that underlie it.

The classic assumption test is carried out to determine the condition of existing data in order to determine the most appropriate analysis model to use. The classic assumption test used in this study consisted of autocorrelation tests using Durbin-Watson statistics, multicollinearity test using Variance Inflation Factors (VIF) and heteroscedasticity test using the Glejser test.

2. Multicollinearity Test

This test aims to test whether the regression model found a correlation between independent variables. A good regression model should not have a correlation between the independent variables. This test is done by using correlations between the independent variables used in the regression equation. If some or all of the independent variables are strongly correlated, multicollinearity occurs.

Table 2, Multikolenearitas Test
Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	KI_X1	,893	1,120
	KM_X2	,836	1,196
	DAR_X3	,823	1,216
	SIZE_X4	,786	1,272

a. Dependent Variable: ILK_Y

Source : Secondary data processed 2020

The method that can be used to test the presence of multicollinearity is by testing the tolerance value or Variance Inflation Factor (VIF) value. The tolerance value limit is 0.10 and Variant Inflation Factor (VIF) is 10 (Hair et al., 1998; 48). The results of the multicollinearity test show that there are no variables that have a tolerance value of less than 0.10 and there are no variables that have a VIF value of less than 10. So it can be concluded that there is no multicollinearity in the regression model.

3. Autocorrelation *Test*

The autocorrelation test aims to test whether in the regression model there is a correlation between the confounding errors in period t and the interfering errors in the t-1 period (before). The consequence of autocorrelation in a regression model is that the sample variant does not describe the population variant. Furthermore, the resulting regression model cannot be used to estimate the value of the dependent variable on the value of certain independent variables.

Table 3, Autocorelation Test

Model Summary[b]

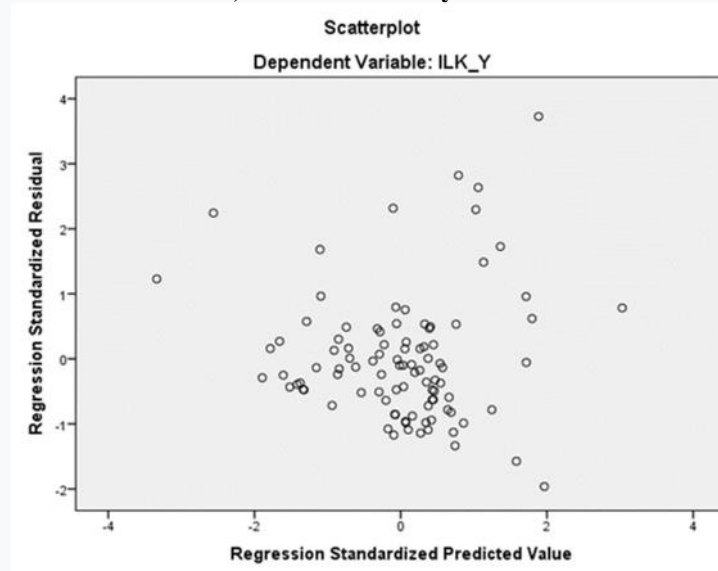| Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,538[a]	0,289	0,258	0,5132	2,1900

Source : Secondary data processed 2020

From the table above we get the value of Durbin-Watson of 2,1900 so it can be concluded that there is no autocorrelation in this regression model.

4. Heteroscedasticity *Test*

The basis for decision making, if there is no clear pattern, and the points spread above and below the number 0 on the Y axis (Ghozali, 2018).

Table 4, Heteroscedasticity Test Results

Source : Secondary data processed 2020

5. Determination Coefficient Test (R^2)

This test is used to measure how far the model's ability to explain variations in the dependent variable (Ghozali, 2018).

Table 5, Determination Coefficient Test
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,538[a]	0,289	0,258	0,5132	2,19

Source : Secondary data processed 2020

From table 5 above it can be seen that the coefficient of determination or R Square of 0.258 or 25.8%. This shows that the variables studied are Institutional Ownership, Managerial Ownership, Leverage, Company Size has an effect on the Integrity of Financial Statements of 25.8%, while the rest are influenced by variables not examined.

6. Simultaneous Significance Test (Test Statistic F)

Simultaneous significance test (F test) is used to show whether all the independent variables included in the model have a joint influence on the dependent variable. (Ghozali, 2018). If the analysis using the F test shows that all independent variables simultaneously are explanations of the significance of the dependent variable.

Table 6, Simultaneous Significance Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9,762	4	2,441	9,266	,000[b]
	Residual	23,967	91	,263		
	Total	33,730	95			

a. Dependent Variable: ILK_Y
b. Predictors: (Constant), SIZE,KI, KM, DAR

Source : Secondary data processed 2020

7. *Multiple Liner Regression*

In accordance with the results of the research hypothesis which states that between variables have a significant relationship to the dependent variable, multiple linear regression is needed to model the analysis.

Table 7, Statistical Test Result t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,584	2,371		-,246	,806
	KI_X1	,755	,208	,339	3,621	,000
	KM_X2	,784	,355	,213	2,209	,030
	DAR_X3	,171	,035	,477	4,894	,000
	SIZE_X4	,012	,444	,003	,027	,978

a. Dependent Variable: ILK_Y

Source : Secondary data processed 2020

Effect of Institutional Ownership on Integrity of Financial Statement

Institutional ownership of the results of the data test proves that institutional ownership has a positive and significant effect on the integrity of financial statements. According to (Widiastuti et al, 2013) institutional ownership is ownership by external institutions. Institutional parties include insurance companies, banks, investment companies and ownership by other institutions. The existence of institutional investors can optimize the oversight function of management performance so as to minimize the opportunistic actions of management who act in the interests of their own interests.

This research is in line with that conducted by Atik Fajaryani (2015) which shows that institutional ownership variable influences the integrity of financial statements. In contrast to research conducted by Andi Priharta (2017) which shows that institutional ownership has no effect on the integrity of financial statements.

Effect of Managerial Ownership on Integrity of Financial Statement

Managerial ownership of the data test results prove that managerial ownership has a positive and significant effect on the integrity of financial statements. Brigham and Houston (2016) stated that managers generally have a stake in a publicly listed company that they manage. However, private ownership is usually not enough to provide voting rights in decision making. Thus the research (Wulandari et al. 2014) shows that managerial ownership has a significant positive effect on the integrity of financial statements. In contrast to research conducted by Atik Fajaryani (2015) which shows that managerial ownership has no effect on the integrity of financial statements.

Effect of Leverage on Integrity of Financial Statement

Data test results prove that leverage has a positive and significant effect on the integrity of financial statements. According to Brigham and Houston (2016), measuring how much companies use funding from debt. The existence of debt in a company is measured by financial ratios, namely leverage. The leverage ratio is used to measure the size of assets owned by debt and capital, so that this ratio can determine the company's position and liabilities.

Research that shows that managerial ownership affects the integrity of financial statements (Gayatri and Saputra, 2013). The greater the leverage, the higher the integrity value of financial statements. This is different from the research conducted by Atik Fajaryani (2015) where his research concluded that leverage has no significant effect on the integrity of financial statements.

Effect of Firm Size on Integrity of Financial Statement

The data test results prove that the size of the company has a significant positive effect on the integrity of the financial statements. According to Brigham and Houston (2016) A large size company is assumed to have a large amount of assets and a high level of income that results in high profits. Conversely, if sales are smaller than variable costs and fixed costs, the company will suffer losses.

Thus the research (Monica et al., 2016) shows that company size has no influence on the integrity of financial statements. Research with different results conducted (Gayatri et al., 2013) that company size affects the integrity of financial statements. The greater the size of the company, the higher the integrity of financial statements.

V. Conclusion and Recommendation

Conclusion

Based on the results of the study it can be seen that:

1. Institutional Ownership, Managerial Ownership and Leverage have a positive and significant effect on Integrity of Financial Statement.
2. Firm Size has no significant effect on integrity of financial statement.

Recommendation

Research carried out currently uses a single measuring instrument, therefore for subsequent research using more complete measurements and further expanded researches populations are not only limited to Real Estate-sector.

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