CHAPTER V

CONCLUSION

5.1 Conclusion

1. Research results show that financial risk does not directly contribute to financial reporting integrity in SOEs companies listed on the Indonesia Stock Exchange, where the level of financial risk experienced by companies does not automatically affect their reporting quality and integrity. This condition can be explained by the special characteristics of SOEs companies that have strict governance systems and layered oversight from various parties, including the government as the majority shareholder. Strict regulations and reporting standards that must be complied with create strong control mechanisms, so even when facing financial pressure, it does not drive companies to lower financial reporting quality.
2. Profitability is proven to contribute positively to financial reporting integrity, showing that companies with high profit levels tend to have better financial reporting. Companies able to generate profits consistently have strong incentives to maintain transparency and accuracy in reporting, both to maintain reputation in the eyes of investors and to meet market expectations. Additionally, profitable companies have sufficient resources to develop quality reporting and governance systems, supporting overall financial reporting integrity.
3. *The investment opportunity set* did not show a significant effect on *financial*

reporting integrity in this study, indicating that the investment opportunities available to companies do not directly affect the quality of their financial reporting. This condition can be caused by the characteristics of state-owned companies that generally have a more conservative investment strategy and are bound by government policies, so that investment opportunities are not a dominant factor in influencing reporting practices. In addition, the limited market response to the growth of state-owned companies makes management less motivated to use financial reporting as a tool to communicate investment opportunities to investors. This shows that in the context of SOEs, factors other than investment opportunities play a greater role in determining the quality of financial reporting.

4. *Foreign ownership* had no significant effect on *financial reporting integrity* in state-owned companies studied, which showed that the level of foreign ownership in the company's ownership structure did not significantly affect the quality and integrity of financial reporting. This condition can be explained by the relatively low level of *foreign ownership* in state-owned companies in this research compared to private companies, so the influence and pressure from foreign investors to increase reporting transparency is not strong enough. In addition, foreign investors in state-owned companies generally have limited involvement in the company's operational governance, so their influence on financial reporting practices is minimal. This shows that in the context of SOEs, internal supervisory and governance mechanisms are more dominant than pressure from foreign shareholders.

5. Earnings quality does not moderate the relationship between financial risk and financial reporting integrity. The instability of earnings quality and relatively stable financial risk make the interaction between these two variables unable to form a meaningful moderation effect on financial reporting integrity.
6. Earnings quality significantly strengthens the relationship between profitability and financial reporting integrity. This shows that in high-profitability conditions, good earnings quality will further enhance the integrity of financial reports. This supports the view that companies that are financially healthy and transparent in accounting tend to maintain credible reporting.
7. Earnings quality does not moderate the relationship between investment opportunity set and financial reporting integrity. The decline in investment opportunities and instability of earnings quality make the combination of these two variables unable to create a significant interaction effect on financial reporting integrity.
8. Earnings quality weakens the relationship between foreign ownership and financial reporting integrity. This shows that under high earnings quality conditions, the existence of foreign ownership does not provide additional positive influence on reporting, possibly because foreign ownership focus is more directed towards profitability or managerial efficiency.

5.2 Suggestions

Based on the research findings, the following recommendations are provided for companies as input to help improve the overall financial reporting integrity and corporate governance:

1. Based on the finding that financial risk does not significantly affect financial reporting integrity, state-owned enterprises (SOEs) are advised not to focus solely on operational risk management but also to integrate risk management into the financial reporting system. Companies should develop a comprehensive and transparent risk reporting framework, including more detailed disclosures on risk mitigation strategies and their potential impact on performance. Implementing this will help build stakeholder trust in the company's ability to manage risks and provide more valuable information for investment decisions. Companies may consider using early warning systems and integrated risk dashboards linked to financial reporting systems to ensure transparency and accountability in risk management.
2. Considering that profitability has a significant positive effect on financial reporting integrity, SOEs are advised to make sustainable profitability a core strategy—not only to meet financial targets but also to strengthen the credibility of financial reporting. Companies should develop business strategies that can generate consistent and high-quality profits, and communicate those strategies transparently through financial reports. This aims to maintain and enhance investor and stakeholder confidence in the quality of financial information. Implementation can include the development of clear profitability KPIs, programs to increase operational efficiency, and reporting systems that explain profitability sources in detail

and transparently.

3. Although the investment opportunity set did not show a significant effect on reporting integrity, SOEs are advised to enhance reporting practices related to investment opportunities and business expansion. Companies need to develop a reporting system that clearly communicates investment pipelines, project feasibility evaluations, and expected returns for each opportunity. This recommendation aims to improve transparency and provide more valuable information to investors about the company's future growth prospects. Implementation may include developing an investment disclosure framework, providing regular updates to investors on investment progress, and using standardized project evaluation reports that clearly reflect the quality and potential of each investment.
4. ased on the finding that foreign ownership has yet to show a significant impact on reporting integrity, SOEs are encouraged to strengthen engagement and communication with foreign investors by adopting international reporting standards and improving investor relations quality. Companies should implement a more proactive communication strategy with foreign investors, such as providing financial reports in English, adopting international standards like IFRS, and organizing regular engagement sessions with global investors. This is aimed at making SOEs more attractive to foreign investors and leveraging external monitoring to improve governance and reporting quality. Implementation can include developing an international investor relations program, management

training on global best practices, and adoption of international reporting standards to enhance comparability with global firms.

5. Since earnings quality failed to moderate the relationship between financial risk and financial reporting integrity, SOEs are advised to strengthen internal control systems and apply more conservative accounting principles to maintain information quality under financial pressure. Companies should develop a robust internal audit system and implement conservative accounting practices to provide a buffer during financial volatility. This is intended to ensure that financial reporting quality is not compromised during times of financial stress and to build resilience in reporting systems. Implementation could involve strengthening internal audit functions, developing a risk-based auditing approach, providing training on conservative accounting, and forming an independent audit committee for effective oversight.
6. Given that earnings quality strengthens the effect of profitability on financial reporting integrity, SOEs should prioritize earnings quality in their financial and reporting strategies. Companies need to focus on achieving sustainable, high-quality profits and avoid practices that harm earnings quality, such as earnings management or accounting gimmicks. This is to maximize the positive effect of profitability on reporting credibility and build a sustainable competitive advantage through high-quality earnings. Implementation can include developing earnings quality metrics and monitoring systems, enforcing strict accounting policies to prevent

aggressive practices, regular training on best practices for financial reporting, and forming an earnings quality committee for ongoing evaluation.

7. Since earnings quality failed to moderate the relationship between investment opportunity set and reporting integrity, SOEs are advised to better integrate investment planning with earnings quality management. Companies should ensure that investment decisions are evaluated not only by financial returns but also by their impact on earnings quality and future sustainability. This aims to align investment strategies with reporting quality so that investments support both earnings quality and financial integrity. Implementation may involve developing an integrated investment evaluation framework that includes earnings quality, forming an investment committee with financial and accounting expertise, and establishing a post-investment monitoring system that tracks the impact on earnings quality over time.
8. As findings show that earnings quality actually weakens the effect of foreign ownership on reporting integrity, SOEs are encouraged to conduct a comprehensive review of their financial reporting standards and practices to ensure alignment with international expectations. Companies should adopt international best practices such as ESG reporting, integrated reporting, and compliance with global accounting standards to improve comparability and credibility in the eyes of foreign investors. This recommendation aims to bridge the gap between local reporting standards and global investor

expectations, so that high earnings quality can serve as a positive signal. Implementation may include adopting frameworks like IFRS and GRI standards, developing ESG reporting capabilities, forming an international advisory board for global best practice guidance, and regularly benchmarking with international companies to remain competitive in global markets.

5.3 Research Limitations

This study has several limitations that should be noted for future research. The research was conducted on cross-sector SOEs, which have varying operational characteristics, capital structures, and regulatory pressures. These differences may affect the consistency of the relationships among the studied variables. Future research is recommended to consider industry segmentation or to add qualitative dimensions to enrich the analysis perspective.