

The Role of CEO Power and Foreign Ownership in the Selection of Public Accounting Firms and the Effectiveness of the Audit Committee as Moderators

Dede Nursaman^{1*}, Harnovinsah², Nurmalia Ahmar³
 1,2,3. Magister Accounting, Universitas Pancasila, Indonesia
 *corresponding author email: dedenursaman@gmail.com

Article Info	Abstract
<p>Keywords: CEO Power; Foreign Ownership; Effectiveness of the Audit Committee; KAP Selection.</p>	<p>The purpose of this study is to analyze the role of CEO power and foreign ownership of the election a Public Accounting Firm (KAP) and the effectiveness of the Audit Committee as a moderator. The research objects used are companies that are included in the IDX80 index on the Indonesian Stock Exchange 2017-2021. Based on the purposive sampling technique, sample of 42 companies was obtained which were considered to meet the criteria as research objects. The analytical method used in this study is Structural Equation Modeling (SEM) with SmartPLS 3 software. The results show partially that the higher the CEO power, foreign ownership and foreign ownership moderated by the effectiveness of the Audit Committee, the company more likely choose Big 4 KAP as external auditors. Meanwhile, the higher the CEO power, which is moderated by the effectiveness of of the Audit Committee, more likely choose non-Big 4 KAP.</p>
<p>DOI: 10.33830/jfba.v3i1.5083.2023</p>	

1. Introduction

The purpose of presenting financial statements is to provide information relating to the financial position, performance and changes in the financial position of a company that is useful for stakeholders in making economic decisions (Kartikahadi et al., 2012). The need for this information becomes even higher when a company has gone public or has become a public company. Where investors are the wider general public, one of their accesses is to obtain information through the company's financial reports. Financial reports presented by go public companies must be properly prepared and audited by a Public Accountant Firm (KAP) regulated in the Financial Services Authority regulation number 13/pojk.03/2017. Arens et al., (2015), said the importance of companies using the services of an independent auditor as an intermediary between the interests of owners and management and increasing investor confidence. High investor confidence will increase the chances of companies going public to achieve their goals.

For investors, there are many things that will be taken into consideration in giving trust and investing in a company, one of which is the company's performance based on financial reports that have been audited by quality KAP so that their independence can be trusted (Lumban Gaol, 2022). Auditors must have the ability to understand the criteria that used and be able to determine the amount of evidence needed to support the conclusions to be drawn. Auditors must also have an independent mental attitude (Hamdani, 2022; Regina et al., 2022). Even if he is an expert, if he does not have an independent attitude in gathering information, it will be useless, because the information used to make decisions must be unbiased. Quality KAP can be measured by its size as said DeAngelo (1982) the larger the size of the public accounting firm, the public accounting firm will provide higher quality audit services. Balsam et al. (2005) said that brand auditors can

describe audit quality, where brand auditors that are known until now are the Big 4 are a reference for audit quality because auditors who have affiliations with Big 4 auditors are believed to have high standards in implementing the audit process so as to produce quality audits. To find out how many companies go public in Indonesia using Big 4 KAP services or not, the following is a table of KAP selection for service companies listed on the IDX.

Table 1. KAP selection of service companies listed on the IDX 2018

Auditor	Non-Financial	Percentage	Banking Finance	Percentage
Big 4	21	31%	30	70%
Non-Big 4	47	69%	13	30%
Grand Total	68	100%	43	100.0%

Source: IDX, 2018

Based on Table 1, it appears that there are differences in the selection of KAP among companies listed on the Indonesia Stock Exchange. Non-financial service companies have a relatively low proportion (31%) of them utilizing the services of the Big 4 KAP, whereas banking service companies show a higher proportion (70%) using the services of the Big 4 KAP. In addition to differences in KAP selection, companies that go public aim to gain access to funding, both short and long term through investor confidence where investors have higher expectations. Investors generally have high expectations and require financial statements of companies to be audited by qualified KAPs, particularly the Big 4 KAPs. The facts show that many companies listed on the Indonesia Stock Exchange use non-Big 4 KAP services, especially non-financial service companies.

Factors that influence the selection of KAP including the first is CEO Power. Research conducted Ouyang et al. (2015) reveals how the role of the CEO in the selection of auditors. The result is that CEOs who have stronger power tend to choose Big 4 KAP as a signal to provide high-quality financial reports. Same with that research, study on CEO Power conducted in Indonesia by Palembangan & Dewi (2017) said that with high CEO power, companies tend to choose non-Big 4 KAP. Another factor that is considered capable of influencing KAP selection is foreign ownership. A study Yang et al. (2019) revealed that the greater the foreign ownership in a company, the company tends to choose a quality auditor. On the other hand, Matonti et al. (2016) said foreign ownership has no significant influence on the selection of external auditors. The next factor that can influence the selection of external auditors is the effectiveness of the Audit Committee. Research results by Alfian & Ah. Suryansyah (2017) said the effectiveness of the Audit Committee has a significant effect on the selection of external auditors. While Putra et al. (2014) said the effectiveness of the Audit Committee did not affect.

In the previous research conducted on a certain topic, the effectiveness of the audit committee was not considered as a moderator variable. However, in this current study, the researchers have introduced the audit committee's effectiveness as a potential moderator. The audit committee's role primarily involves evaluating audit reports from external auditors and making recommendations regarding the appointment of external auditors to the Board of Commissioners. By incorporating the audit committee's effectiveness as a moderator, the researchers investigate whether the presence of an effective audit committee can influence or moderate the relationship between certain factors under study that have shown inconsistent or inconclusive results in previous research. By considering the audit committee as a moderator, the researchers aim to explore how its effectiveness can influence the relationship between the factors under investigation, potentially providing new insights and a deeper understanding of the research topic.

In addition to the moderating factors in this study using company size as a control variable as the research conducted by Palembangan & Dewi (2017) and Trisnawati (2015), company size represents the total assets owned by the company. Total assets owned by the company reflect the investment, rights, and obligations owned. Companies with large total assets tend to attract public

attention more easily. Other factors that influence KAP selection but have not been widely studied include audit fees (Hendi & Desiana, 2019), the effectiveness of the board of commissioners (Nafasati & Indudewi, 2015), delegation of authority to the board of commissioners (Palembangan & Dewi, 2017), the size of the independent board of directors (Leung & Cheng, 2014), family ownership moderated by export-oriented industries (Khan et al., 2015; Simamora, 2022), company complexity, subsidiary status (Matonti et al., 2016), corporate ethical values (Houqe et al., 2015). While the factors that have not been widely studied, there are factors that have been studied a lot, namely corporate governance (He et al., 2014; Markali & Akuntansi, 2012; Prayugi, 2015; Trisnawati, 2015), the size of the independent board of commissioners (Matonti et al., 2016; Putra et al., 2014; Setiawan & Karsana, 2015) and the largest concentration of ownership (Darmadi, 2016; Leung & Cheng, 2014; Markali & Akuntansi, 2012; Putra et al., 2014). The contribution of this study is the role of CEO power and foreign ownership affects the selection of Public Accounting Firms and the role of the effectiveness of the Audit Committee as a moderator in IDX80 index companies listed on the Indonesia Stock Exchange.

2. Research methods

In this study, the authors used a quantitative approach to measure the role of CEO power and foreign ownership of the selection of public accounting firms and the effectiveness of the Audit Committee as moderating variable. Quantitative research data collection is an attempt by researchers to collect data that is numerical or non-numeric, but can be quantified (Sudiro et al., 2022). These data are then processed using statistical work formulas. The types of data and data sources used in this study are secondary data. Secondary data is research data obtained by researchers indirectly through intermediaries and generally in the form of evidence, notes, or historical reports arranged in archives (documentary data) which are periodically published by a certain institution for the public interest.

The population in this study are companies that are members of the IDX80 Index listed on the Indonesia Stock Exchange for the period 2017 – 2021. Sampling was carried out using a purposive sampling method, namely taking samples from the population based on certain criteria. The sample used in this study based on the criteria is as follows:

Table 2. Determination of the research sample

Criteria	Amount
Companies included in the IDX80 Index	80
Companies that are not included in the 2017-2021 IDX80 Index consecutively	(19)
Companies that do not issue annual reports consecutively during the 2017-2021 period	(11)
Companies that issue financial reports in non-Indonesian currency	(8)
Number of Companies	42
Number of Final Data 42x5	210

The analytical method used in this study is the Structural Equation Modeling (SEM) method with SmartPLS 3 software. The use of this analysis technique is used with consideration of the CEO power variable using several indicators and to test the moderating variable in this study by looking at the feasibility of each indicator used in each variable of this study. Structural Equation Modeling (SEM) is a methodology for presenting, estimating, and testing linear causal relationships between variables by integrating factor analysis and path analysis. According to Hair et al. (2017) with SEM, researchers can visually examine the relationships that exist between variables. SEM-PLS was chosen because it is capable of operating with small sample sizes and complex design (Diva Regina et al., n.d.)

PLS can be used to explain whether there is a relationship between two or more latent (predictive) variables. The purpose of PLS is to help researchers to get latent variable values for estimation prediction purposes. Parameter estimates obtained with PLS can be categorized into

three, namely: (1) estimated weight (weight estimate) used to create variable scores; (2) reflecting path estimates (path estimates) that connect latent variables and between latent variables and their indicator blocks (cross-loading); (3) correlation with means and location of parameters (regression constant values) for indicators and latent variables.

The regression model used in this study is as follows:

Equation 1

$$CEOP = \beta CEOP1 + \beta CEOP2 + \beta CEOP3 + \beta CEOP4 + \epsilon$$

Equation 2

$$PEKA = \beta CEOP + \beta CEOP * EFKA + \beta KEPA + \beta KEPA * EFKA + \beta EFKA + \beta SIZE + \epsilon$$

In this case:

PEKA	= Selection KAP
CEOP	= <i>CEO Power</i>
CEOP1	= <i>Structural Power</i>
CEOP2	= <i>Ownership Power</i>
CEOP3	= <i>Expert Power</i>
CEOP4	= <i>Prestige Power</i>
KEPA	= Foreign Ownership
EFKA	= Audit Committee Effectiveness
SIZE	= Company Size

In this study, the authors used two independent variables, one dependent variable, one moderating variable and one control variable. Independent variables include CEO power and foreign ownership. Dependent variable used KAP selection and effectiveness of the Audit Committee as a moderation and company size as a control variable. This research was conducted at IDX80 index companies listed on the Indonesia Stock Exchange. Based on the description that the author put forward, the following is the definition of each variable contained in this study.

Table 3. Determination of the Research Sample

Type	Variable	Indicator	Data Scale	Reference
Dependent	KAP selection	1 if Big 4, 0 if Non-Big 4	<i>Dummy</i>	(Setiawan & Karsana, 2015)
Independent	<i>CEO Power</i>	Structural power (amount of remuneration) ln (x)	Nominal	(Finkelstein, 1992)
		Ownership Power (1 if you have shares and 0 if you don't have shares)	<i>Dummy</i>	(Finkelstein, 1992)
		Expert power (Number of years of experience as a company leader)	Nominal	(Finkelstein, 1992)
		Prestige power (size of directors)	Nominal	(Finkelstein, 1992)
	Foreign Ownership	Percentage of share ownership by foreign parties	<i>Ratio</i>	(Setiawan, 2015)
Moderate	Audit Committee Effectiveness	Number of meetings in a year	Nominal	Alfian 2017
Control	Company Size	Total Asset ln (x)	Nominal	(Setiawan, 2015)

CEO Power and Selection of Public Accounting Firms

CEO power can be defined as the extent to which the capacity of the CEO with all the resources he has exerts his will to lead the company so that it can achieve the desired goals.

Finkelstein (1992) defining power from the company's financial dimension is a person's capacity to exert his will where that capacity consists of four sources of power. First, structural power CEO is the highest structural power compared to other positions because of their formal position in the company. This advantage allows CEO to manage uncertainty by controlling (to some degree) the behavior of their subordinates. Second, ownership power, namely power obtained from the position as well as share ownership of the company that he leads. Therefore, this power depends on the extent to which the CEO has a position in his ownership of the company and his affiliation with the owner of the company. CEO with ownership power have excess control over the board of directors because most managers tend to avoid risk, so the CEO can reduce the uncertainty that comes from pressure's company's board of directors. Third, expert power where the CEO's ability to handle any obstacles faced by the company and contribute to business continuity is a very important power. The constraints will arise from various things such as customers, suppliers, competitors and the government. For that reasons, the CEO builds contacts and relationships so that these obstacles can be minimized. CEO with good skills and experience can provide significant influence to deal with these obstacles. The last is prestige power. The reputation of the CEO within the company and its stakeholders influences people's perceptions of their influence. The corporate environment consists of members of society, such as governments, financial institutions, and other important parts outside the company, which each organization must seek for support and legitimacy. CEO positions with a high reputation will send the message that they have a higher ability to influence. Prestige power can be measured by the size of directors and non-profit directors.

Ouyang et al. (2015) reveals how the role of the CEO in the selection of auditors. The result is that CEOs who have stronger power tend to choose quality auditors as a signal to provide high-quality financial reports.

H₁: CEO power influences the election of a Public Accounting Firm.

CEO Power is Supported by the Effectiveness of the Audit Committee and Selection of Public Accounting Firms

The effectiveness of the audit committee is influenced by several characteristics, namely activity, size and competence. When a company has a high audit committee effectiveness score, they are expected to recommend auditors who provide high quality audit services to the Board of Commissioners to improve the quality of the company's financial statements (Alfian & Ah. Suryansyah, 2017). This is in line with study by Ouyang et al. (2015), who revealed that CEOs who have stronger power tend to choose quality auditors as a signal to provide high-quality financial reports.

H₂: CEO power influences the selection of a Public Accounting Firm with the effectiveness of the Audit Committee as moderator.

Foreign Ownership and Selection of Public Accounting Firms

According to Law number 25 of 2007 in article 1 number 6 foreign ownership is foreign individual citizens, foreign business entities, and foreign governments that invest in the territory of the Republic of Indonesia. Foreign ownership in Indonesia is divided into two types, namely share ownership (trade) and additional subsidiaries (ownership).

There are several reasons why companies with foreign ownership must provide more disclosure than those without foreign ownership, as follows 1) Foreign companies receive better training in accounting from parent companies abroad. 2) The company may have more efficient information systems to meet internal needs and the needs of the parent company. 3) Likelihood of greater demand for foreign-based companies from customers, suppliers and the general public. Yang et al. (2019) revealed that the greater the foreign ownership in a company, the company tends to choose a quality auditor.

H₃: Foreign ownership affects the selection of a Public Accounting Firm.

Foreign Ownership is Supported by the Effectiveness of the Audit Committee and Selection of Public Accounting Firms

The audit committee's effectiveness is impacted by various factors, including its level of activity, size, and competence. When a company achieves a high score in audit committee effectiveness, it is anticipated that they will propose auditors who can deliver exceptional audit services to the Board of Commissioners, thereby enhancing the overall quality of the company's financial statements (Alfian & Ah. Suryansyah, 2017). This is in line with study by Yang et al. (2019), who revealed that the greater the foreign ownership in a company, the company tends to choose a quality Public Accounting Firm.

H₄: Foreign ownership affects the selection of a Public Accounting Firm with the effectiveness of the Audit Committee as moderator.

Based on the description above, the following is the conceptual framework and the development of the research hypotheses.

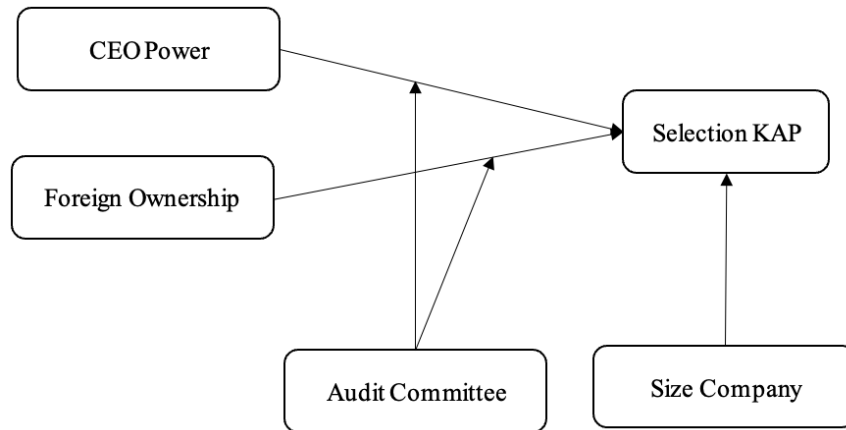


Figure 1. Conceptual thinking framework

3. Results and Discussion

Descriptive Statistics

This study uses descriptive analysis which aims to analyze the characteristics of each of the variables studied. The following is a description of the frequency values for variables that use dummy sizes as well as the minimum, maximum, mean and standard deviation values for variables that use the nominal or ratio of the variables that have been studied.

Table 4. Frequency statistics, average, minimum, maximum, and standard deviation

	Dummy 1	Dummy 0	Min	Max	Average	Standard Deviation	Amount Sample
PEKA	162	48	0.000	1.000			210
CEOP1			18.255	27.893	24.407	1.814	210
CEOP2	85	115	0.000	1.000			210
CEOP3			2.000	46.000	16.771	10.972	210
CEOP4			4.000	13.000	7.233	2.160	210
KEPAS			0.000	0.945	0.283	0.261	210
EFKA			3.000	77.000	13.305	11.278	210
SIZE			28.498	35.084	31.545	1.423	210

Based on table 4, it can be seen that the descriptive data of companies that use KAP Big 4 services are 162 out of 210 companies. While companies that use non-Big 4 services are 48 out of

210. This indicates that the IDX80 index companies mostly choose Big 4 KAPs allegedly because of the company's strong signal to provide quality reports by choosing Big 4 KAPs. It can make it easier for them to enter the IDX80 Index. In contrast to the non-financial service companies revealed by researchers on the research background, most of them use non-Big 4 KAP services.

CEOP1 measures the CEO power variable with the total remuneration indicator. Due to the limitations of financial reports, the remuneration value in this study is not specific to CEO or main director remuneration, but the total remuneration for the board of commissioners and directors. The table shows by calculating the natural log the minimum remuneration value is 18,255, the maximum is 27,893, the average is 24,407, and the standard deviation is 1,814 from a total of 210 samples. CEOP2 measures the CEO power variable with the CEO stock ownership indicator. Due to the limitations of researchers, CEO share ownership is measured by dummy 1 if owning shares and 0 if not owning shares. According to the table, out of 210 companies, 85 CEOs own shares in the companies they lead, while 115 CEOs do not own shares in the companies they lead. CEOP3 measures the CEO power variable with the length of CEO experience as an indicator. Value is measured by the number of years of experience as a company director. The table shows the length of CEO experience has a minimum value of 2 years, a maximum of 46 years, an average of 16,771, and a standard deviation of 10,972 from a total of 210 samples. CEOP4 measures the CEO power variable with the number of company directors as an indicator. The value measured by the number of directors appointed at the GMS. The table shows the number of directors has a minimum value of 4 people, a maximum of 13 people, an average of 7,233, and a standard deviation of 2,160 from a total of 210 samples.

KEPAS measures the foreign ownership variable. The value of the foreign ownership variable measured by the ratio of share ownership owned by foreigners divided by the number of outstanding shares. The table shows that the ratio of foreign ownership has a minimum value of 0.02%, a maximum of 94.5%, an average of 28.3%, and a standard deviation of 26.1% of a total of 210 samples.

EFKA measures the effectiveness of the audit committee as a moderator. The value of the effectiveness of the audit committee measured by the number of meetings or meetings in 1 year conducted by the audit committee. The table shows the effectiveness of the audit committee has a minimum value of 33 times, a maximum of 77 times, an average of 13.3 times, and a standard deviation of 11.27 % of a total of 210 samples.

SIZE measures firm size as a control variable. The value of firm size measured by total assets calculated by natural log. The table shows that by calculating the natural log, the minimum company size is 28,498, the maximum is 35,084, the average is 31,545, and the standard deviation is 1,423 from a total of 210 samples.

Measurement Model Assessment

Table 2. Outer weight, outer loading dan outer VIF

Variable	Measure	Indicator	Outer Weight	P Values OW	Outer Loading	P Values OL	Outer VIF
CEO power	CEOP1	Remuneration	0.555	0.000	0.672	0.000	1.333
	CEOP2	Foreign Ownership	-0.176	0.149	-0.055	0.686	1.077
	CEOP3	Expert Power	0.516	0.000	0.532	0.000	1.063
	EOP4	Prestige Power	0.462	0.000	0.743	0.000	1.311

Source: SmartPLS3, 2022

Based on data processing in table 5, it can be seen that there are 3 significant indicators of CEO power, namely remuneration, experience, and size of directors as indicated by the p-value

($0.000 < 0.05$) and there is no multicollinearity between the indicators shown by outer VIF (< 5). The higher the remuneration, experience, and size of the CEO's directors, will make the greater CEO power. While share ownership is not significant to CEO power p-value ($0.149 > 0.050$). However, share ownership remains relevant as an indicator because the p value of outer loading is > 0.50 ($0.686 > 0.50$) and there is no multicollinearity between the indicators indicated by outer VIF (< 5) (Hair et al., 2019).

Finkelstein (1992) said that the power of the company's financial dimension is the capacity of a person to exert his will where that capacity consists of four sources of power, namely structural power, ownership power, expert power and prestige power. Structural power can be measured by the percentage with the highest position, compensation and the number of positions held. In this study what is used is compensation with the amount of remuneration that indicator based on the test results has a significant influence on CEO power. Second, ownership power can be measured by management ownership, family ownership affiliated with management, affiliated relationships with other managers. In this study, CEO share ownership is measured by dummy 1 for owning shares and 0 for not owning shares. The test results showed that these indicators did not have a significant effect, this was allegedly due to the limitations of the researchers using dummy sizes. The third, expert power can be measured by critical skills, functional areas and positions within the company which in this study using critical skills as measured by the number of years of experience as company leaders. The test results show that the experience indicator has a significant influence on CEO power. The fourth, prestige powers are measured by the size of directors and non-profit directors. In this study, researchers used the size of directors as an indicator. The results of testing the size of the board of directors have a significant effect on CEO power.

Structural Model Assessment

Table 3. Inner VIF dan R square

Variable	Inner VIF	R Square	R Square Adjusted
<i>CEO Power</i>	1.683		
<i>CEO Power</i> *Audit Committee Effectiveness	1.687		
Foreign Ownership	3.364	0.292	0.271
Foreign Ownership*Audit Committee Effectiveness	3.825		
Audit Committee Effectiveness	2.312		
Company Size	1.603		

Source: SmartPLS3, 2022

Based on table 6, the test result shows that there is no multicollinearity between the variables because the table shows the Inner VIF value < 5 . The R Square statistic describes the variance in the endogenous variables explained by the exogenous variables. The test result shows that 29.2% of KAP selection can be explained by CEO power, foreign ownership, the effectiveness of the Audit Committee as a moderator and company size as a control.

Cohen (1988) suggested that the R² values for endogenous latent variables were assessed as follows: 0.26 (substantial), 0.13 (moderate), 0.02 (weak). This means that this research has a substantial value. While Hair et al. (2019) suggested that in scientific research focusing on marketing issues, R² values of 0.75, 0.50, or 0.25 for endogenous latent variables are described as substantial, moderate or weak, respectively. This means that the r square value of this study is still weak.

Hypothesis Testing**Table 4.** Hypothesis test

Hypothesis	Size	Path Coefficient	P-Values	95% Confidence Intervals Path Coefficient		F Square
				Lower Limit	Upper Limit	
H1. <i>CEO Power</i> -> Selection KAP	CEOP	0.378	0.000	0.267	0.495	0.120
H2. <i>CEO Power</i> * Audit Committee Effectiveness -> Selection KAP	CEOP* EFKA	-0.176	0.022	-0.325	-0.024	0.019
H3. Foreign Ownership -> Selection KAP	KEPA	0.373	0.000	0.213	0.548	0.059
H4. Foreign Ownership * Audit Committee Effectiveness -> Audit Committee Effectiveness	KEPA* EFKA	0.313	0.003	0.118	0.540	0.024
Audit Committee Effectiveness -> Selection KAP	EFKA	0.284	0.000	0.154	0.406	0.049
Company Size -> Selection KAP	SIZE	-0.065	0.253	-0.173	0.036	0.004

Source: SmartPLS3, 2022

Based on the test results, it can be seen in table 7 that the regression equation formed from the path coefficient value can be presented as follows:

$$PEKA = 0.378CEOP - 0.176CEOP * EFKA + 0.373KEPA + 0.313KEPA * EFKA + 0.284EFKA - 0.065SIZE + e$$

CEO power has a significant influence on KAP selection with a path coefficient of 0.378 and p-value ($0.00 < 0.05$). Each change in one unit of CEO power will increase the probability of choosing Big 4 KAPs by 0.378. Within a 97.5% confidence interval, the influence of CEO power in increasing the likelihood of choosing Big 4 KAPs lies between 0.267 to 0.495. At the structural level (f square = 0.120) CEO power has a moderate influence in increasing the likelihood of choosing Big 4 KAP.

CEO power moderated by the effectiveness of the Audit Committee has a significant influence on KAP selection negatively with a path coefficient of -0.176 and a p-value ($0.022 < 0.05$). Each change in one unit of CEO power moderated by the effectiveness of the Audit Committee will increase the probability of choosing non-Big 4 KAPs by 0.176. Within the 97.5% confidence interval, the influence of CEO power is moderated by the effectiveness of the Audit Committee in increasing the likelihood of selecting Big 4 KAPs between -0.325 to -0.024. At the structural level (f square = 0.019) CEO power has low influence in increasing the likelihood of choosing Big 4 KAP.

Foreign ownership has a significant influence on KAP selection with a path coefficient of 0.373 and p-value ($0.00 < 0.05$). Every change of one unit of foreign ownership will increase the probability of 0.373 to choose KAP Big 4. Within the 97.5% confidence interval, the influence of foreign ownership increases the probability of choosing KAP Big 4 lies between 0.213 to 0.548. At the structural level (f square = 0.059) foreign ownership has a moderate influence in increasing the likelihood of choosing Big 4 KAP.

Foreign ownership moderated by the effectiveness of the Audit Committee has a significant influence on KAP selection with a path coefficient of 0.313 and p-value ($0.003 < 0.05$). Every one-unit change in foreign ownership moderated by the effectiveness of the Audit Committee will

increase the likelihood of selecting Big 4 KAPs. Within the 97.5% confidence interval, the influence of foreign ownership moderated by the effectiveness of the Audit Committee in increasing the likelihood of selecting Big 4 KAPs lies between 0.118 to 0.540. At the structural level (f square = 0.024) foreign ownership moderated by the effectiveness of the Audit Committee has a moderate influence in increasing the probability of choosing the Big 4 KAP.

The effectiveness of the Audit Committee used as moderator has a significant influence on KAP selection with a path coefficient of 0.284 and p-value (0.00<0.05). Every one-unit change in the effectiveness of the Audit Committee will increase the likelihood of choosing Big 4 KAP. Within the 97.5% confidence interval, the influence of the effectiveness of the Audit Committee in increasing the probability of choosing Big 4 KAP lies between 0.154 to 0.406. At the structural level (f square = 0.049) the effectiveness of the Audit Committee has a moderate influence in increasing the likelihood of selecting Big 4 KAPs.

Firm size used as a control variable has no significant effect on KAP selection with a path coefficient of -0.065 and p-value (0.253>0.05). Every one-unit change in company size will increase the probability of selecting non-Big 4 KAPs by 0.065. Within a 97.5% confidence interval, the effect of the effectiveness of the Audit Committee in increasing the likelihood of selecting Big 4 KAPs lies between -0.173 to 0.036. At the structural level (f square = 0.004) the effectiveness of the Audit Committee has a low influence in increasing the probability of selecting Big 4 KAPs.

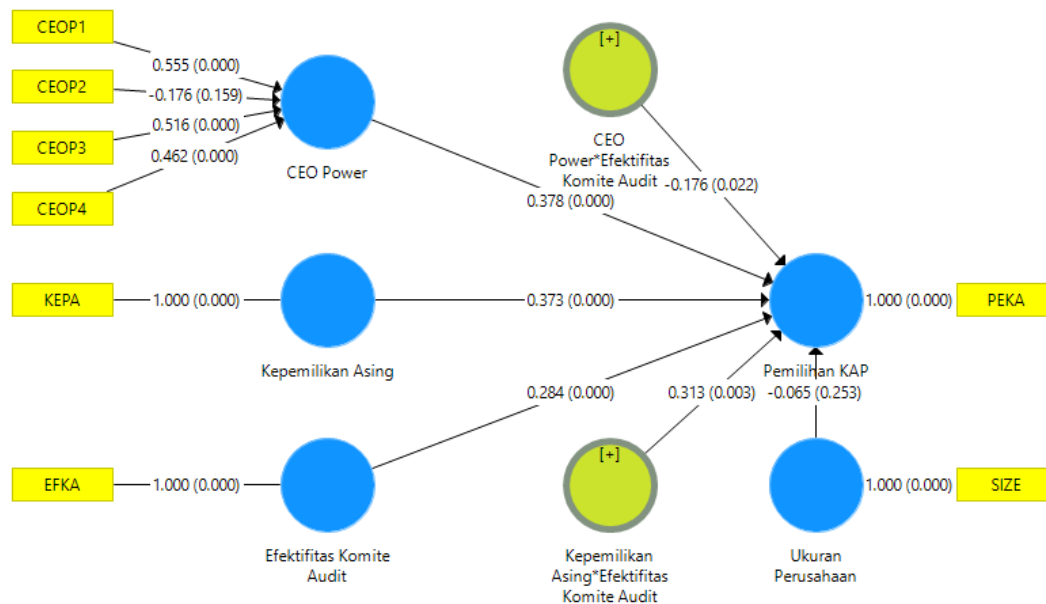


Figure 2. Diagram path coefficient and p-value

Based on Figure 2, the path coefficient and p-value diagram can be seen that CEO power, foreign ownership, and audit effectiveness have a direct influence on KAP selection, as well as the effectiveness of the Audit Committee in being able to moderate foreign ownership in influencing KAP selection. CEO power has the highest direct influence on KAP selection.

Discussion of Research Result

Based on the research results, H1 is accepted. CEO power, as measured by four indicators (structural power, ownership power, expert power, and prestige power), has a significant influence on KAP selection with a path coefficient of 0.378 and a p-value (0.00 < 0.05). This research is in line with and strengthens the findings of Ouyang et al. (2015), who state that strong CEOs are more likely to hire high-quality CPA firms as a signal of superior financial reporting quality. CEO power is measured by CEO compensation divided by the total compensation of the top five executives. On the other hand, this study contradicts the results of Palembang & Dewi (2017),

who claim that CEO power has a significant negative effect on the selection of the Big 4 Public Accounting Firm.

One difference in this study compared to previous studies regarding the measurement of CEO power is the use of four indicators (structural power, ownership power, expert power, and prestige power) tested with a formative measurement model. The higher the power possessed by the CEO, the more likely they will use their influence to select the Big 4 KAP as the company's independent auditor. Using the Big 4 KAP as independent auditors is an attempt by the CEO to present quality financial reports and maintain investor confidence by accommodating the needs and expectations of quality information audited by Big 4 KAPs. This is in line with stakeholder theory, where companies must maintain relationships with stakeholders by accommodating their wants and needs, especially stakeholders who have power over the availability of resources used for the company's operational activities, such as workforce, customers, and owners (Hörisch et al., 2014). Good relations with stakeholders play an important role in the sustainability of the company (going concern). By considering the interests of stakeholders, the company will be given legitimacy by outsiders because of its concern for interested parties. In line with (Gray et al. 1995), who state that legitimacy is given by parties outside the company but may be controlled by the company itself, using the Big 4 KAP is one way to achieve legitimacy.

H2 is rejected. CEO power moderated by the effectiveness of the Audit Committee has a significant negative influence on KAP selection with a path coefficient of -0.176 and a p-value ($0.022 < 0.05$). This result is not in accordance with the hypothesis proposed by the researcher, where the effectiveness of the Audit Committee is expected to moderate CEO power positively. The effectiveness of the Audit Committee, measured by the number of meetings in one year, supports the CEO's power to choose non-Big 4 KAP. This may be because the CEO sees that with a highly effective Audit Committee, the company does not have to use Big 4 KAP, which incurs high costs. The number of meetings held by the Audit Committee can improve the quality of financial reports audited by non-Big 4 KAP because any audit-related issues can be discussed at the Audit Committee meetings. The number of Audit Committee meetings is supported by the competence of the Audit Committee in optimizing the KAP function for the company. In addition to its role as a liaison between the KAP and the company, the Audit Committee is responsible for maintaining the independence of the KAP from management to ensure the reliability of the audited financial statements. Future researchers can consider replacing the variable of the Audit Committee's effectiveness with the quality of the Audit Committee, which can be measured by its function, qualifications, and communication with external public accounting firms (Harnovinsah, 2012).

H3 is accepted. Foreign ownership, as measured by the percentage of shares held by foreign investors divided by the number of shares outstanding, has a significant influence on KAP selection with a path coefficient of 0.373 and a p-value ($0.00 < 0.05$). These results are consistent with the research conducted by Yang et al. (2019), who suggest that companies whose controlling persons have foreign residency rights tend to use higher-quality audit services more, particularly in areas with lower marketization and in companies with higher separation of ownership and control. On the other hand, this research contradicts the findings of Matonti et al. (2016), who state that foreign ownership has no significant influence on the selection of an external Public Accounting Firm. This discrepancy may be attributed to the fact that the latter research was conducted on non-listed companies, resulting in fewer foreign investors among the studied companies.

Foreign investors who invest in companies listed on the Indonesia Stock Exchange have a greater need for quality financial report information compared to local or domestic investors. This need arises from the limitations faced by foreign investors in accessing information about companies due to their geographical location and different citizenship status from the companies in which they invest. These limitations lead to a lack of direct control over the company. The use

of high-quality KAP is an indicator that ensures the reliability of the information provided by the company. Big 4 KAPs are considered capable of delivering superior audit quality due to their experience in various countries and their adherence to high standards in the audit process.

H4 is accepted. Foreign ownership, moderated by the effectiveness of the Audit Committee, has a significant influence on KAP selection with a path coefficient of 0.313 and a p-value ($0.003 < 0.05$). These results support the hypothesis proposed by the researchers. The effectiveness of the Audit Committee, measured by the number of meetings held in one year, supports foreign ownership in selecting the Big 4 KAP. Foreign investors, given their limitations, strive to obtain high-quality information, and the Audit Committee plays a crucial role in maintaining the independence of the KAP from management to ensure the reliability of the audited financial statements. This strengthens the company's decision to use Big 4 KAP.

Companies with a high number of foreign investors demonstrate that the company is trusted not only by investors in its home country but also by investors from various countries. This aligns with O'Donovan (2002), who argues that social legitimacy is a strategic factor for companies to develop their businesses in the future. Social legitimacy can be utilized as a tool to shape a company's strategy and position itself within society. With social legitimacy gained through high foreign trust, the Audit Committee is further motivated to fulfill its functions effectively, including maintaining the independence of the KAP from management and ensuring the reliability of the audited financial statements. Moreover, it reinforces the recommendation of selecting the Big 4 KAP as an external auditor.

4. Conclusion

CEO power, as measured by four indicators (structural power, ownership power, expert power, and prestige power), has a significant influence on KAP selection. CEOs with higher power are more likely to choose the Big 4 KAP as their external Public Accounting Firm to present high-quality financial reports, aiming to gain trust and legitimacy from stakeholders. The CEO's power, moderated by the effectiveness of the Audit Committee, has a significant negative effect on KAP selection. This finding goes against the hypothesis proposed by the researcher. CEOs, leveraging their power, perceive that the Audit Committee effectively evaluates the audit reports from the external Public Accounting Firm, eliminating the need for the expensive Big 4 KAP. The competence of the Audit Committee optimizes the functioning of the external Public Accounting Firm for the company. Furthermore, the Audit Committee plays a crucial role in assisting the Public Accounting Firm in maintaining its independence from management. Foreign ownership also has a significant influence on KAP selection. Foreign investors who invest in companies have a greater need for high-quality financial statement information due to their limitations in accessing company information caused by geographical distance and a lack of direct control over the companies.

References

- Alfian, N., & Ah. Suryansyah. (2017). Pengaruh Efektivitas Komite Audit, Ukuran Perusahaan dan Leverage Terhadap Pemilihan Auditor Eksternal. *Jurnal Akuntansi Dan Investasi*, 2(2).
- Arens, A. A., Elder, & Beasley. (2015). *Auditing dan Jasa Assurance. Pendekatan Terintegrasi* (15th ed.). Erlangga.
- Balsam, S., Krishnan, J., & Yang, J. S. (2005). Auditor Industry Specialization and Earnings Quality. *SSRN Electronic Journal*, 1–46. <https://doi.org/10.2139/ssrn.436260>
- Darmadi, S. (2016). Ownership concentration, family control, and auditor choice: Evidence from an emerging market. *Asian Review of Accounting*, 24(1), 19–42. <https://doi.org/10.1108/ARA-06-2013-0043>
- DeAngelo, L. E. (1982). Mandated successful efforts and auditor choice. *Journal of Accounting and Economics*, 4(3), 171–203. [https://doi.org/10.1016/0165-4101\(82\)90008-8](https://doi.org/10.1016/0165-4101(82)90008-8)

- Diva Regina, A., Ina Yustina, A., Mahmudah, H., & Novita Dewi, C. (n.d.). *Work-Life Balance of Auditors Influenced by Work-Family Conflict and Supervisor Support Article Info*.
- Finkelstein, S. (1992). Power in Top Management Teams. *The Academy of Management Journal*, 35(3), 505–538. <https://doi.org/10.1057/9781137294678.0702>
- Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability*, 8, 47–77.
- Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2017). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*. SAGE Publications, Inc., SECOND EDI.
- Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019, January 14). When to use and how to report the results of PLS-SEM. *European Business Review*, 31(1), 2–24. <https://doi.org/10.1108/EBR-11-2018-0203>
- Hamdani, U. (2022). Determinants of Whistleblowing Within Local Government's Internal Auditors. *JFBA: Journal of Financial and Behavioural Accounting*, 2(2), 11–23. <https://doi.org/10.33830/jfba.v2i2.3926.2022>
- Harnovinsah. (2012). The Influence Of Audit Committee Quality, Board Of Commissioner's Quality, Institutional Ownerships, Management Ownerships Toward Earnings Management Practice And Financial Performance And The Implication Toward The Firm Value. *Akuntabilitas : Jurnal Penelitian Dan Pengembangan Akuntansi*, 6(2).
- He, X., Rui, O., Zheng, L., & Zhu, H. (2014). Foreign ownership and auditor choice. *Journal of Accounting and Public Policy*, 33(4), 401–418. <https://doi.org/10.1016/j.jaccpubpol.2014.04.002>
- Hendi, & Desiana. (2019). Pengaruh Biaya Audit, Audit Tenure Dan Rotasi Akuntan Publik Terhadap Pemilihan Auditor Eksternal: Studi Empiris Pada Perusahaan Bumn Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Benefita*, 4(1), 1–13. <https://doi.org/10.22216/jbe.v1i1.3811>
- Hörisch, J., Freeman, R. E., & Schaltegger, S. (2014). Applying Stakeholder Theory in Sustainability Management: Links, Similarities, Dissimilarities, and a Conceptual Framework. *Organization and Environment*, 27(4), 328–346. <https://doi.org/10.1177/1086026614535786>
- Houqe, M. N., van Zijl, T., Dunstan, K., & Karim, A. K. M. W. (2015). Corporate ethics and auditor choice - international evidence. *Research in Accounting Regulation*, 27(1), 57–65. <https://doi.org/10.1016/j.racreg.2015.03.007>
- Kartikahadi, H., Sinaga, R. U., Syamsul, M., & Siregar, S. V. (2012). *Akuntansi Keuangan Berdasarkan SAK Berbasis IFRS*. Salemba Empat.
- Khan, A., Muttakin, M. B., Siddiqui, J., & Firth, M. (2015). Audit fees, auditor choice and stakeholder influence: Evidence from a family-firm dominated economy. *British Accounting Review*, 47(3), 304–320. <https://doi.org/10.1016/j.bar.2015.03.002>
- Leung, N. W., & Cheng, M.-A. (2014). Corporate Governance Mechanisms and Auditor Choice: Evidence from China. *International Journal of Business and Management*, 9(9), 41–56. <https://doi.org/10.5539/ijbm.v9n9p41>
- Lumban Gaol, L. (2022). Work Experience in Moderating the Independence, Competence, and Motivation of Internal Auditors on the Effectiveness of Internal Control . *JFBA: Journal of Financial and Behavioural Accounting*, 2(1), 1–14. <https://doi.org/10.33830/jfba.v2i1.2855.2022>
- Markali, O. E., & Akuntansi. (2012). Hubungan Mekanisme Corporate Governance dengan Pemilihan Auditor pada Badan Usaha Sektor Keuangan yang Go Public di BEI Periode 2008-2010. *Jurnal Ilmiah Mahasiswa Universitas Surabaya*, 2(1).

- Matonti, G., Tucker, J., & Tommasetti, A. (2016). Auditor choice in Italian non-listed firms. *Managerial Auditing Journal*, 31(4–5), 458–491. <https://doi.org/10.1108/MAJ-07-2015-1215>
- Nafasati, F. P., & Indudewi, D. (2015). Pengaruh Mekanisme Internal Corporate Governance Terhadap Pemilihan Auditor Eksternal. *Jurnal Dinamika Sosial Budaya*, 17(2), 48–56. <https://doi.org/10.26623/jdsb.v17i1.502>
- O'Donovan, G. (2002). Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory. In *Accounting, Auditing & Accountability Journal* (Vol. 15, Issue 3, pp. 344–371). <https://doi.org/10.1108/09513570210435870>
- Ouyang, B., Liu, Z., & Sun, C. (2015). CEO Power and Auditor Choice. *International Journal of Finance & Banking Studies* (2147-4486), 4(4), 44–51. <https://doi.org/10.20525/ijfbs.v4i4.39>
- Palembangan, C., & Dewi, C. N. (2017). Kekuasaan CEO Dan Pemilihan Auditor. *Jurnal Riset Akuntansi Dan Keuangan*, 13(2).
- Prayugi, G. (2015). Pengaruh Kepemilikan Perusahaan, Corporate Governance, Dan Earnings Management Terhadap Tipe Auditor Dan Audit Fees. *Jurnal Akuntansi Indonesia*, 4(2), 109–122.
- Putra, T., Puspa, D. F., & Herawati. (2014). Analisis Mekanisme Corporate Governance dan Karakteristik Kepemilikan Perusahaan Terhadap Pemilihan Auditor Esternal. *Jurnal Fakultas Ekonomi Bung Hatta*, 4(1).
- Regina, A. D., Yustina, A. I., Mahmudah, H., & Dewi, C. N. (2022). Work Life Balance Auditor Influenced by Work Family Conflict and Support Supervisor. *JFBA: Journal of Financial and Behavioural Accounting*, 1(2), 47–64. <https://doi.org/10.33830/jfba.v1i2.2226.2021>
- Setiawan, A. S., & Karsana, Y. W. (2015). Faktor Representasi Stock Holder dan Debt Holder Berpengaruh terhadap Keputusan Pemilihan Auditor Berkualitas. *Jurnal Akuntansi*, XIX(03), 326–339.
- Simamora, A. J. (2022). Determinant Factors of Founding-Family Firms' Performance in Indonesia. *JFBA: Journal of Financial and Behavioural Accounting*, 1(2), 25–46. <https://doi.org/10.33830/jfba.v1i2.2334.2021>
- Sudiro, B. A., Ahmar, N., & Ardiansyah. (2022). Murabahah Financing, Musyarakah, Mudharabah, Istishna and Ijarah Against Sharia Banking Profit Sharing. *JFBA: Journal of Financial and Behavioural Accounting*, 2(2), 40–49. <https://doi.org/10.33830/jfba.v2i2.4182.2022>
- Trisnawati, I. (2015). Faktor Determinan Pemilihan Auditor Eksternal Yang Berkualitas. *Jurnal Bisnis Dan Akuntansi*, 17(2), 112–124.
- Yang, X., Jin, Z., & Tan, J. (2019). Foreign residency rights and companies' auditor choice. *China Journal of Accounting Research*, 12(1), 93–112. <https://doi.org/10.1016/j.cjar.2019.01.002>