THE INFLUENCE OF LEVERAGE, PROFITABILITY, AND COMPANY SIZE WITH MODERATION OF AUDIT QUALITY ON COMPANY VALUE

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Abstract

Companies in the D222 sector in Indonesia have the potential to dominate the global market. This study aims to examine how the value of companies in the D222 sector is formed by financing policies, namely leverage, the ability to generate profits, namely profitability. Additionally, this research also investigates the influence of company size on firm value. The urgency of this research is underscored by the fact that audit performance is instrumental in driving strategic efforts by companies to enhance their value. Sampled from the years 2020-2022 and drawn from companies listed on the stock exchange, the population consists of 26 companies. Purposive sampling was employed to select a sample of 19 companies in the D222 sector. The data was analyzed using multiple regression in SPSS version 27. The findings indicate that financing policies, specifically Leverage, do not significantly influence firm value, whereas the ability to generate profits, namely Profitability, has a significant positive impact on firm value. Company size does not appear to affect the increase in firm value. However, the role of Audit Quality as a moderator yields varying results. Regarding the relationship between financing policies, namely leverage, and firm value, Audit Quality does not seem to strengthen it. The same results are obtained concerning the relationship between the ability to generate profits, namely profitability, and firm value. However, Audit Quality appears to strengthen the relationship between Company Size and Firm Value. These findings offer valuable insights into the interaction of these factors in the context of the processed food industry in Indonesia, aiming for dominance in the global market.

1. Introduction

The Indonesian processed food industry has demonstrated global market dominance, particularly in the processed food sector in the Philippines (Novitasari, 2024). Investments and business expansions abroad, exemplified by PT Mayora Indah Tbk, have showcased Indonesia's prowess in capturing markets in neighboring countries. This reflects the significant potential of the Indonesian food processing industry to compete on a global scale. Within this context, companies in the D222 sector, as classified by the IDX Industrial Classification (IDX-IC), play a vital role as producers and packagers of processed food products (IDX-IC). Embodying the essence

of the IDX-IC classification, these companies engage in the production and distribution of various packaged food products. In pursuit of their business operations, these companies aim to enhance their corporate value. This is reflected in the management strategies they adopt, particularly concerning capital structure, profitability, and company size. These factors are acknowledged to have a significant impact on corporate value, a key determinant in assessing a company's health and performance (Anik, 2022). A profound understanding of corporate value is crucial for stakeholders, such as investors and shareholders, as it reflects attractive investment potentials and robust growth prospects (Samosir et al., 2022).

In dominating the global market, companies in the D222 sector in Indonesia face several crucial factors influencing corporate value, especially in the evolving processed food industry. Leverage, profitability, and company size are internal factors significantly affecting corporate value. However, audit quality also plays a crucial role as a mediator in the relationship between these factors and corporate value. Specifically, auditors specializing in the industry can either strengthen or weaken these relationships. Audit quality greatly influences investor confidence in the financial information provided by companies, ultimately shaping their perceptions of corporate value.

Company size, often measured by total assets, revenue, or market capitalization, can affect operational scale and efficiency in resource utilization. Indonesia's wealth of natural resources has attracted both domestic and international investors, making it a promising market for business growth and investment. With the rapid development of the global economy, Indonesia continues to demonstrate attractive potential for market players (Komalasari, 2022), stating that this factor is one of the primary drivers for investors to explore business opportunities in Indonesia. As companies grow, market competition becomes increasingly fierce, driving the need for more sophisticated business strategies to maintain and enhance corporate value in the long term (Ampriyanti, 2016).

However, the role of audit quality in the relationship between leverage, profitability, and company size with corporate value remains not fully understood. Audit quality plays a crucial role in building investor trust in the financial information provided by companies (Ratrieka et al., 2018). Further examination of how leverage influences corporate value is essential in the context of investment decisions. This information will provide valuable insights into how debt levels affect investor perceptions of a company amid the dynamics of the processed food industry in Indonesia (Marda, 2022).

A deeper understanding of the relationship between profitability and corporate value is key to assessing company performance in this sector. This information can help companies enhance their attractiveness to investors by focusing on improving profitability (Harnovinsah, 2023). Research on how company size influences corporate value is crucial in responding to market demands and financing needs (Annisa, 2023). Companies that understand their size's role can make smarter strategic decisions to enhance corporate value. Exploration into the moderating impact of Audit Quality, particularly through Industry Specialization Auditors, on the relationship between these factors provides new insights in the context of the processed food industry in Indonesia (Pradesa, 2023).

Audit plays a significant role in ensuring the reliability and quality of a company's financial statements (Ayem, 2023). Corporate value is a comprehensive measure of assets, potential growth, and a company's financial health. Brigham and Houston (2020) suggest that its methods involve book value, market equity value, and discounted future cash flows. Van Horne and Wachowicz (2008) emphasize financial and non-financial dimensions, including reputation, competitive advantage, and market attractiveness. In other words, corporate value reflects a company's performance and strategic position within its ecosystem (Brigham & Houston, 2020; Van Horne & Wachowicz, 2008). (Ismiyati, 2019). High audit quality also encompasses an in-depth understanding of the industry and the risks that companies may face.

Leverage refers to the use of borrowed funds in a company's capital structure. In the context of this research, leverage is one of the primary factors tested in its relationship with corporate value. High leverage can indicate higher risks as companies rely on debt to fund their operations (Lausiri, 2022). Profitability reflects a company's capacity to generate profits from its operations. High profits can be considered an indicator of strong performance and can influence corporate value (Riswandi, 2020). In the context of this research, profitability is a critical factor tested in its relationship with corporate value. Investors tend to be interested in companies capable of consistently generating profits and have good growth prospects. Company size reflects the extent of a company's operations and market share. Larger scale can be seen as a positive signal for investors as it may signify stability, access to greater resources, and a company's ability to compete (Riskiani, 2020).

2. Methods

Expanding further on the research methodology, it's essential to highlight the rationale behind the selection of variables and the theoretical framework guiding the study. In this research, Leverage, Profitability, and Company Size are chosen as key factors influencing Corporate Value in the D222 sector in the processed food industry in Indonesia.

Leverage, representing the use of debt in the company's capital structure, is crucial due to its potential impact on financial risk and firm value (Lausiri, 2022). High leverage may signal financial instability, while moderate leverage could optimize the capital structure and enhance firm value. Understanding how leverage affects corporate value is fundamental for investors and policymakers in assessing financial health and risk exposure.

Profitability, reflecting the company's ability to generate profits from its operations, is another vital determinant of corporate value (Riswandi, 2020). High profitability not only indicates operational efficiency and competitiveness but also attracts investors seeking returns on investment. Therefore, investigating the relationship between profitability and corporate value provides insights into the company's performance and attractiveness to investors.

Company Size, measured by various indicators such as total assets, revenue, or market capitalization, reflects the company's scale and market presence (Riskiani, 2020). Large companies may benefit from economies of scale, greater market share, and enhanced competitiveness. Exploring how company size influences corporate value sheds light on strategic decisions regarding expansion, resource allocation, and market positioning.

Furthermore, the choice of Audit Quality as a moderating variable underscores the importance of external assurance in financial reporting and decision-making processes (Ratrieka et al., 2018). Audit quality, particularly when conducted by industry-specialized auditors, enhances investor confidence, ensures compliance with regulations, and mitigates information asymmetry. Investigating the moderating role of audit quality provides insights into how external oversight influences the relationship between financial factors and corporate value.

Theoretical underpinnings from financial theory, agency theory, and corporate governance frameworks guide the selection and operationalization of variables (Shadish et al., 2002). By aligning the research with established theories and empirical evidence, the study ensures robustness and relevance in addressing research questions and hypotheses.

Overall, the research methodology integrates quantitative analysis techniques, theoretical frameworks, and industry-specific insights to comprehensively examine the determinants of corporate value in the processed food industry in Indonesia. This holistic approach enhances the validity and reliability of research findings and contributes to advancing knowledge in both academic and practical contexts.

3. Results and Discussion

Within the framework of this research, the results of descriptive statistical testing provide an overview of the characteristics of the variables used in the analysis. These descriptive findings offer initial insights into the distribution and variation of data in this study, serving as a foundation for further analysis. The descriptive statistical results are presented in Table 1.

Table 1 Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Debt to Asset Ratio	57	0,09	0,99	0,4926	0,19721
Earnings Per Share	57	0,00	870,00	165,7550	229,33421
Company Size	57	19,32	32,83	28,2840	2,78678
Firm Value	57	0,45	2457,56	101,7739	441,73916
Audit Quality	57	0	1	0,35	0,481
Valid N (listwise)	57				

Source: Data Processed, 2023

Descriptive statistical analysis of the research variables provides a comprehensive overview of each variable's characteristics. Firstly, for the Leverage variable, measured by Debt to Asset Ratio (DAR), the mean value is approximately 0.4926 with a standard deviation of 0.19721, indicating relatively low variation among the sample companies. This suggests that the majority of companies tend to have similar levels of leverage.

Secondly, the Profitability variable, measured by Earnings Per Share (EPS), exhibits greater variation, with a minimum value of 0.00 and a maximum of 870.00. The average EPS is around 165.7550 with a standard deviation of 229.3342. The high variability in profitability indicates significant differences in companies' ability to generate earnings per share.

Thirdly, the Company Size variable, measured by total assets, indicates that the majority of companies in the sample can be categorized as large companies according to the decision of Bapepam No.9/1995. The average value of total assets is approximately 28.2840 with a standard deviation of 2.78678.

Fourthly, the Firm Value variable exhibits a wide range of values, from 0.45 to 2457.56, with an average of about 101.7739 and a standard deviation of 441.73916. This indicates significant variation in firm value among the sample companies.

Lastly, the Audit Quality variable, measured by the presence of industry specialization auditors using a dummy variable, indicates that only a small portion of the sample companies utilize the services of industry specialization auditors. This suggests that the utilization of industry specialization auditors is still uncommon among companies in the processed food industry in Indonesia.

Normality testing is a crucial step in statistical analysis to ensure that the data used follows a normal distribution. In the context of regression analysis, one important assumption is the normality of the residual distribution. Santoso (2000) explains that the basis for decision-making in normality testing can be observed from the spread of data around the diagonal line. If the data spread around the diagonal line and follow its direction, the regression model is considered to meet the normality assumption.
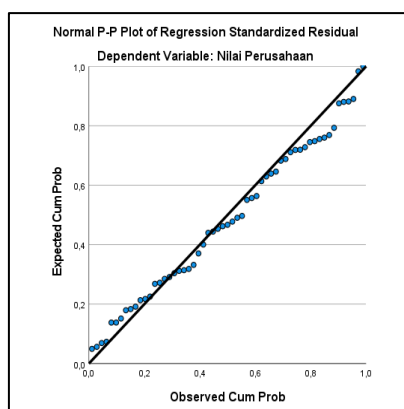
Figure 1 Normality Test Results
Source: Data Processed, 2023

In the illustration of Figure 1, the analysis of multicollinearity testing reveals that the tolerance value for the Debt to Asset Ratio variable is 0.949 with a VIF (Variance Inflation Factor) value of 1.054, indicating that the variable exhibits high tolerance to collinearity with other variables. Similarly, the Earnings Per Share variable has a tolerance value of 0.715 with a VIF of 1.398, and the Company Size variable with a tolerance value of 0.697 and VIF of 1.434. These values indicate that there are no serious issues with multicollinearity among the independent variables, thus rendering the regression model suitable for use. Consequently, these analysis results enhance confidence in the validity of the regression model employed in this study.

Table 2 Multicollinearity Test Results

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	Debt to Asset Ratio	0,949	1,054
	Earnings Per Share	0,715	1,398
	Ukuran Perusahaan	0,697	1,434
a. Dependent Variable: Nilai Perusahaan			

Source: Data Processed, 2023

All of these values are above 0.10 and below 10, indicating that there is no issue of multicollinearity among the independent variables. Thus, the results of the multicollinearity test indicate that the independent variables in the regression analysis are not strongly correlated with each other. Consequently, it can be considered that the multicollinearity assumption has been met.

Table 3 R^2 Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,793[a]	0,629	0,608	276,57146	0,944
a. Predictors: (Constant), Firm Size, Debt to Asset Ratio, Earnings Per Share					
b. Dependent Variable: Firm Value					

Source: Data Processed, 2023

Based on the results of the Adjusted R Square test, approximately 62.9% of the variation in Firm Value can be explained by the independent variables Leverage, Profitability, and Company Size. Meanwhile, 37.1% of this variation is attributed to other factors not included in this study. This indicates that the regression model utilized is capable of explaining a significant portion of

the variation in Firm Value, although there are still other factors beyond the investigated variables that also influence the variability of Firm Value.

Table 4 Results of Moderation Regression Analysis

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	4352,671	475,044		9,163	0,000
	Debt to Asset Ratio	311,070	230,705	0,139	1,348	0,184
	Earnings Per Share	0,468	0,315	0,243	1,486	0,144
	Firm Value	-160,382	16,018	-1,012	-10,013	0,000
	Audit Quality	-4352,754	1354,510	-4,744	-3,214	0,002
	DAR*Kualitas Audit	-310,851	382,906	-0,174	-0,812	0,421
	EPS*Kualitas Audit	-0,469	0,429	-0,236	-1,094	0,279
	Size*Kualitas Audit	160,432	47,215	5,236	3,398	0,001
a. Dependent Variable: Nilai Perusahaan						

Source: Data Processed, 2023

The regression moderation analysis yielded several findings. Firstly, in testing the fourth hypothesis, which evaluates the moderation of Audit Quality (Z) on the relationship between Leverage (X1) and Firm Value (Y), it was found that Audit Quality could not moderate this relationship. The significance value of 0.421 exceeds the significance level of 0.05, and the interaction regression coefficient indicates that Audit Quality weakens the relationship between Leverage and Firm Value, thus rejecting the fourth hypothesis. Secondly, in testing the fifth hypothesis, which evaluates the moderation of Audit Quality (Z) on the relationship between Profitability (X2) and Firm Value (Y), the results also show that Audit Quality could not moderate this relationship. The significance value of 0.279 exceeds the significance level of 0.05, and the interaction regression coefficient indicates that Audit Quality weakens the relationship between Profitability and Firm Value, thus rejecting the fifth hypothesis as well. Thirdly, in testing the sixth hypothesis, which evaluates the moderation of Audit Quality (Z) on the relationship between Company Size (X3) and Firm Value (Y), it was found that Audit Quality could moderate this relationship. The significance value of 0.001 is smaller than the significance level of 0.05, and the interaction regression coefficient indicates that Audit Quality strengthens the relationship between Company Size and Firm Value, thus accepting the sixth hypothesis.

Based on the presented data, findings regarding the influence of Leverage on Firm Value indicate that Leverage does not significantly contribute positively to Firm Value. This can be explained by several reasons. Firstly, there may be additional costs associated with the use of Leverage, such as loan interest and financial risks, which can reduce the overall value of the company. Secondly, the use of Leverage may increase the financial risk of the company, especially in unstable market conditions, thus reducing investor confidence and long-term growth potential. Additionally, financial restructuring required due to the use of Leverage may create uncertainty among investors, ultimately hindering the increase in firm value. Therefore, this research result suggests that in some situations, leverage management may not significantly contribute to increasing firm value and may even present additional detrimental challenges.

Secondly, regarding the impact of Profitability on Firm Value (H2), significant positive findings can be interpreted with the rationale that companies with high profitability levels attract investor interest. Consistent and high profitability levels reflect good financial health and the company's ability to provide attractive investment returns. Sustained high profits can also create the perception that the company has effective business strategies and competitiveness in the market. Thus, investment in such companies is considered a promising option, contributing positively to investor assessment and, ultimately, increasing Firm Value.

Thirdly, regarding the impact of Company Size on Firm Value (H3), significant negative findings can be explained by considering the risks associated with excessively large company scale. Although company size is often considered a positive indicator by investors, these findings highlight the importance of managing risks associated with excessive scale. Increased management complexity and potential debt covenant violations become risks that need to be considered. Therefore, company stakeholders need to carefully consider appropriate management strategies to optimize the benefits of scale without sacrificing firm value.

Furthermore, regarding the impact of Audit Quality on the relationship between Leverage and Firm Value (H4), which was found to be not significant, this finding can be explained by realizing that the role of industry specialization auditors may have limitations in moderating this relationship. Fluctuating market conditions and rapidly changing risk management strategies may be additional factors shaping the relationship between Leverage and Firm Value. Thus, this result can be interpreted as an indication that, although audit quality contributes to the reliability of financial information, other factors beyond the auditor's control may play a significant role in shaping investor perceptions of the relationship between Leverage and Firm Value.

Moreover, regarding the impact of Audit Quality on the relationship between Profitability and Firm Value (H5), which was found to be not significant, this result can be understood by considering that the auditor's role may be more complex in linking Profitability to Firm Value. Additional factors, such as management policies that can influence financial reporting or industry conditions requiring more careful assessment, may contribute to this result. Therefore, in this context, the lack of significance of Audit Quality intervention may be due to the more complex and multifactorial dynamics affecting the relationship between Profitability and Firm Value.

Lastly, regarding the impact of Audit Quality on the relationship between Company Size and Firm Value (H6), the finding that Audit Quality can strengthen this relationship can be explained by the confirmatory role of industry specialization auditors in providing confidence and reducing uncertainty. Auditors with expertise in specific industries can provide confirmation regarding the quality and sustainability of financial information for large companies. This can create a positive perception among investors, increasing confidence in the sustainability of growth and performance of the company. Thus, through this confirmatory role, Audit Quality can act as a catalyst strengthening the relationship between Company Size and Firm Value, building a more solid foundation for growth and sustainability of firm value on a larger scale.

4. Conclusion

Based on the findings of this study, it can be concluded that factors such as leverage, profitability, and company size significantly influence corporate value in the processed food sector in Indonesia. While leverage may not contribute significantly to corporate value, profitability demonstrates a significant positive impact. This suggests that companies with high levels of profitability tend to attract investor interest and receive better assessments in the market. However, company size, although often considered a positive indicator, does not significantly affect corporate value. The importance of risk management related to excessive scale is highlighted in this regard, emphasizing the need for careful management strategies to optimize the benefits of scale without sacrificing corporate value.

Furthermore, the role of audit quality, especially through industry specialization auditors, also has varying impacts depending on the observed relationships. Although audit quality does not affect the relationship between leverage and corporate value, as well as profitability and corporate value, the findings indicate that audit quality can strengthen the relationship between company size and corporate value. Auditors with expertise in specific industries can provide confirmation regarding the quality and sustainability of financial information, thereby enhancing investor confidence in the growth and performance of the company. Therefore, this research provides valuable insights into the factors influencing corporate value in the context of the

processed food industry in Indonesia, as well as the importance of audit quality as a moderating factor that can strengthen the relationship between company size and corporate value.

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