The Effect of Managerial Ownership, Leverage, And Intellectual Capital on Integrity of Financial Statement (Study of Transportation Companies Listed in Indonesian Stock Exchange 2017-2020 Period)

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Abstract

Financial disclosure is a report that presents structured data on the financial information of a company that contains the company's performance and financial position and changes in a certain period. Financial statements with integrity are financial statements that display the actual condition of a company without anything to hide. Transportation subsector companies have relatively good and promising business prospects because transportation is an important need in carrying out daily activities both on land, sea, and air. This study aims to determine the effect of managerial ownership, leverage, and intellectual capital on the integrity of financial statements in transportation subsector companies listed on the Stock Exchange Indonesia for the period 2017-2020. The population in this study used transportation subsector companies listed on the Indonesia Stock Exchange for the 2017-2020 period. Purposive sampling was used in this study, and 36 sample data were obtained. Descriptive statistical analysis and panel data analysis were used as analysis techniques in this study. Based on the results of the study, it was concluded that managerial ownership, leverage, and intellectual capital have a simultaneous effect on the integrity of financial statement. Managerial ownership and leverage positively affect the integrity of financial statements in transportation subsector companies listed on the Indonesia Stock Exchange for the period 2017-2020. Meanwhile, intellectual capital does not affect the integrity of the financial statements of transportation subsector companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

Keywords
Financial Statements, Integrity of Financial Statements, Managerial Ownership, Leverage, and Intellectual Capital

1. Introduction
Based on the Statement of Financial Accounting Standards (SAK), financial statements are reports that shows structured data regarding financial information of a company that contains the company's performance and financial position and its changes in a certain period. The Accountant Institute of Indonesia in the Statement of Accounting Standards (2015) explained that the financial statements show the information about financial position, cash flow, and financial performance that will be used to make economic decisions for its users. The users of financial statements include investors, government, creditors, employees and other users(Inganta Sinulingga & Wibawa Ningsih, 2020). Financial statements must be integrity made according to facts and must not be engineered and honest so that users do not make mistakes in deciding.

Financial statement with integrity is a financial report that reveals the actual condition of a company without hiding anything (Indrasti, 2020). Financial statements must be prepared with high integrity and impartial to anyone because users of financial statements will make economic decisions based on the contents of the financial statements. A good financial report must have several criteria, it must be relevant, understandable, reliable, and comparable. Financial statements are also required to have appeal power, namely the existence of information about comparisons with financial statements in the previous period, because it is not uncommon for companies to commit fraud or errors in the presentation of financial statements aimed at improving existing comparisons. One of the companies known to make financial statements that do not have integrity is PT Garuda Indonesia. In 2018 PT Garuda Indonesia Tbk allegedly manipulated their financial statements to make it look healthy and consistent.

This research was conducted because there were still several companies that presented their financial statements with no integrity or manipulated their financial statements. Even though companies are required to make financial statements with integrity so that it may not cause asymmetric information to its users. So, the authors find that it is interesting to re-examine the factors that affect the integrity of financial statements.

1.1 Objectives

This research aims to determine the effect of managerial ownership, leverage, and intellectual capital on the integrity of financial statements in transportation sub sector companies listed on the Indonesian Stock Exchange for the 2017-2020 period.

2. Literature Review

2.1 Signaling Theory

Signal theory is a theory that states the involvement between two parties where the first party is interpreted as the management of the company that gives the signal and the second party is interpreted as an investor or stakeholder who receives the signal (Novianti, 2020). The signals given by the company's management can be in the form of information regarding the company's performance in a certain period which later when the investors and stakeholders received the signal, it can be used to make an economic decision. The delivery of signals or information from the company's management aims to avoid an asymmetry information between the company and external parties of the company. Financial statements with integrity and reliability are expected to minimize the possibility of the company's future and can be used as an accurate and reliable source of information (Febrilyantri, 2020).

2.2 Integrity of Financial Statements

The Statement of Financial Accounting Standards (SAK) are describe the financial statements as a report that present structured data regarding financial information of a company that contains the company's performance and financial position and its changes in a certain period of time. Danuta & Wijaya (2020) stated that the financial statement contains a very useful information for creditors and investors in determining economic decisions, while the government uses it as a medium for assessing company compliance with taxes. Therefore, financial statements must be made according to existing facts, honest and have integrity so that users do not make mistakes in making decisions.

Financial statement with integrity is a financial report that displays the actual condition of a company without anything to hide. Financial statements that can be used in decision making and integrity must have two principles of quality, namely enhancing qualities , which means that the information in financial statements can be verified (verifiability), comparable (comparability), easy to understand (understandability), and on time (timelines), while the second principle of quality is fundamental qualities , namely financial statements are required to contain all transactions and information within a certain period (relevance), then the information contained in the financial statements is in accordance with existing facts, unbiased, neutral, and complete (faithful representation) (Kieso et al., 2018). This study used The Beaver and Ryan model to measure the integrity of financial statements. This model was also used in a research conducted by (Wardani, 2016).

2.3 Managerial Ownership

Managerial ownership is a percentage of the large number of shares owned by the company's internal parties. Managerial ownership is the percentage of shares owned by the management of company such as the commissioners, directors, and managers the company (Widianingsih, 2018). Companies that have managerial ownership tend to be more stable because the company's managers will align their interests with those of shareholders. According to Liliany & Arisman (2021) share ownership by management will motivate the company's management to improve its performance so that it can fulfill the wishes of shareholders, one of which is management itself. The managerial ownership is expected to cause supervision of the policies taken by the company and will act prudently in deciding. This study used the ratio of the number of shares owned by management to the number of shares outstanding for measuring the managerial ownership. This formula was also used in research conducted by (Oscar, 2017) dan another research conducted by (Widianingsih, 2018).

H_1 : Managerial Ownership has a positive effect on the Integrity of Financial Statements

2.4 Leverage

Debt is a loan agreement provided by the creditor to the company as a debtor. Debt is also part of the company's source of funding and most companies develop their business through debt Horne & Wachiwicz (2009). Leverage is an illustration of how much debt burden the company must bear in order to fulfill assets (Febrilyantri, 2020). That way the condition of the debt condition owned by the company can be seen from the leverage ratio. Companies that have high leverage are required to present information more broadly compared to companies with low leverage levels (Indrawati & Afriana Hanif, 2017). A leverage ratio that is too high in the company can cause investors' lack of interest in investing in the company because it is considered to have a large investment risk. High financial risks will slow down management to inform the company's performance and increase fraudulent attempts to manipulate financial statements (Febrilyantri, 2020). This study used The Debt to Asset Ratio as proxy for leverage. This ratio was also used in a research conducted by Nurdiniah & Pradika (2017).

H_2 : Leverage positively affects the Integrity of Financial Statements

2.5 Intellectual Capital

Intellectual capital is an intangible asset owned by a company that can be a wealth and innovation for the company. Intellectual Capital includes three intangible assets, namely human capital, structural capital, and capital employees (Febrilyantri, 2020). These three components can create good added value for the company if applied and utilized optimally. Meramveliotakis & Manioudis (2021) stated that intellectual capital is important, because if it continues to be developed, it will increase the company's and the employee's productivity. The investors will give higher value to companies that have higher intellectual resources compared to other companies. This study used Value Added Intellectual Capital (VAIC) to measure the intellectual capital. This formula was also used in research conducted by Febrilyantri (2020).

1. Calculating Value Added (VA)

   $$VA = OUT - IN$$

   Information:
   OUT = output, the company's total sales revenue
   IN = input, operating expenses (except employee expenses)

2. Calculating Human Capital Efficiency (HCE)

   $$\mathrm{HCE} = \frac{\mathrm{VA}}{\mathrm{HC}}$$

   Information:
   VA = Value Added
   HC = Cost of Employee Salaries and Wages

3. Calculating Structural Capital Efficiency (SCE)

   $$\mathrm{SCE} = \frac{(\mathrm{VA} - \mathrm{HC})}{\mathrm{VA}}$$

   Information:
   VA = Value Added
   HC = Cost of Employee Salaries and Wages

4. Calculating Capital Employed Efficiency (CEE)

   $$\mathrm{CEE} = \frac{\mathrm{VA}}{\mathrm{CE}}$$

Information:
VA = Value Added
CE = Total Company Equity

H_3 : Intellectual Capital positively affects the Integrity of Financial Statements

3. Methods

This study used the quantitative method. Sugiyono (2018) explained that the quantitative method research is a method based on the positivism philosophy, carried out to test hypotheses by testing research samples and conducting statistical analysis. This research also uses a verificative descriptive method, which is a research method that uses proof to test the hypothesis of descriptive research results with statistical calculations so as to produce data that shows the hypothesis is accepted or rejected. This study uses a causal study type of investigation, which is a causal relationship between some variables. Data collection in this study used the cross section and time series methods. The object of this study is a transportation sub sector company listed on the Indonesian Stock Exchange for the 2017-2020 period. In this study, the technique used is purposive sampling, so that the criteria to be used are as follows:

1. Transportation sub sector companies listed on the Indonesian Stock Exchange in 2017-2020.
2. Transportation sub sector companies that report consistently audited annual reports and financial statements on the Indonesian Stock Exchange in 2017-2020.
3. A transportation subsector company that has managerial ownership in the 2017-2020 period and is listed on the Indonesian Stock Exchange.

Table 1. Variable Operations

Variable	Definition	Indicator	Scale
Managerial Ownership	Managerial ownership is the percentage of shares owned by the management of company such as the commissioners, directors, and managers the company (Widianingsih, 2018)	$\frac{\text{shares owned by management}}{\text{the number of shares outstanding}} \times 100\%$	Ratio
Leverage	*Leverage* is an illustration of how much debt burden the company must bear in order to fulfill assets (Febrilyantri, 2020)	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$	Ratio
Intellectual Capital	*Intellectual capital* is an intangible asset owned by a company that can become wealth and innovation for the company (Febrilyantri, 2020)	VAIC = HCE + SCE + CEE	Ratio
Integrity of Financial Statements	Financial statement with integrity is a financial report that reveals the actual condition of a company without hiding anything (Indrasti, 2020)	$\frac{\text{Price Per Share}}{\text{Book Value Per Share}}$	Ratio

4. Data Collection

Descriptive statistical analysis is an analysis that describes or describes the data that has been collected and analyzed as it is without the intention of making general conclusions or generalizations (Sugiyono, 2018). Descriptive analysis techniques are usually presented on tables, graphs, diagrams, pictograms that display the per count mode, median, mean, and standard deviation. (Table 2)

Table 2. Descriptive Statistics

	Integrity of Financial Statements	Managerial Ownership	*Leverage*	*Intellectual Capital*
MAX	2,64574	0,41133	0,80676	43,32836
MIN	0,11570	0,00096	0,07497	3,71268
MEAN	0,76196	0,07876	0,49264	17,04677
STANDAR DEVIASI	0,55308	0,11602	0,20918	9,69290

Based on the results of descriptive statistical analysis, the following results were found:

1. the average value of managerial ownership was 0.07876 while the standard deviation value was 0.11602, this shows that managerial ownership data varies. The highest value of managerial ownership is 0.41133 while the lowest value of managerial ownership is 0.00096.
2. The average value of the leverage is 0.49264, while the standard deviation value is 0.20918 this indicates that the leverage data is clustered and does not vary. The highest value of leverage is 0.80676 while the lowest value of leverage is 0.07497.
3. The average value of intellectual capital is 17.04677, while the standard deviation value is 9.69290 this indicates that the data of intellectual capital is grouped or does not vary. The highest value of intellectual capital is 43.32836 while the lowest value of intellectual capital is 3.71268.
4. The average value of the integrity of financial statements is 0.76196, while the standard deviation is 0.55308, this indicates that the integrity data of financial statements is group or does not vary. The highest value of financial statement integrity is 2.64574 while the lowest value of financial statement integrity is 0.11570.

This study used panel data regression analysis techniques; therefore, a classical assumption test was carried out first. Then the Chow Test, Hausman Test, and Lagrange Multiplier Test were carried out to determine which regression model to use in this study.

4.1 Classical Assumption Test

The classical assumption test is carried out with the aim of testing the data so that it can avoid biased data. The classical assumption test consists of a multicollinearity test and a heteroskedasticity test (Ghozali, 2018).

1. Multicollinearity Test

Carried out to find out whether there is a correlation between independent variables in the regression model. If the value of the correlation coefficient between independent variables >0.8, then multicollinearity occurs but if the value of the correlation coefficient between independent variables <0.8, then multicollinearity does not occur. (Table 3)

Table 3. Multicollinearity Test Results

	MANAGERIAL OWNERSHIP	LEVERAGE	INTELLECTUAL CAPITAL
MANAGERIAL OWNERSHIP	1.000000	-0.138529	-0.129873
LEVERAGE	-0.138529	1.000000	0.022824
INTELLECTUAL CAPITAL	-0.129873	0.022824	1.000000

The correlation between managerial ownership, *leverage*, and *intellectual capital showed* values smaller than 0.8. This can be interpreted that the independent variables in this study were free from the symptoms of multicollinearity.

2. Heteroskedasticity Test

Carried out to find out if there is a variance inequality in the panel data regression model.

Table 4. Heteroskedasticity Test Results

Heteroskedasticity Test: White			
F-statistic	2.141663	Prob. F(9,26)	0.0626
Obs*R-squared	15.32633	Prob. Chi-Square (9)	0.0824
Scaled explained SS	30.18864	Prob. Chi-Square (9)	0.0004

In this study, the heteroscedasticity test used the white test method and the Prob. Chi-square (Obs*R-Squared) value obtained was 0.0824, where 0.0824>0.05. It can be concluded that there was no heteroscedasticity problem or that this study was free from heteroscedasticity problems. (Table 4)

4.2 Panel Data Regression Model Selection

Chow Test, Hausman Test, and Lagrange Multiplier Test were carried out to determine between the common effect mode, fixed effect model, or random effect model that will be used in this study.

1. Chow Test

   Do it to choose between a fixed effect model or a common effect model that will be used in the study. If the Chi-square cross-section value is less than 0.05 then the fixed effect model will be selected, but if the chi-square cross-section value is more than 0.05 then the common effect model will be selected as the regression model in the study.

Table 1 Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.353076	(8,24)	0.0002
Cross-section Chi-square	40.935347	8	0.0000

Chow test results Table 5 showing prob values. Cross-section Chi-square by 0.0000. The value is less than 0.05 so the fixed effect model is selected as the best model compared to the common effect model and will be continued with the Hausman test.

2. Hausman Test

   It aims to test whether the fixed effect model or random effect model is the right one to use in this study. If the probability value of a random cross-section is greater than 0.05 then the random effect model is selected, if the probability value of a random cross-section is smaller than 0.05 then the fixed effect model selected as the best model for this study. (Table 6)

Table 6. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.576912	3	0.0142

The Hausman test results showed a random cross-section probability value of 0.0142. The value is less than 0.05 then the fixed effect model is selected. The results of the chow test and hausman test show that the fixed effect model is the best model, therefore there is no need to conduct a lagrange multiplier test anymore and the fixed effect model is considered the best model to be used in this study.

4.3 Panel Data Regression Model

Based on the Chow Test and Hausman Test, the model selected as the best model to be used in this study is the fixed effect model. The following are the results of testing fixed effect models. (Table 7)

Table 7. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.461725	1.007026	-2.444549	0.0222
KEPEMILIKAN_MANAJERIAL	8.354542	2.487759	3.358260	0.0026
LEVERAGE	6.080530	1.790508	3.395981	0.0024
INTELLECTUAL_CAPITAL	-0.025218	0.013609	-1.852982	0.0762
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.735785	Mean dependent var		0.761964
Adjusted R-squared	0.614686	S.D. dependent var		0.553085
S.E. of regression	0.343320	Akaike info criterion		0.960894
Sum squared resid	2.828846	Schwarz criterion		1.488733
Log likelihood	-5.296084	Hannan-Quinn critter.		1.145124
F-statistic	6.075914	Durbin-Watson stat		2.241371
Prob(F-statistic)	0.000113			

Based on the results of the Fixed Effect Model test, it can be known that the regression equation of panel data in this study is as follows:

Y* = -2.461725 + 8.354542 (KM) + 6.080530 (DAR) + -0.025218 (VAIC) + *and

5. Results and Discussion

5.1 Effect of Managerial Ownership, Leverage, and Intellectual Capital on the Integrity of Financial Statements

The simultaneous test results of the fixed effect model on Table 7. showed a Probability(F-statistic) value of 0.000113 smaller than 0.05 then H_0 was rejected, and H_A was accepted. It can be concluded that the managerial ownership, leverage, and intellectual capital simultaneously affects the integrity of financial statements in transportation subsector companies listed on the Indonesian Stock Exchange (IDX) for the 2017-20120 period.

5.2 Effect of Managerial Ownership on the Integrity of Financial Statements

The results of the panel data regression test using the fixed effect model on Table 7. showed the result of the managerial ownership regression coefficient value of 8.354542 with a probability of 0.0026 where the probability value was less than 0.05. Based on these results, it can be interpreted that managerial ownership affects the integrity of financial statements. These results are in line with the researcher's hypothesis which states that managerial ownership has a positive effect on the integrity of financial statements. Managerial ownership will cause supervision and careful behavior in company decision making, because the management who owns the company's shares will directly feel the consequences of the policies carried out. Companies that have managerial ownership are usually more stable because managers of the company will align their interests with the shareholders, while in companies without managerial ownership managers who are not shareholders are more likely to prioritize their own interests (Nazir & Safitri, 2017). The results of this study also support previous research conducted by Widianingsih (2018) and Oscar (2017).

5.3 The Effect of Leverage on the Integrity of Financial Statements

The results of the panel data regression test using the fixed effect model on Table 7. the result of the leverage regression coefficient value of 6.080530 with a probability of 0.0024 where the probability value was less than 0.05. Based on these results, it can be interpreted that leverage affects the integrity of financial statements. These results are in line with the researcher's hypothesis that leverage has a positive effect on the integrity of financial statements. Leverage is a percentage ratio that shows the amount of debt used to finance the company's assets. The leverage ratio indicates high financial risks. Companies that have high leverage are also required to present information more broadly compared to companies with low leverage levels (Indrawati & Afriana Hanif, 2017). Companies that have a high leverage ratio are required to present financial statements properly so as not to have information asymmetry between the company's management and investors. The results of this study also support previous research conducted by Ario et al. (2020) and Danuta & Wijaya (2020).

5.4 The Effect of Intellectual Capital on the Integrity of Financial Statements

The results of the panel data regression test using the fixed effect model on Table 7. showed the result of the intellectual capital regression coefficient value of -0.025218 with a probability of 0.0762 where the probability value was more than 0.05. Based on these results, it can be interpreted that intellectual capital does not affect the integrity of financial statements. These results are not in line with the researcher's hypothesis which states that intellectual capital has a positive effect on the integrity of financial statements because 24 of the 36 observational data do not carry out intellectual capital, the results of this study are also not in the same direction as previous research conducted by Febrilyantri (2020) which stated that companies can improve their performance and produce output financial statements with integrity when having quality intellectual capital. However, in line with Wardani's research (2016) which states that intellectual capital does not affect the integrity of financial statements.

6. Conclusion

The result of this study, lead to the following conclusions:

1. The managerial ownership, leverage, and intellectual capital have a simultaneous effect on the integrity of financial statements in Transportation companies that listed on the Indonesia Stock Exchange 2017-2020 period.
2. Managerial ownership has a positive partially effect on the integrity of financial statements in Transportation companies that listed on the Indonesia Stock Exchange 2017-2020 period.
3. Leverage has a positive partially effect on the integrity of financial statements in Transportation companies that listed on the Indonesia Stock Exchange 2017-2020 period.
4. Intellectual capital does not affect the integrity of financial statements in Transportation companies that listed on the Indonesia Stock Exchange 2017-2020 period.

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