ABSTRACT

This study aims to investigate the role of financial reporting quality in the relationship between managerial ownership, institutional ownership, and investment efficiency. The research objects consist of manufacturing companies consistently listed on the Indonesia Stock Exchange during the 2010–2023 period. The sample was selected using a purposive sampling method, resulting in a total sample of 104 firms. Data were processed using STATA 17 MP through panel data regression analysis and robustness testing using the Generalized Method of Moments (GMM) to address potential endogeneity issues and ensure the consistency of estimation results. The findings reveal that managerial ownership does not have a direct effect on investment efficiency. However, managerial ownership positively affects financial reporting quality, while financial reporting quality positively influences investment efficiency. These results indicate that financial reporting quality serves as an indirect-only mediation mechanism. Meanwhile, institutional ownership does not affect investment efficiency and generally does not influence financial reporting quality, except for accounting conservatism, which demonstrates a positive effect. The robustness test further strengthens the main findings of the study, indicating that managerial ownership consistently exerts a positive effect on financial reporting quality, whereas financial reporting quality is proven to improve investment efficiency across most of the proxies employed. Additional analysis was conducted by separating investment inefficiency into overinvestment and underinvestment conditions. The partial analysis indicates that managerial ownership and institutional ownership still do not directly affect underinvestment. More consistent results are observed under overinvestment conditions, where both the partial and combined models demonstrate that managerial ownership successfully reduces overinvestment. Furthermore, financial reporting quality is proven to be effective in reducing underinvestment, although statistically it has not been effective in reducing overinvestment.

Keywords: managerial ownership, institusional ownership, financial reporting quality, investment efficiency, overinvestment, underinvestment.