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The Moderating Effect of Company Size on Audit Committee and Intelectual Capital Toward Corporate Value

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ABSTRACT

In this study, to analyze the effect of Audit Committee, and Intelectual Capital toward Company values. And also analyzes the impact of Company Size as a moderating variable that strengthens or weakens the relationship between the effects of Audit Committee, Intecetual capital toward Company values. The researcher collects empirical study data from the companies using secondary data taken from the annual reports of companies listed on the Indonesia Stock Exchange (IDX). This study used a purposive sampling technique and obtained as many as 53 companies in accordance with predetermined criteria. Then analyzes them using the Statistical Package for the Social Sciences. A total of 265 units of data analysis that meet the criteria and can be used as samples in this study. This study only takes secondary data from the annual reports of company's in the Indonesia stock exchange. Company Size as a moderator between Audit Committee and Intellectual Capital toward Corporate Value in companies listed on the Indonesia Stock Exchange is still little researched. So this research will not only fill in the current gaps in the literature but also spark new academic debates, but this study will also contribute to the practice of Corporate Value. This study reveals that Audit Commitee and Intellectual Capital have a positive and significant effect on Corporate Value. Meanwhile, the role of the Company Size as a moderating variable have strengthens the influence between Audit Commitee and Corporate Value from before being moderated by the Company Size.

Keywords: Audit Committee, Intelectual Capital, Company Size, Corporate Value

INTRODUCTION

Company management as well as investors or shareholders are interested parties and are closely related to the value of the company. The financial manager must find the funds that the company needs and manage and manage the company's finances effectively to maximize the value of the company (Kasmir, 2016).

The phenomenon related to the value of the company is the rise and fall of stock prices. Throughout 2020, the Composite Stock Price Index (JCI) had dropped to its lowest point at the level of 3,989 on March 23, 2020. The fall in the stock market was caused by the impact of the Covid-19 pandemic. However, the JCI rose again and reached the level of 5,979 at the close of

trading this year, Wednesday, December 30, 2020, year to date (YTD), the JCI only fell by 5.09 In terms of sectoral indexes, almost all indexes weakened. The agriculture sector index fell 1.74%, basic and chemical industries fell 5.84%, miscellaneous industries fell 11.7%, and consumer goods fell 10.7%. Then, the infrastructure, financial, and manufacturing sectors weakened by 12%, 1.59%, and 9.22%, respectively. The trade, services and investment sector index fell 0.45%. Mining sector to 23.6%.

Company Size or company size is a scale where the size of the company can be classified according to various ways, including: total assets, log size, stock market value, number of employees, and others. Capital can be interpreted as capital based on the knowledge owned by the company. Bontis (2000) in Ismiyati and Hamidya (2017) says intellectual capital is the entire knowledge of employees and companies that contribute to a company's sustainable competitive advantage. Intellectual capital is part of intangible assets or intangible assets.

Pulic (1998) introduced a method to measure intellectual capital indirectly, namely the Value Added Intellectual Coefficient (VAICTM) method. The method is used to assess the efficiency of added value as a result of the company's intellectual abilities. The company has good intellectual capital in its management which has an impact.

The audit committee has a very important and strategic role in maintaining the credibility of the process of preparing financial statements as well as maintaining the creation of an adequate corporate supervision system and the implementation of good corporate governance. With the functioning of the audit committee effectively, the control over the company will be better so that agency conflicts that occur due to management's desire to improve their own welfare can be minimized.

The solvency ratio is the ratio used to measure the extent to which the company's assets can be financed with debt (Kasmir, 2017). One of the solvency ratio calculations is the Debt to Equity Ratio (DER). The higher the DER ratio, the higher the use of debt rather than own capital. According to Chotimah and Amanah (2013) in their research results it was found that the Debt to Equity Ratio (DER) had a significant effect on firm value. Meanwhile, Rahardjo and Jusriani (2013) stated that the debt policy variable (DER) did not have a significant effect on firm value. Based on this background, the researcher has formulated the problems in this study, including: (i). Does the Audit Committee affect the value of the company in manufacturing industry companies listed on the Indonesia Stock Exchange for the 2016-2020 period; (ii) . Does Intellectual Capital affect the firm value of manufacturing industry companies listed on the Indonesia Stock Exchange for the 2016-2020 period; (iii) Can Company size moderate the influence of the Audit Committee on the value of the company in the manufacturing industry listed on the Indonesia Stock Exchange for the 2016-2020 period; (iv) Can Compnay Size moderate the influence of intellectual capital on manufacturing industries listed on the Indonesia Stock Exchange for the period 2016-2020.

This research was conducted based on data released by the Indonesia Stock Exchange (IDX) related to the financial statements of companies listed on the Indonesia Stock Exchange in 2016-2020 in the manufacturing industry. The theoretical significance of this research is expected to be able to contribute to the development of signaling theory, stakeholders, in sector

companies listed on the Indonesia Stock Exchange (IDX). In practical terms, the results of this study are expected to provide input for stakeholders and business people.'

This research is expected to provide many benefits for many parties, including: (1) Researchers can add insight into the influence of intellectual capital and the audit committee on company value; (2) Companies or businesses are expected to provide benefits in efforts to increase these variables in corporate development; (3) For further researchers, it is hoped that this research can be used as a reference for comparison with other research.

LITERATURE REVIEW

Signal Theory

Signaling theory suggests how a company should give signals to users of financial statements. Signal theory is a sign given by a company to investors as a clue about how to view the company's prospects. Companies with profitable prospects will avoid selling shares and will seek new capital in other ways, one of which is by using debt (Brigham and Houston, 2014: 186). The company urges to provide information because there is information asymmetry between the company and outsiders because the company knows more about the company and its future prospects from outsiders (investors and creditors) (Wolk et al, 2013). Lack of information to outsiders about the company causes them to protect themselves by charging a low price for the company.

Firms can increase firm value by reducing information asymmetry. One way to reduce information asymmetry is to provide signals to outsiders, one of which is in the form of reliable financial information and will reduce uncertainty about the company's future prospects (Wolk et al, 2013). Agency Theory (Agency Theory) Agency theory is a theory that defines the relationship between principals and agents.

Agency theory

Agency theory explains that the agency relationship is a contract in which one or more people (principles) orders another person (agent) to perform a service on behalf principal and authorizes the agent to make the best decision for the principle. Jensen and Meckling (1976) explain that the agency relationsip is a relationship where the owner of the company (principles) entrusts the management of the company by another person, namely the manager (agent) in accordance with the interests of the owner (principlals) by delegating some decision making authoruty to the manager.

Stakeholder Theory

Jensen (2001) states that management decisions must pay attention to stakeholders to increase the value of the company. Stakeholders also have rights to actions taken by the company's management, as do shareholders (Waryanti, 2009). Stakeholder theory was coined by Freeman in 1984 and Jones in 1995, which stated that a business can be understood as an association of stakeholders (customers, suppliers, employees, and so on) that together build success in a business (Freeman et al., 2010).

Audit Committee

An audit committee consisting of independent parties and knowledgeable in finance and accounting tends to support the auditor's opinion (Carcello and Neal, 2000). The audit

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committee that is responsible for overseeing financial statements, overseeing external audits, and observing the internal control system (including internal audit) can reduce the opportunistic nature of management who performs earnings management by overseeing financial statements and conducting oversight on external audits.

Intellectual Capital

Edvinson (2003) defines intellectual capital as the ability to transform knowledge and intangible assets into the creation of sources of wealth by multiplying human capital and structural capital. Bontis et al. (2000) in Ulum (2008) stated that researchers identified three main constructs of intellectual capital, namely: human capital (HC), structural capital (SC), and customer capital (CC). In Indonesia, intellectual capital began to emerge and develop with PSAK No. 19 concerning intangible assets. According to PSAK No. 19, intangible assets are non-monetary assets that can be identified and do not have a physical form and are owned for use in producing or delivering goods or services, leased to other parties, or for administrative purposes (Indonesian Accounting Association, 2014).

Company Size

Companies are generally grouped into 3 groups, namely large companies, medium companies and small companies. The larger the size of the company, the more confidence investors have in making investments. Company size is a scale used to measure the size of a company in various ways, namely by total assets, total sales, stock market value and others (Hery, 2015). In this study, the size of the company will be measured using a log of total assets taken from the financial statements.

Financial performance

Financial performance ratio is an analytical tool used to determine the financial condition of a company and review management performance in a certain period. Financial ratio analysis uses existing financial statement data as the basis for its assessment.

Debt to Equity Ratio (DER)

According to Kasmir (2017) Debt to equity ratio is the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt with all equity. This ratio is useful for knowing the amount of funds provided by the borrower (creditor) with the owner of the company. In other words, this ratio serves to determine each rupiah of own capital that is used as collateral for debt.

Company Value

According Cheryta et al. (2017) suggested that the value of the company as the main goal of a company that can reflect the welfare of shareholders. Thus, managers must be able to generate positive signals on increasing firm value.

Research Hypothesis

H1: The Audit Committee has a significant and positive effect on firm value
H2: Intellectual capital performance has a significant and positive effect on firm value
H3: Firm size strengthens or weakens the relationship between the Audit Committee and firm value

H4: Firm size strengthens or weakens the relationship between Intellectual Capital and firm value

RESEARCH METHODOLOGY

The object of research, the unit of analysis and observation as well as the types and sources of data in this study are companies listed on the Indonesia Stock Exchange from 2015 to 2019 are publicly listed companies whose financial and annual reports can be accessed through the Indonesia Stock Exchange website http://www.idx.co.id.

Sample Collection Method

The method used in this study is a purposive sampling method or the selection of a sample with a purpose, which means that the sample selection is not random, as follows: companies listed on the Indonesia Stock Exchange (IDX) in the 2016-2019 period, companies that present financial statements in rupiah currency.

Data Types and Data Sources

This study uses secondary data sources. In this research are: (i) IDX Fact Book 2016-2019 to see a list of companies and a list of industry sectors on the stock exchange. (ii) Financial reports and company annual reports or annual reports disclose complete financial information and data for the calculation of variables in this study.

Determination of the Number of Samples

The population in this study were all companies listed on the Indonesia Stock Exchange for the 2016-2019 period. The sample is part of the population. The sampling technique used is the purposive sampling method, with cteria: (i) Manufacturing companies publish complete and consistent financial reports and annual reports for the period 2016 - 2019 which are published through the official IDX website www.idx.co.id.; (ii) the company has complete data that is used as a variable in this study.

Data Analysis Methods and Descriptive Statistical Analysis

Multiple linear regression analysis is a regression used to determine the direction and how much influence the independent variable has on the dependent variable (Ghozali, 2018). Descriptive statistics provide an overview of the data seen from the average value (mean), standard deviation, variance, range, skewness, minimum value and maximum value in the form of numerical analysis, pictures and diagrams.

Statistic test

Classical assumption test is used to test the effect, significant relationship, accuracy in estimation, unbiased, and consistent. The classical assumption tests used in this study were: normality test, multicollinearity test, autocorrelation test and heteroscedasticity test.

R-Square Coefficient of Determination Test (R^2), F-Statistical Test (simultaneous test), T-Statistical Test (Independent Sample Test)

Multiple linear regression

The following is the multiple linear regression model tested in this study:

Model 1:

$$VAL_FIR = \alpha_0 + \beta_1 AUD_COM + \beta_2 INT_CAP + \beta_3 ROA + \beta_2 DER + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots \text{ (i)}$$

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Model 2:

VAL_FIR = α0 + β1 AUD_COM + β2 INT_CAP + β3 COM_SZE +β4 AUD_COM*COM_SZE + β5 INT_CAP*COM_SZE +β6 ROA + β7 DER + ε …….. (ii)

Notes:

α = Konstanta
β = Koefisien Regresi
VAL_FIR = Value of Firm
AUD_COM = Audit Committee
INT_CAP = Intellectual Capital
COM_SZE = Company Size
ROA = Return on Asset
DER = Debt of Equity Ratio
e = Error

Operationalization of Research Variables

The variables used in this study along with their operations and measurement methods are as follows:

Dependent Variable

The dependent variable in this study is the Company Value (Y). To measure the Value of the Company in this study. Tobin's Q formula is used. Tobin's Q calculation using a simplified formula by Smithers and Wright is:

$Tobins'Q = EMV + Debt\ T$

Note: Tobins'Q: The measure of profit for each rupiah of assets. EMV: Net income. Debt: Total debt of the company at the end of the period. TA: Total assets owned by the company.

Independent Variable

Audit Committee

the audit committee is a factor that affects the value of the company, but the audit committee is considered not yet fully effective in monitoring the company internally even though it has met the Committee standard which requires a minimum number of audit committees in the company.

Intellectual capital

Intellectual capital performance is used to measure a value obtained on the management of intellectual capital. The method used to measure intellectual capital performance is known as the VAIC method

a) Menghitung *Value Added Capital Coefficient (*VACA)

VACA = VA/CA

NotesL

VA = Value Added
CA = Physical Capital; ekuitas

b) Menghitung *Human Capital Coefficient* (VAHC).

VAHC = VA/HC

Notes:

VA = Value Added
HC = Human Capital; total expenses for employees

c) The fourth stage by calculating *Structural Capital C*oefficient (STVA).

STVA = SC/VA

Notes:
VA = Value Added
SC = Structural Capital; value added – human capital

d) The last stage is calculating *Value Added Intellectual Capital Coefficient* (VAIC™) is the sum of the previous 3 components, namely VACA, VAHC and STVA.

VAIC™ =VACA + VAHC+STVA

Company Size

The size of the company can also be calculated by:
Size=Ln Total Assets

Return on Assets (ROA)

Profitability ratio is a ratio that measures the company's ability to generate profits (profitability) at the level of sales, assets, and capital. Profitability in this study uses return on assets (ROA).

$$Return\ on\ Asset = \frac{Laba\ bersih\ setelah\ pajak}{Total\ Aktiva}$$

Debt to Equity Ratio (DER)

The DER formula is:

$$\text{DER} = \frac{Total\ Liabilities}{Total\ ekuity} X100\%$$

Result and Discussions

Tabel 1. Sample by Determination of Purposive Sampling

Kriteria	Jumlah
Manufacturing industry companies listed on the Indonesia Stock Exchange during 2015-2019	168
Manufacturing industry companies that are not listed consecutively on the Indonesia Stock Exchange during the 2015-2019 period of research observation	(38)
Manufacturing industry companies that do not have complete data for research needs during the 2015-2019 period of research observation	(77)
Number of sample companies	53
Year of observation	5
Number of data analysis units for 2015-2019	265

Source: Data processed by the author (2021)

The criteria for selecting the sample used a sample selection technique with purposive sampling where the sample selection criteria were based on several criteria. By using purposive sampling method, there were 53 companies that met the criteria by observing the data period

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for 5 years, so that the total data to be observed were 265 samples of company data analysis units. The following is a summary for research on sample selection conducted in this study, as follows:

Descriptive Statistics

Table 2 Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
AUD_COM	265	3.00000	5.00000	3.0830189	.30259975
INT_CAP	265	.30494	127.54280	15.6328194	22.11207703
COM_SIZ	265	6.44655	14.54649	11.9292717	1.56478985
ROA	265	.00007	222.87400	.9438204	13.68609788
DER	265	.08000	17.61030	.9181998	1.25997822
VAL_FIR	265	.03541	7453.05202	94.9616394	573.66817840
Valid N (listwise)	265				

Source: Output SPSS Version 25.00 (2021)

The descriptive statistics in table 2, show that the Audit Committee has a relatively lower than standard deviation value compared to the mean. This indicated that sample for corporate structure is quite low. Each variable of Intellectual Capital, the standard deviation value is lower than the mean, but the difference is relatively small. This means that this data indicates good results because the smaller the value of the standard deviation, the data or variable is more evenly distributed, meaning that the standard deviation is not far from the average (mean).

The Results of Hypothesis 1 and Hyphothesis 2

Table 3. The effect of Audit Committee and Intellectual Capital toward Corporate Value VAL_FIR = $\alpha_0 + \beta_1$ AUD_COM + β_2 INT_CAP + β_3 ROA + β_2 DER + ε

		Model 1		
Variables	Prediction	*Corporate Financial Performance*		
		Coefficients	p-value	Hypotheses Status
Cons		3.732	0.003	
AUD_COM	+	2.327	0.047**	Significant (H_1 support)
INT_CAP	+	1.439	0.036**	Significant (H_2 support)
ROA	+	.380		
DER	+	1.967		
Adjusted R2		0.337		
F-Statistic		3.390		
Prob (F-Statistic)		0.005***		
Number of Observation		265		

*****Significant at a level of 1 percent; **Significant at a level of 5 percent; *Significant at a level of 10 percent**

***Note*:** VAL_FIR: Value of Firm; AUD_COM: Audit Committee; INT_CAP: Intellectual Capital; ROA: Return on Asset; DER: Debt of Equity Ratio

Table 3 shows that the effect of Audit Committee towards Corporate Value shows positive and significant result and support hypotheses 1, this researches shows that the decision maker in company will be able doing Audit Committee to provide corporate value. This result support Almaqoushi & Powell (2017), Wael, A. & Ronan, P. (2020), Samasta, *et al.* (2018), and Mintah &

Schadewitz (2018) where companies that carry out activities related to Audit Committee will increase the Corporate Value. Table 3 also shows that the effect of Intellectual Capital towards Corporate Value shows positive and significant result and support hypotheses 2, this researches shows that the decision maker in company will be able doing Intellectual Capital to provide Corporate Value. This result support (Ginesti, Caldarelli and Zampella, 2018), Gianluca, *et al.* (2018), Ismiyanti & Hamidya (2017) and (Utami, Rahmawati, 2016), Prasetiono & Utami (2016), where companies that carry out activities related to Intellectual Capital performance will increase the Corporate Value.

The Result of Hypotheses 1 and Hypotheses 2

VAL_FIR = α0 + β1 AUD_COM + β2 INT_CAP + β3 ROA + β2 DER + ε
VAL_FIR = 3.732 + 2.327 AUD_COM + 1.439 INT_CAP + 0.380 ROA + 1.967 DER + ε

The Results of Hypothesis 3 and Hypothesis 4

Table 4. The Effect of Company Size on Audit Committee and Intellectual Capital toward Corporate Value VAL_FIR = α0 + β1 AUD_COM + β2 INT_CAP + β3 COM_SZE +β4 AUD_COM*COM_SZE + β5 INT_CAP*COM_SZE +β6 ROA + β7 DER + ε

		Model 2		
Variables	Prediction	*Corporate Financial Performance*		
		Coefficients	p-value	Hypotheses Status
Cons		91.76692	.012	
AUD_COM	+	3.536426	.003***	Significant (H_1 support)
INT_CAP	+	4.7316	.033**	Significant (H_2 support)
COM_SZE	+	6.59943	.020**	Significant
AUD_COM*COM_SZE	+	2.56388	.005***	Significant (H_3 support)
INT_CAP*COM_SZE	-	-3.777	.060*	Significant (H_4 non support)
ROA	+	.416	.008***	Significant
DER	+	17.219	.023**	Significant
Adjusted R2		.386		
F-Statistic		4.570		
Prob (F-Statistic)		0.000***		
Number of Observation		265		

*****Significant at a level of 1 percent; **Significant at a level of 5 percent; *Significant at a level of 10 percent**

Note: *VAL_FIR: Value of Firm; AUD_COM: Audit Committee; INT_CAP: Intellectual Capital; COM_SZE: Company Size; ROA: Return on Asset; DER: Debt of Equity Ratio*

The Result of Hypotheses 3 and Hypotheses 4

VAL_FIR = α0 + β1 AUD_COM + β2 INT_CAP + β3 COM_SZE +β4 AUD_COM*COM_SZE + β5 INT_CAP*COM_SZE +β6 ROA + β7 DER + ε
VAL_FIR = 91.76692 + 3.536426 AUD_COM + 4.7316 INT_CAP + 6.59943 COM_SZE +2.56388 AUD_COM*COM_SZE – 3.777 INT_CAP*COM_SZE + 0.416 ROA + 17.219 DER + ε

Table 4 shows that the interaction between Audit Committee toward Corporate Value with the Company Size as a moderating variable has significant interaction (Hypothesis 3 is supported). This means that the Company Size strength the effect of Audit Committee toward Corporate Value. Table 4 also show that the interaction between the Intellectual Capital and Corporate

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Value with the Company Size as a moderating variable have not significant interaction (Hypothesis 4 is not supported). This means that the Company Size weakness the effect of Intellectual Capital and Corporate Value. These results not support Gianluca *et al.*, (2018) and Samasta *et al.* (2018) which explains that the Company Size of the firm is not a factor that can limit the chance of management in doing corporate value.

CONCLUSIONS, IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

Conclusions and Implications

From the table above which contains a summary of the results of the regression model in this study, it can be concluded as follows:

1. The results of the first hypothesis regression test (H1) show that Audit Committee (AUD_COM) has a positive and strong significance on Corporate Value (VAL_FIR) with sig 0.003. The significance level of the Audit Committee variable (AUD_COM) on Corporate Value (VAL_FIR) is very strong because the value of sig. 0.003. According to Hair (2016), that a significance level above 0% to 1% is a very strong level of significance.
2. The results of the first hypothesis regression test (H2) show that Intellectual Capital (INT_CAP) has a positive and strong significance on Corporate Value (VAL_FIR) with sig 0.033. The significance level of the that Intellectual Capital variable (INT_CAP) on Corporate Value (VAL_FIR) is very strong because the value of sig. 0.003. According to Hair (2016), that a significance level above 1% to 5% is a strong level of significance.
3. The results of the third hypothesis regression test (H3) show that the Compay Size (COM_SZE) as a moderating variable has a positive and significant effect on the Audit Committee variable (AUD_COM) on Corporate Value (COR_VAL) with sig. 0.005 (< 0.050). The level of significance for this hypothesis is strong. Where in this hypothesis it is stated that the Company Size (COM_SZE) can strengthen the relationship between Audit Committee variable (AUD_COM) and Corporate Value (COR_VAL).
4. The results of the fourth hypothesis regression test (H4) show that the Company Size (COM_SZE) as a moderating variable has no significant effect on the Intellectual Capital (INT_CAP) variable on Corporate Value (VAL_FIR) with sig. 0.060 (> 0.050). The level of significance in this hypothesis has no significant effect. In this hypothesis it is stated that the Audit Committee (AUD_COM) cannot strengthen the relationship between Intellectual Capital (INT_CAP) and Corporate Value (VAL_FIR) Intellectual Capital (INT_CAP) and Corporate Value (VAL_FIR).

It implies that by using data analysis for three years from 2015 to 2019 towards 53 companies eith 265 uit analysize data and analyzing to the formula that is determined, it was found that in 2016, it was proved that the company in manufacture industry to implement regulations for Inteleectual Capital Disclosure. In public companies listed on exchanges in Indonesia are required to publish annual reports, where in the report there are several sections regarding disclosure of Inteleectual Capital in Corporate Governance. This research is considered important by research for now to several reason that are in accordance with the commitment of the copanies which states to commit to efforts to provide it's firm value. This study contributes significantly of corporate value, who want to see whether the effort to increase the corporate finanacial performance.

In this study also, with the Company Size carried out by the company. In Indonesian's with the big companies that have made an awareness of their Corporate of value will further strengthen the company's pratices Inteleectual Capital on the corporate of value, with corporate profit and DER for corporate as a control variable in this study.

Limitations and Future Research

The research only used sample of public companies in Indonesia with mayor companies' Basic Material and Industrial sector industry on classification sector in Indonesia Stock Exchanges. This study only uses data from two sectors industry companies in the Indonesia Stock Exchange, so it does not use data from sectors other in Indonesia Stock Exchange, such us: Energy, Healthcare, Propery and Real Estate, Financial, Technology, Infrastructure, Trransportation and Logistics and others listed on the Indonesia Stock Exchange.

In this study only uses the factors that influence the Corporate of Value, such as: Audit Committee, Intellectual Capital, Company Size, Return on Asset and Debt of Equity Ratio. Meanwhile, in addition to these factors there again there are other factors that affect the corporate reputation. The researcher, perhaps the next study can be used in addition to the four factors that have been used in this study, such us: The Financial Policy, Public Ownership, Independent Commissioner, and etc.

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