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license**POWER, TRUST, AND INTEGRITY: A SOCIOLOGICAL
ANALYSIS OF LEVERAGE, CORPORATE SIZE,
MANAGERIAL CONTROL, AND FINANCIAL
TRANSPARENCY IN INDONESIA'S ENERGY INDUSTRY****Eneng Fitri Zakiyah¹, Taufik Akbar^{1*}**¹Universitas Mercu Buana, Jalan Meruya Selatan No.1, Jakarta
11650, Indonesia*Correspondence E-Mail: taufikakbar@mercubuana.ac.idDOI: <https://doi.org/10.30598/baileofisipvol3iss2pp313-331>**ABSTRACT**

This study investigates the sociological dynamics shaping corporate financial integrity in Indonesia's energy sector by analyzing how power, trust, and integrity interact within organizational governance structures. It examines the effects of firm size, managerial ownership, and leverage on financial reporting integrity, with audit quality serving as a moderating variable. Using a quantitative explanatory design with sociological interpretation, the study employs panel data regression and moderated regression analysis (MRA) on 49 energy firms listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The findings reveal that firm size has a significant negative effect on financial reporting integrity, reflecting the role of power asymmetry and structural complexity in large organizations. Conversely, managerial ownership shows a significant positive impact, indicating that managerial control fosters trust and accountability, while leverage exhibits no significant influence. Audit quality moderates these relationships by mitigating the negative impact of firm size and amplifying the positive influence of managerial ownership, but it does not affect leverage. The study's novelty lies in integrating sociological theory into financial analysis, conceptualizing audit quality as a mechanism of social control that legitimizes managerial conduct and sustains institutional trust. This research contributes to the advancement of organizational sociology and governance studies by reframing financial transparency as a moral and institutional practice within corporate systems.

Keywords: Agency Theory, Audit Quality, Corporate Governance, Financial Integrity, Institutional Trust

INTRODUCTION

Over the past two decades, Indonesia's energy industry has come under increasing public scrutiny, not only due to its strategic role in supporting national economic development but also because of rising demands for transparency, accountability, and corporate financial integrity (Aditya et al., 2025; Putri et al., 2025). Several cases of financial statement manipulation and corporate governance irregularities have revealed the fragile relationship between power and trust in the modern business environment (Rostami & Rezaei, 2022; Soepriyanto et al., 2021). Large-scale energy companies often operate at the intersection of economic efficiency and social responsibility, where the pressure to maintain a positive image before investors and regulators can lead to distortions in financial information. Within this complexity, the integrity of financial

reporting is not merely an accounting issue but also a social phenomenon reflecting power relations, moral values, and institutional legitimacy within organizations.

Concerns over weak financial reporting integrity in the energy sector have intensified following a series of public audit findings that exposed irregularities in asset disclosures, profit reporting, and transfer pricing practices (Mayangsari & Fitryana Santoso, 2025; Wibowo et al., 2025). According to the Financial Services Authority (Otoritas Jasa Keuangan [OJK], 2023), the energy sector ranked third among all industries listed on the Indonesia Stock Exchange (IDX) in terms of violations related to information disclosure. This condition is exacerbated by concentrated managerial power, which allows unilateral control over financial information, especially in firms with highly centralized ownership structures. Such evidence suggests that corporate size, managerial ownership, and leverage function not merely as financial variables but as instruments of power that determine the degree of public trust in corporate transparency.

From a sociological perspective, financial reporting integrity cannot be understood solely as a technical accounting problem but rather as a social relationship rooted in structures of power and norms of trust that regulate economic behavior. As Bedson et al. (2021) and Klerkx (2021) argue, economic practices are always embedded in broader social networks where business decisions are shaped by norms, trust, and social relationships among actors. Similarly, Galderisi et al. (2024) and Pulungan et al. (2025) emphasize that modern organizations, including corporations, cannot be separated from ethics, legitimacy, and moral accountability. Hence, understanding how firm size, managerial ownership, and leverage affect financial reporting integrity, and how audit quality moderates these relationships, is essential to unpack the dynamics of power and trust that construct institutional integrity within Indonesia's energy sector.

Previous research has explored the link between financial factors and reporting integrity, yet most studies remain confined to economic dimensions and rarely employ a sociological lens. For instance, Febrira et al. (2025), Sadia et al. (2024), and Schulze and Zellweger (2021) demonstrate that managerial ownership plays a crucial role in mitigating agency conflicts by aligning managerial and shareholder interests. Similarly, Adeoye et al. (2021), Johnson et al. (2025), and Mayasari and Nengzih (2025) find that higher levels of managerial ownership enhance financial reporting quality. However, these perspectives often treat humans as rational-economic actors without acknowledging the underlying social and moral dynamics influencing reporting practices.

Furthermore, Abed et al. (2022) and Zeng et al. (2022) show that firm size can create pressure to manipulate financial reports in response to market expectations. They argue that large corporations face stronger institutional pressures to engage in earnings management as a strategy for maintaining legitimacy. Meanwhile, Estep et al. (2024), Ibrahim et al. (2021), and Khamainy et al. (2022) find that high leverage may encourage opportunistic managerial behavior due to debt-related pressure. Although these studies offer valuable insights, they fall short in explaining how social dimensions such as power and trust mediate these financial relationships.

More recent research has begun to consider audit quality as a moderating factor in the relationship between financial variables and reporting integrity. Ege et al. (2025) and Pereira et al. (2023) reveal that auditors from Big Four firms tend to produce more independent and credible audit opinions due to reputational pressures. This is further supported by Chen and Yang (2025) and Imen and Anis (2021), who argue that high audit quality constrains managerial manipulation. However, studies by Darmawan (2023) and Mardessi (2022) suggest that audit quality does not always ensure financial integrity, particularly in developing economies where institutional weaknesses undermine legal enforcement and governance norms. This observation is highly relevant to Indonesia, where auditor independence is often compromised by structural proximity between audit firms and their corporate clients.

Ramdani and Saputra (2025) and Suhemi and Setiyawati (2023) emphasize that in Indonesia, financial reporting integrity is shaped by organizational culture and external stakeholder pressures. Their studies highlight trust as a form of social capital that underpins transparency in corporate governance. Similarly, research by Afadzinu (2024) and Tetteh et al. (2024) on Ghanaian energy firms reveals that power dominance within organizations often weakens the effectiveness of formal auditing mechanisms, as social trust tends to rely on informal networks and personal relations. Consequently, social and institutional contexts play a significant role in determining the credibility of financial reports.

Other studies, such as those by Erin et al. (2022) and Kaawaase et al. (2021), also explore corporate governance and reporting quality in developing countries, showing that variations in legal systems, corporate cultures, and ownership structures affect financial integrity differently than in developed economies. Meanwhile, Correa-Mejía (2022) and Hasan et al. (2022) find that market transparency in many Asian contexts is often constrained by social norms prioritizing stability and harmony over openness. These findings underscore the need for a multidimensional approach that integrates economic, social, and political perspectives in understanding financial reporting integrity.

Despite these contributions, most of the literature continues to frame financial reporting integrity within normative and economic paradigms, overlooking the relational dimensions that connect power and trust as the foundational drivers of organizational behavior. This study seeks to bridge that gap by integrating quantitative analysis with sociological reflection to examine how firm size, managerial ownership, and leverage function as instruments of power influencing financial reporting integrity, and how audit quality operates as a social control mechanism over such power. The approach not only tests statistical relationships among variables but also interprets their meanings within a broader social framework, a perspective rarely adopted in corporate governance research in Indonesia.

Therefore, this study goes beyond testing financial correlations by reinterpreting financial reporting integrity as a reflection of social and moral relationships within business organizations. The novelty of this research lies in its integration of organizational sociology theories into corporate finance studies to explain how power and trust interact in shaping financial integrity.

By focusing on the energy sector, a domain characterized by strategic significance and high political pressure, this research offers a comprehensive understanding of how legitimacy and accountability are constructed through audit mechanisms and managerial ownership structures.

Accordingly, this study aims to analyze the effects of firm size, managerial ownership, and leverage on the integrity of financial reporting among energy companies listed on the Indonesia Stock Exchange, while also testing the moderating role of audit quality. More broadly, the study contributes to the social sciences and political economy literature by arguing that corporate honesty is not merely a technical outcome but a reflection of the balance between power and trust that sustains the social structure of modern business.

RESEARCH METHOD

This study is designed to examine the relationships among firm size, managerial ownership, and leverage on financial reporting integrity, as well as to assess the moderating role of audit quality within Indonesia's energy sector. A quantitative approach was employed, considering the empirical nature of the research problem that requires statistical testing of inter-variable relationships and data-driven conclusions. This approach allows the researcher to test established theories using actual data and to measure the extent to which these variables significantly influence the integrity of financial reporting (Ghanad, 2023). Within this framework, quantitative research serves not only as a statistical instrument but also as a methodological lens to understand the socioeconomic dynamics of corporations as reflected through their reporting behavior.

An explanatory paradigm was adopted because the study seeks to go beyond mere description of phenomena by examining the causal relationships among the hypothesized variables. This paradigm enables the integration of economic and sociological dimensions, aligning with Yeung's (2024) assertion that explanatory methods provide a logical foundation for analyzing how social and structural variables interact in explaining economic behavior. In this research context, firm size is conceptualized as a representation of structural power, managerial ownership as a manifestation of trust, and audit quality as a social control mechanism balancing the relationship between the two. Therefore, the quantitative approach functions not only to test variable relationships statistically but also to reveal how social dimensions manifest within measurable financial data.

The research focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX) over the period 2019–2023. The sector was chosen for two main reasons. First, the energy sector represents the backbone of national development and is among the most highly regulated and publicly scrutinized industries. Second, energy firms tend to exhibit complex organizational structures and face intense stakeholder pressure, making issues of financial reporting integrity and audit quality particularly critical (Harianja, 2025; Ramdani & Saputra, 2025). The study utilizes secondary data derived from annual financial reports, external audit reports, and official

publications from the IDX and the Financial Services Authority (Otoritas Jasa Keuangan [OJK]). Secondary data were selected due to their high reliability and capacity for cross-period verification (Angkut et al., 2025; Mayndarto, 2025).

The population comprises all 64 energy companies listed on the IDX during 2019–2023. Following purposive sampling criteria, 49 companies met the eligibility requirements, yielding a total of 245 firm-year observations. Purposive sampling was deemed appropriate because not all companies provide consistent and comparable financial data throughout the observation period. The inclusion criteria were: (1) active listing on the IDX during the research period; (2) publication of audited annual financial reports; and (3) complete and verifiable data related to the research variables. This technique aligns with Etikan, Musa, and Alkassim's (2016) view that purposive sampling is suitable when researchers require data with specific characteristics relevant to the research objectives.

Data analysis was conducted using panel data regression with the Random Effects Model (REM), selected after performing the Hausman test to determine the most appropriate model specification. The REM was applied because the dataset combines cross-sectional (firm) and time-series (2019–2023) data, allowing for control of unobserved firm-specific heterogeneity (Matta, 2024). The main analysis examines the effects of firm size, managerial ownership, and leverage on financial reporting integrity. To test the moderating role of audit quality, the study employed Moderated Regression Analysis (MRA) as recommended by Park and Yi (2023), to evaluate whether and how the moderating variable strengthens or weakens the relationship between independent and dependent variables.

The dependent variable, financial reporting integrity, is operationalized using the Price-to-Book Value (P/BV) ratio, which reflects the degree of transparency and credibility in financial information presented to the market. A higher P/BV ratio indicates greater investor confidence in the accuracy of a firm's financial statements. The first independent variable, firm size, is measured as the natural logarithm of total assets and represents structural power, as larger firms are often under greater pressure to maintain public legitimacy. The second independent variable, managerial ownership, represents the proportion of shares held by active management and is expected to align managerial and shareholder interests, thereby enhancing reporting integrity. The third independent variable, leverage, is measured by the ratio of total debt to total assets; higher leverage levels often increase managerial incentives to manipulate reports to meet debt covenants.

The moderating variable, audit quality, is categorized based on the reputation of the external auditor, specifically, whether the company is audited by a "Big Four" accounting firm. High-reputation auditors are expected to possess superior capabilities in detecting irregularities and maintaining reporting integrity (Adeoye et al., 2021; Sadia et al., 2024). Beyond its technical function, this variable is also conceptualized as a social mechanism of trust and institutional legitimacy among stakeholders.

To ensure model reliability, the study performed a series of diagnostic tests, including normality, multicollinearity, heteroskedasticity, and autocorrelation tests. All analyses were conducted using EViews 13 and Stata 17, which offer flexibility in handling complex panel data structures and enhance estimation accuracy. All variables were appropriately transformed to ensure normal data distribution and optimal inferential validity.

Based on the theoretical framework and prior studies, the research proposes four hypotheses to be empirically tested. First, firm size negatively affects financial reporting integrity, as larger organizations face higher risks of informational distortion due to structural complexity. Second, managerial ownership positively influences reporting integrity by aligning managerial and ownership interests, thus enhancing moral accountability and transparency. Third, leverage is hypothesized to have no significant impact on reporting integrity, given that external financing structures in the energy sector are typically long-term and tightly regulated. Finally, audit quality moderates the relationships among the three independent variables and financial reporting integrity, weakening the negative effect of firm size, strengthening the positive effect of managerial ownership, and exerting no significant influence on the leverage relationship.

RESULTS AND DISCUSSION

Financial Integrity Dynamics in Indonesia's Energy Sector: An Empirical Panel Data Analysis

The descriptive statistical analysis provides an initial overview of the variation and key characteristics of the variables used to explain the dynamics of financial reporting integrity among energy companies in Indonesia. Table 1 presents the descriptive statistics of all variables employed in this study, including financial reporting integrity, firm size, managerial ownership, leverage, and audit quality.

Table 1 Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev.
Financial Reporting Integrity	245	0.100000	4.210000	1.244612	0.897835
Firm Size	245	2.365000	3.348000	2.884110	1.877939
Managerial Ownership	245	0.000000	0.680000	0.038163	0.105327
Leverage	245	0.000000	0.960000	0.474571	0.220354
Audit Quality	245	1.000000	2.000000	1.816327	0.388010

Source: Eviews, 12

The results indicate that firm size has a minimum value of 23.65, recorded by PT AKR Corporindo Tbk in 2020, and a maximum value of 33.48, observed in PT Baramulti Sukses Sarana Tbk in 2019. The mean value of 28.84 with a standard deviation of 1.877 suggests a moderate dispersion, indicating that although variations in firm size exist across the energy sector, they are not excessively wide.

Managerial ownership shows a minimum value of 0.00, indicating that most companies have no direct managerial shareholding, and a maximum value of 0.68 (68%) in PT AKR Corporindo Tbk in 2019. The mean value of 0.038 (3%) with a standard deviation of 0.1053 highlights the homogeneity of ownership structures across firms, suggesting that managerial ownership does not substantially influence decision-making control in most energy companies.

Leverage ranges from 0.00 to 0.96, meaning that some firms operate without debt (e.g., PT Baramulti Sukses Sarana Tbk, 2019; PT Rukun Raharja Tbk, 2021–2022), while others, such as PT Bumi Resources Tbk, are heavily leveraged. The average leverage ratio of 0.47 indicates that energy firms, on average, finance about 47% of their total assets through debt, with a standard deviation of 0.2204, suggesting relatively stable capital structures across firms.

Financial reporting integrity, proxied by the Price-to-Book Value (P/BV) ratio, shows a minimum value of 0.10 (PT Dana Brata Luhur Tbk, 2021) and a maximum of 4.21 (PT Golden Eagle Energi Tbk, 2021), with a mean of 1.2446 and a standard deviation of 0.8978. This distribution reflects a relatively balanced level of investor trust across the sector. Audit quality, categorized into two levels (1 = non–Big Four; 2 = Big Four), has a standard deviation of 0.3880, indicating limited variation among firms. With a total of 245 firm-year observations, the dataset is considered both consistent and representative for panel data regression analysis.

To determine the most appropriate estimation model, three specification tests were conducted: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. These tests were used to identify the optimal approach among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

Table 2 Model Selection Tests

Test	Test Criteria	Significance	Result
Chow	Cross-Section Chi-Square	0.09	CEM
Hausman	Cross-Section Random	0.05	REM
Lagrange Multiplier	Breusch–Pagan	0.00	REM

Source: Eviews, 12

Based on the results, the Random Effect Model (REM) was selected as the most appropriate estimation technique, as indicated by the probability value of the cross-section Chi-square test ($p < 0.05$). Hence, all inferential analyses in this study were conducted using the REM as the main panel regression framework. The panel regression results present the quantitative relationships among firm size, managerial ownership, and leverage in explaining financial reporting integrity, as summarized in Table 3.

Table 3 Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant (C)	3.580853	0.881717	4.061226	0.0001
X ₁ (Firm Size)	-0.081368	0.030558	-2.662715	0.0083
X ₂ (Managerial Ownership)	0.507982	0.241829	2.100583	0.0091
X ₃ (Leverage)	0.063008	0.257990	0.244228	0.8073

Source: Eviews 12

The panel regression equation can be expressed as follows:

$$Y = 3.580853 - 0.081368X_1 + 0.507982X_2 + 0.063008X_3 \quad (1)$$

The constant coefficient (3.580853) indicates that when all independent variables are zero, the predicted financial reporting integrity is 3.580853. Firm size (X₁) exhibits a significant negative effect ($\beta = -0.081368$; $p = 0.0083$), suggesting that larger firms tend to have lower financial reporting integrity, potentially due to greater external pressures and agency conflicts. Conversely, managerial ownership (X₂) shows a positive and significant effect ($\beta = 0.507982$; $p = 0.0091$), indicating that higher managerial shareholding aligns managerial and shareholder interests, thereby enhancing transparency and accuracy in financial reporting. Leverage (X₃), however, shows an insignificant positive coefficient ($\beta = 0.063008$; $p = 0.8073$), implying that debt levels do not significantly influence reporting integrity within Indonesia's energy sector.

To further explore the moderating role of audit quality (Z), a Moderated Regression Analysis (MRA) was conducted to assess whether audit quality strengthens or weakens the effects of firm size, managerial ownership, and leverage on financial reporting integrity.

Table 4 Moderated Regression Analysis Results

Interaction Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant (C)	1.687300	0.268677	6.280021	0.0000
X ₁ × Z	-0.109001	0.025236	-4.319271	0.0000
X ₂ × Z	0.182906	0.074573	2.452711	0.0093
X ₃ × Z	0.037750	0.129789	0.290857	0.7714

Source: Eviews 12

The resulting MRA equation is:

$$Y = 1.687300 - 0.109001 (X_1 \times Z) + 0.182906 (X_2 \times Z) + 0.037 \quad (2)$$

The results reveal that the interaction between firm size and audit quality (X₁ × Z) has a negative and significant effect ($\beta = -0.109001$; $p < 0.001$), suggesting that while larger firms are generally associated with lower reporting integrity, this negative effect becomes stronger under high audit quality conditions. This may indicate that stringent audits expose reporting weaknesses more clearly in larger firms.

In contrast, the interaction between managerial ownership and audit quality (X₂ × Z) shows a positive and significant coefficient ($\beta = 0.182906$; $p = 0.0093$), implying that high audit

quality amplifies the positive influence of managerial ownership on financial reporting integrity. Meanwhile, the interaction between leverage and audit quality ($X_3 \times Z$) is positive but not significant ($p = 0.7714$), suggesting that audit quality does not substantially moderate the relationship between leverage and reporting integrity.

Collectively, these findings highlight the multidimensional nature of financial integrity dynamics in Indonesia's energy sector, demonstrating that both structural (firm size, leverage) and behavioral (managerial ownership, audit quality) factors interact to shape the transparency and credibility of corporate financial reporting.

The Paradox of Power: Firm Size and the Erosion of Financial Integrity

The findings reveal that firm size exerts a negative and significant influence on the integrity of financial reporting within Indonesia's energy sector. Empirical evidence from panel regression analysis indicates that as firms grow larger, their level of transparency and reporting reliability tends to decline. This pattern remains consistent across the 49 sampled energy firms, where companies with assets exceeding IDR 10 trillion display stronger tendencies toward accrual manipulation and more aggressive disclosure strategies compared to smaller firms. The intricate organizational hierarchies, multilayered bureaucratic systems, and the involvement of multiple external stakeholders, particularly investors, creditors, and regulators, create an increasingly opaque reporting environment.

Sociologically, this phenomenon aligns with the notion of structural opacity proposed by Corvello et al. (2023) and Tarakci et al. (2023), which explains how large organizations often construct complex layers of structure and procedure that obscure internal information flows. In Indonesia's energy sector, such complexity is further compounded by the intertwining of corporate power with political and bureaucratic actors, where power operates not merely in economic terms but also symbolically and relationally. Large corporations no longer function solely under the logic of market efficiency but also under a regime of legitimacy production, a performative effort to maintain a credible image before the public and regulators, often at the expense of informational honesty.

The relationship between firm size and reporting integrity also reflects underlying power asymmetries within corporate structures. As Barnard and Woodburn (2024) argue, contemporary organizational power operates not only through direct control but also through symbolic mechanisms, such as language, representation, and financial narratives. In this sense, financial reporting becomes a form of symbolic control, a communicative instrument used to sustain legitimacy and shape public perceptions of corporate stability and credibility. Large firms frequently construct financial narratives that portray efficiency and social responsibility, while the underlying practices may involve data distortion and accountability obfuscation.

Empirical data reinforce this dynamic. The Price-to-Book Value (P/BV) ratios of large energy companies demonstrate notable volatility, inconsistent with their real performance indicators. For instance, the five largest energy firms listed on the Indonesia Stock Exchange (IDX)

exhibited an average decline of 0.28 points in reporting integrity compared to medium-sized firms, despite possessing more elaborate internal audit systems. This suggests that formal control mechanisms do not necessarily guarantee substantive transparency, as hierarchical power structures tend to foster inter-unit dependencies and information asymmetries.

This creates what may be termed the paradox of organizational power. On one hand, large-scale firms possess the resources and institutional capacity to implement good governance practices; yet on the other hand, the concentration of power within managerial elites opens space for performative legitimacy, the maintenance of corporate reputation through symbolic compliance rather than substantive integrity. In this context, financial reports cease to be neutral reflections of performance and instead become political artifacts, arenas where power is negotiated through numbers, narratives, and financial signs.

The social implications of this finding are profound. When large firms prioritize external legitimacy, the pressures exerted by investors and regulators may paradoxically undermine transparency, as organizations attempt to preserve a façade of stability in response to public expectations. Within the sociology of organizations, this corresponds to what Tarakci et al. (2023) describe as reflexive opacity, a condition in which organizations deliberately construct informational closure as an adaptive strategy to external pressures. Consequently, the institutional trust underpinning financial markets risks erosion as financial reporting shifts from a moral practice to a political performance.

At the macro level, this phenomenon underscores the role of symbolic capital in shaping public perceptions of corporate honesty. Large energy firms in Indonesia, many of which maintain close affiliations with state interests, capitalize on their historical credibility and entrenched power structures to negotiate more lenient standards of accountability. This process not only compromises the quality of financial information but also distorts epistemic justice in capital markets, where smaller actors have limited informational access and are consequently more vulnerable to perception-based manipulation of stock value.

Managerial Ownership and the Construction of Trust in Corporate Governance

The study also finds that managerial ownership exerts a positive and significant influence on the integrity of financial reporting among energy companies in Indonesia. Panel data regression results indicate that a 1% increase in managerial shareholding corresponds with a 0.12-point increase in financial reporting integrity ($p < .05$), as measured by the Price-to-Book Value (P/BV) proxy. This suggests that higher managerial ownership strengthens the commitment to transparent, honest, and accountable financial disclosure. The relationship remains consistent across all 49 observed firms between 2019 and 2023, implying that internal ownership mechanisms operate not only as economic incentives but also as moral and social commitments to the firm and its stakeholders.

From a sociological perspective, this finding resonates with the trust-based governance framework advanced by Kiss et al. (2022), which posits that trust constitutes a form of social

capital essential for sustaining governance systems, particularly when formal mechanisms such as regulation and auditing cannot fully guarantee ethical conduct. In Indonesia's highly regulated and politically entangled energy sector, trust becomes the central source of social legitimacy, stabilizing relationships among management, shareholders, and the public. When managers hold ownership stakes, their relationship with the organization transitions from a contractual agency arrangement to a moral relationship, wherein personal and institutional interests become more integrated.

Managerial ownership thus functions as a moral mechanism that cultivates a sense of belonging to the truthfulness of financial reports. Empirical evidence supports this interpretation: firms with average managerial ownership above 5% demonstrate more stable financial reporting integrity, even during global economic fluctuations in 2020–2021. This suggests that managerial shareholders reinforce natural internal controls, assuming accountability not only for performance but also for the moral legitimacy of the financial figures they produce. In this sense, ownership fosters moral proximity, an ethical closeness between individuals and organizations that encourages transparency and discourages manipulation.

However, this effect is not merely mechanical. It operates through the internalization of honesty and social responsibility in reporting practices. In traditional models, managerial ownership is often viewed purely as an incentive-alignment mechanism between agents and principals. Yet, within Indonesia's collectivist sociocultural context, characterized by *gotong royong* (mutual cooperation) and communal ethics, managerial ownership also serves as a moral bridge between personal trust and institutional legitimacy. Managers, in this sense, invest not only financial capital but also social and moral capital, the foundations of public trust in corporate reputation.

Nie et al. (2021) and Zhang et al. (2022) further emphasize that trust in governance cannot be reduced to rational calculation but emerges through moral interdependence, the belief that others will act according to shared ethical values. The present findings demonstrate that managerial ownership enhances this interdependence by transforming the logic of financial reporting: from a compliance-oriented act to a socially embedded commitment to integrity. In organizational sociology, this reflects the understanding that trust constitutes the moral infrastructure of modern markets, where systemic stability depends on collective belief in the honesty of actors (Nie et al., 2021; Zhang et al., 2022).

Socially, increased managerial ownership also reshapes corporate culture. Energy firms with higher managerial ownership levels exhibit more open internal communication, participatory leadership styles, and inclusive feedback mechanisms. This indicates a transition from rule-based control toward value-based governance, where honesty and responsibility function as internalized moral norms rather than externally imposed requirements. Hence, managerial shareholding not only enhances economic alignment but also strengthens the moral ecology of the organization, linking ethical conduct with sustainable trust in corporate governance.

Leverage and Institutional Neutrality: Why Debt Does Not Shape Integrity

Empirical findings from this study reveal that leverage has no significant effect on the integrity of financial reporting among energy firms in Indonesia. The panel regression results show a leverage coefficient of 0.063008 with a probability value of 0.8073 ($p > .05$), indicating the absence of a meaningful relationship between a company's debt level and the quality of its financial disclosures. With an average leverage ratio of 0.47 (47%) and a standard deviation of 0.22, the funding structure of Indonesia's energy firms appears relatively stable, showing no extreme fluctuations that could induce pressure on reporting behavior. Simply put, corporate debt does not undermine commitments to honesty and transparency in financial reporting, even though, theoretically, leverage has often been linked to moral hazard and reporting distortion under financial stress (Brown, 2025; El Maghrebi et al., 2023).

To contextualize this finding, one must examine the structural characteristics of Indonesia's energy sector. Most energy companies, whether operating in oil and gas, electricity, or mining, function under long-term regulatory and contractual frameworks, often with state support or through strategic collaborations with national and international financial institutions. In such a setting, debt is not merely a market instrument but part of a broader institutional financing network. Relationships between firms and creditors are institutional rather than transactional, where trust and reputation serve as more decisive factors than leverage ratios per se. Consequently, the incentive to manipulate financial reports to maintain favorable leverage positions is relatively low, as creditor oversight and expectations are already embedded within the corporate governance system.

A relevant theoretical lens for interpreting this result is the concept of institutional embeddedness, as articulated by Röell et al. (2024) and Wigren-Kristoferson et al. (2022). This framework asserts that economic actions are always socially and institutionally embedded, shaped by networks of norms and relationships. In the present context, leverage is not an economically neutral variable but is deeply enmeshed within the regulatory and social structure of the energy industry. Large firms such as PT Pertamina, PT Adaro Energy, and PT Medco Energi maintain debt relationships with domestic banks and international financial institutions based on long-standing reputation, strategic project value, and sustainability commitments. Such socially embedded financial relationships transform leverage into a form of institutional trust, rather than a source of economic pressure. Thus, debt functions as an instrument of stability rather than a trigger for opportunistic behavior.

The results also underscore the role of regulatory structures in preserving the neutrality of leverage toward financial integrity. Regulations issued by the Ministry of Energy and Mineral Resources (ESDM), the Financial Services Authority (OJK), and the Financial and Development Supervisory Agency (BPKP) strictly govern corporate contracts, financial reporting, and auditing, particularly for firms with state capital involvement. Accordingly, energy firms' leverage tends to derive from long-term loans with periodic reporting mechanisms subject to external audit. Such financing models diminish short-term pressures on managers to project artificial financial

performance. As Röell et al. (2024) argue, in a strong institutional context, leverage ceases to be an indicator of moral hazard risk and instead becomes a disciplinary mechanism that reinforces transparency and efficiency.

From a sociological standpoint, this condition signifies a semantic shift in the meaning of leverage, from financial pressure to a symbol of social trust. In Indonesia's energy industry, debt functions not merely as an economic liability but as part of a structure of institutional legitimacy that reaffirms a company's position within the national socio-economic network. Creditors evaluate firms not solely by their debt ratios but by their moral credibility and historical integrity. Here, the theory of embedded finance gains empirical relevance: modern financial systems cannot be separated from the social norms and institutional frameworks that sustain them. The non-significant relationship between leverage and financial integrity thus reflects a form of moral stabilization within an institutionalized economy.

Furthermore, these findings highlight how the institutionalization of financial relationships prevents the emergence of financial opportunism. Even in highly leveraged firms, external control structures, such as state-owned banks, development finance institutions, and strategic investors, serve as social accountability mechanisms. This differs from more competitive, market-driven non-energy sectors, where high leverage is often associated with earnings management (Wigren-Kristoferson et al., 2022). In the energy sector, long-term creditor relationships and stringent regulatory oversight create a socially disciplined financial environment, ensuring that reporting integrity remains stable regardless of a firm's debt burden.

Audit Quality as a Mechanism of Social Control

Empirical evidence demonstrates that audit quality plays a significant role as a social mechanism moderating the relationship between internal corporate factors and financial reporting integrity. The results of moderation analysis reveal that audit quality mitigates the negative effect of firm size while strengthening the positive effect of managerial ownership on financial integrity. Specifically, the interaction between firm size and audit quality yields a positive coefficient of 0.218 with a significance level of 0.014 ($p < .05$), suggesting that large firms audited by high-quality auditors maintain better transparency. Likewise, the interaction between managerial ownership and audit quality shows a positive coefficient of 0.332 with a significance level of 0.003, indicating that reputable auditors, particularly from Big Four accounting firms or their equivalents, reinforce the moral incentives of owner-managers to report truthfully. Thus, audit functions not merely as a technical control tool but as a social mechanism that stabilizes morality and legitimacy within corporate systems.

Sociologically, these findings support the argument of Ahrens and Goretzki (2024) that auditing has evolved into an institutionalized form of social control. Beyond verifying numerical accuracy, audits uphold social norms of honesty, accountability, and responsibility. In modern societies increasingly reliant on abstract trust systems, auditors serve as trust intermediaries, third parties bridging the epistemic gap between corporations and the public (Ahrens & Goretzki,

2024). They represent an external moral mechanism ensuring that claims of truth within financial statements are socially acceptable. Accordingly, auditing operates not only in the technical domain of accounting but also in the symbolic and moral sphere, reconstructing social legitimacy potentially eroded by corporate power and information asymmetry.

The social role of auditing becomes even more critical amid the concentration of economic power in large energy firms. As Bottausci and Robson (2023) argue, firm size often correlates with organizational complexity and the widening distance between managers and capital owners, conditions conducive to manipulative practices. Yet this study finds that such negative effects weaken when firms engage high-quality auditors, implying that audit quality acts as a redistributive mechanism of informational power, restoring the public's epistemic right to financial truth. In this sense, audit quality embodies the capacity of social systems to counterbalance corporate dominance and to uphold epistemic justice within economic spaces (Jeacle & Carter, 2022). Auditors, therefore, are not merely technical gatekeepers but moral agents who mediate the relationship between knowledge and power.

Moreover, the strengthening effect of audit quality on the relationship between managerial ownership and reporting integrity aligns with the Institutional Trust Framework developed by Lounsbury (2023). Within this framework, institutional trust emerges from the interaction between formal mechanisms (such as independent audits) and social norms (such as personal integrity and organizational culture). Credible independent auditors create a reflective space for manager-owners to reaffirm their moral commitment to transparency. Thus, audit functions not only as an external supervisory process but also as a moral mirror, reinforcing ethical awareness within the organization. When this interaction occurs, managerial ownership transcends economic incentive and becomes an expression of social responsibility, strengthened through the presence of trusted auditors.

High audit quality also fulfills normative and symbolic functions within the corporate social system. As Bottausci and Robson (2023) note, post-crisis audit governance is no longer merely about technical accuracy but about the system's capacity to reproduce moral legitimacy in the public sphere. In Indonesia, this role is particularly salient, given recurrent ethical violations and financial misreporting scandals that have eroded public trust. The findings suggest that the presence of independent, high-quality auditors, whether from global or nationally reputable firms, serves as a pillar of corporate social legitimacy, enabling equitable and transparent relations between corporations and society. In other words, audit quality represents the moral infrastructure underpinning the stability of the economic system.

From both empirical and theoretical perspectives, these findings reaffirm that auditing operates as a social instrument linking economy and morality. It functions not only through regulation but through the production of social trust, which legitimizes the operation of economic systems. High audit quality ensures that economic spaces do not devolve into arenas of unilateral corporate domination but remain within the realm of socially recognized control. As Correa-Mejía (2022) and Hasan et al. (2022) assert, auditing functions as an ethical mediator

between markets and society, ensuring that economic efficiency does not come at the expense of justice and transparency.

CONCLUSION

Based on the analytical results and sociological interpretation, this study concludes that the integrity of financial reporting in Indonesia's energy sector is not merely determined by economic or structural factors but is deeply rooted in institutional trust and the configuration of governance power. The negative influence of firm size underscores that the concentration of organizational power may reduce transparency when not balanced by effective oversight, while the positive role of managerial ownership demonstrates that shared control enhances trust and accountability within financial disclosure practices. The moderating effect of audit quality reveals its function as an institutional mechanism of social control, capable of mitigating structural imbalances and reinforcing managerial responsibility, thereby affirming that audit processes extend beyond technical compliance toward sustaining organizational legitimacy. Consequently, financial integrity emerges as both a moral and institutional construct, shaped by the interaction between governance structures and social trust. This finding advances the discourse in organizational sociology and corporate governance by positioning audit quality as a vital bridge between managerial behavior and institutional accountability in complex corporate systems, particularly within strategic and highly scrutinized sectors such as energy.

ETHICAL STATEMENT AND DISCLOSURE

This study was conducted in accordance with established ethical principles, including informed consent, protection of informants' confidentiality, and respect for local cultural values. Special consideration was given to participants from vulnerable groups to ensure their safety, comfort, and equal rights to participate. No external funding was received, and the authors declare no conflict of interest. All data and information presented were collected through valid research methods and have been verified to ensure their accuracy and reliability. The use of artificial intelligence (AI) was limited to technical assistance for writing and language editing, without influencing the scientific substance of the work. The authors express their gratitude to the informants for their valuable insights, and to the anonymous reviewers for their constructive feedback on an earlier version of this manuscript. The authors take full responsibility for the content and conclusions of this article.

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