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Firm Size as a Moderation Variable on The Effect of Inflation, Interest Rates, and Reputation of the Public Accounting Firm on Realized Stock Return

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Abstract: Return and risk are two things that cannot be separated. Market risk in the capital market arises due to the changing economic conditions of a country. This study aims to determine the effect of inflation, interest rates and the reputation of a public accounting firm on realized stock returns with firm size as a moderating variable. This research was conducted on companies included in the LQ45 index from 2017 to 2021. The type of data used in this research is quantitative data with a total sample of 129 companies. Hypothesis testing was carried out using multiple linear analysis and Moderated Regression Analysis. The results show that partially inflation and interest rates affect the realized return of shares and the reputation of the public accounting firm has no effect on the realized return of the stock. Firm size does not moderate interest rates and the reputation of public accounting firms on realized returns, but moderates inflation because when inflation occurs, investors tend to invest in large companies because large companies are considered to be able to survive in inflationary conditions.

Keywords: Inflation, Interest Rate, Reputation of Public Accounting Firm, Firm Size, Realized Stock Return

INTRODUCTION

Stocks are a type of investment that is preferred by investors because they have a higher return opportunity than other investment instruments. However, high returns also contain high risks or it can be said that investing in stocks means High Risk High Return (Husnan, 2015). The expected return by investors from a stock investment can be realized in capital gains. Capital gain is the difference between the purchase price and the selling price, if it generates a positive number it means the investment is growing and vice versa if it is negative it means the investment is loss. Capital gains are related to stock prices, the higher the market price indicates that these shares are also increasingly in demand by investors because higher stock prices will result in greater capital gains (Sondakh. J, et al, 2014).

Before making an investment, it is better for an investor to do an analysis of the existing risks first, because the risks of investing also need to be considered and to be an attention by investors. Because the risk and return are two things that cannot be separated. Risk and return have a positive relationship, the greater the risk that must be borne, the greater the return that must be compensated. The risk in the capital market is the risk that arises due to the country's changing economic conditions affected by recession and other economic conditions. The risk in investing in the capital market is a risk that cannot be eliminated by diversifying, because fluctuations in this risk are influenced by macroeconomic factors that can affect the market as a whole. Analysis of macroeconomic factors needs to be carried out such as monetary policy, foreign exchange rates, inflation and changes in interest rates. An investor needs to be aware of all the risks and uncertainties that may arise in the future. According to Tandelilin (2017) the macroeconomic factors that investors must watch out for are interest rates, inflation and foreign exchange rate. In this study, the risks in the capital market that will be measured against realized returns are inflation and interest rates. Investing in large companies whose financial statements are always audited by independent Public Accounting Firms (Big Four) such as PWC, Delloitte, Ernst & Young and KPMG can also minimize investment risk.

LITERATURE REVIEW

Positive Accounting Theory

The purpose of positive accounting theory is to explain and predict accounting practice. Explanations and predictions in positive theory are based on contractual processes or agency relationships between managers and other groups such as investors, creditors, auditors, capital market managers, and government agencies (Watss and Zimmerman, 1986) in (Hamonangan, 2020).

The positive approach emphasizes the importance of empirical research to test whether the accounting theory put forward in the accounting literature can explain accounting practices that are carried out and foresee the causes of phenomena that are currently occurring and their consequences or effects in the future. Positive accounting theory is an explanation or reasoning to show scientifically the truth of accounting statements or phenomena as they are in accordance with the facts. The assumption underlying empirical research on positive theory is that accounting information is an economic commodity and a political commodity, and each individual acts in accordance with his own rational interests.

Agency Theory

Agency theory is related to contractual relationships between members of a company or organization. Jensen and Meckling (1979) in Sudiarianti (2015) define an agency relationship as a contract in which one or more persons (principals) employ another person (agent) to perform an action on behalf of the principal, in which the agent is given the authority to make the best decision for principals.

The agency theory that began to develop refers to the fulfillment of the main objective of financial management, to maximize shareholder wealth. This wealth maximization is carried out by management called agents. The inability or unwillingness of managers to increase shareholder wealth gives rise to what is called an agency problem. In other words, agency problems will arise if the management/agent makes policies that are detrimental to the company owner/principal. This study uses agency theory as has been used in previous research and this agency theory is a concept that governs corporate governance. With this concept, this theory is expected to be the goal to convince investors that they will get a return on the funds they have invested.

Signalling Theory

Signaling theory was first put forward by Spence (1973) and then developed by Ross (1977) which states that the executive as owner of the information is better about his company and provides a signal or the latest information that reflects the condition of a company that is useful for the investor. Signals in the form of information will explain management's efforts to realize the wishes of company owners and this information is considered an important indicator for investors and other business people to make investment decisions.

Signaling theory emphasizes the importance of useful information for investors to determine the performance of a company. This theory provides a solution when information asymmetry occurs, this can be reduced by providing more information through cues to investors. Fundamental analysis presents company information that shows comparisons over time by making comparisons with other companies in the same industry (Charles P Jones, 2016).

Realized Stock Return

According to Lestari (2013) there are two types of returns, namely: realized return is a return that has occurred. This return is calculated using historical data. Return realization is important because it is used as a measure of company performance. Realization is also useful in determining expected return and future risk. Expected return is the return expected to be obtained by investors in the future.

Inflation

Inflation is an increase in the price of goods in general, or inflation can also be said to be a decrease in the purchasing power of money. The higher the price increase, the lower the value of money. An increase in the price of one or two goods cannot be called inflation, unless the increase is widespread and results in an increase in other goods. According to Putong (2013) a brief definition of inflation is the tendency of prices to rise in general and continuously. An increase in the price of just one or two goods cannot be called inflation. The condition for a continuous upward trend also needs to be underlined. Increases in prices due to, for example, seasonality, approaching holidays, disasters, etc., which are only temporary, are not called inflation.

Interest Rate

The interest rate is the amount of interest paid per unit of time. In other words, society has to pay for the opportunity to borrow money. The cost of borrowing money is measured in rupiah or dollars per year for every rupiah or dollar borrowed is the interest rate. Putong (2013) interest rate is the price that must be paid if there is an exchange between one rupiah now and one rupiah later. An increase in unreasonable interest rates will make it difficult for the business world to pay interest expenses and liabilities, because high interest rates will add to the burden on the company so that it will directly reduce the company's profits.

Reputation of The Public Accounting Firm

According to Subroto (2014), the reputation of a public accounting firm is a Public Accounting Firm (PAF) which has quality in auditing financial statements that can affect stock prices, both during the Initial Public Offering (IPO), and after the company is listed on the stock exchange. According to Cameran (2005) states, that PAF's reputation greatly determines the credibility of financial statements when: a reputable accounting firm is expected to be able to conduct audits more efficiently and have greater flexibility to complete audits on schedule. Auditors who work in large public accounting firms are seen as auditors with high reputation. PAFs that have a good reputation generally have greater resources (competence, expertise and capabilities of auditors, facilities, auditing systems and procedures used) compared to PAFs with a poor reputation.

Firm Size

According to Bambang Riyanto (2008: 313) states that firm size is the size of the company seen from the value of equity, sales value or asset value. In other words, firm size is a scale that can be calculated based on the total assets owned by the company or the level of net sales of a company.

Firm size is a scale on which the size of the company can be classified according to various ways, including: total assets, log size, sales and market capitalization, and others. The larger the company, the greater the total assets it has. To identify the size of the company can be seen from the total assets and resources owned by the company, large companies tend to have large assets and also have quality human resources.

The maturity stage of the company is determined based on total assets, the greater the total assets, it indicates that the company has good prospects in a relatively long period of time. This also illustrates that companies are more stable and more capable of generating profits than companies with small total assets.

Hypotesis Development

1. The effect of inflation on realized stock returns

When high inflation occurs, it causes an increase in the price of finished goods and raw goods, where an increase in the price of finished goods can reduce the purchasing power of customers so that the company's turnover also decreases, an increase in raw materials causes an increase in the company's production costs so that the company's income also decreases. The decline in the company's profits will have an impact on the company's stock price itself where market participants will respond negatively to the decline in company profits. So that investors will find it very difficult to get profits/returns from stocks when inflation occurs.

H_1: Inflation has an effect on realized stock returns

2. The effect of interest rates on realized stock returns

When inflation occurs, the government's policy through the central bank to control the rate of inflation is one of them by raising interest rates, raising this interest rate is to reduce the amount of money circulating in the community so that it indirectly forces people to save because the bank interest given is attractive. This increase in interest rates will encourage some investors to move their funds from the capital market to banking instruments such as deposits, because deposits are one of the investment instruments with very minimal risk. Besides that, the negative impact of an increase in interest rates on companies is that if the company has bank debt, then the interest expense borne by the company will also increase so that it will affect the profits of the company itself, decreased profits and the action of transferring funds to deposits by some investors will have a negative effect on the stock price, which will affect the stock return.

H_2: Interest rates have an effect on realized stock returns

3. The influence of the reputation of a public accounting firm on realized stock returns

An investor or potential investor in making a decision to buy a number of shares of a company, by first doing an analysis of these shares. This aims to see the quality, prospects and level of risk of shares. For making economic decisions, investors need information about the condition and financial performance of the company. Financial report analysis is needed to understand financial report information. Therefore, an accounting examination of the financial statements is necessary to reflect the actual condition of the company so that the financial statements are not manipulated, the financial statements must be assessed and evaluated by an independent institution, namely the Public Accounting Firm. Accountants are required to have an attitude of integrity, objectivity and also be independent. Accountants are expected to have these attitudes, if an accountant already has these three attitudes a good audit quality will result, but if it is the other way around, what might happen is a case of manipulation. With the manipulation of data in a financial report, the result is that the accounting profession is less trusted, so that the resulting audit quality will be questioned and its fairness is not trusted.

H_3: PAF's reputation has no effect on realized stock returns.

4. The effect of inflation on realized stock returns with firm size as a moderating variable

Large companies that have been established for a long time, and moreover, have gone through various kinds of financial crises that occurred, are considered by some investors to be able to survive in a state of inflation, because apart from having a strong capital structure, large companies also have an efficient production system in making their products, which means that the products created can be marketed at competitive prices, so it can be assumed that large companies when inflation occurs can continue to operate properly.

H_4: Firm size moderates the effect of inflation on realized stock returns.

5. The effect of interest rates on realized stock returns with firm size as a moderating variable

Risks in the capital market that arise due to changes in interest rates are reflected in the company's financial statements, where the ratio commonly used to measure this risk is the debt to equity ratio, where this ratio is used to assess the extent to which the equity owned by the company can be used to pay his debts. Financial report information regarding firm size provides information for interested parties regarding the condition of the company's total assets. If the company's financial performance is in better condition, many investors will entrust investment to the company so that incoming funds or as a means of internal funding can be used to maximize shareholder value. Firm size as a moderating variable can strengthen or even weaken the effect of the independent variable (interest rate) and the dependent variable (stock return). Companies with high total assets have abundant resources that can be allocated to support the company's operational activities. Unstable stock market conditions can cause stock prices to change. Based on the description above, the effect of interest rates on stock returns can be determined by the presence of firm size as a moderating variable that can strengthen or weaken the influence between the independent variables and the dependent variable.

H_5: Firm size moderates the effect of interest rates on realized stock returns

6. The effect of the reputation of a public accounting firm on realized stock returns with firm size as a moderating variable

Audit quality has an important role for stakeholders to make the right decision so that audit quality becomes the focus for all stakeholders in choosing PAF, the size of the company affects their professionalism, the bigger the size of the company, the more professional they are in carrying out their obligations.

PAFs that are included in the big four tend to have good audit quality, this is because in the big four PAFs there are auditors who are competent and have experience, so that audits produced by big four PAFs can be of higher quality than non-big four PAFs. Non-big four PAFs tend to have economic dependence on clients, so non-big four PAFs will compromise on clients regarding the financial statements to be audited, while big four PAFs do not have economic dependence on clients, big four PAFs are more focused on maintaining their reputation so that audit quality produced are of higher quality than non-big four PAFs.

H_6: Firm size moderates the effect of KAP's reputation on realized stock returns.

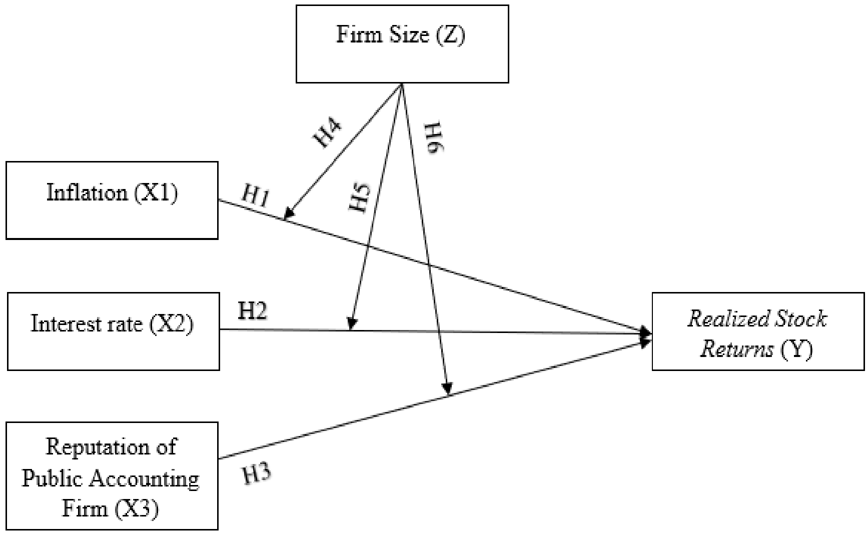

Figure 1. Conceptual Framework of the Study

METHODS

Types of Research

The type of research used in this study is explanatory research, namely research that explains the causal relationship between the independent variables and the dependent variable using a descriptive quantitative approach.

Operational Definition of Variables and Measurements

1. Realized Stock Return (Variable Y)

$$Return = \frac{Pt - P_{t-1}}{P_{t-1}}$$

Information:

P_t : Price now

P_{t-1} : Previous Period Price

2. Inflation (Variable X1)

Inflation data is data from Indonesia Central Bureau of Statistics or from Indonesian Central Bank. Inflation data used in this study is annual data obtained from the Indonesian Central Bank website from 2017-2021.

3. Interest rates (Variable X2)

The measurement used is a percentage unit and the data taken is interest rate at the end of the year obtained from the Indonesian Central Bank website starting from 2017-2021.

4. Reputation of Public Accounting Firm (Variable X3)

The measurement of this variable uses a dummy variable, a value of 1 if the company is audited by an auditor specializing in the industry, and 0 if others. So that in this study audit quality is measured using a dummy variable with a value of 1 if the audit of financial statements is carried out by The Big Four Public Accounting Firms, namely Price Water House Cooper–PWC, Deloitte, KPMG, and Ernst & Young, and a value of 0 if audit of financial statements is not carried out by the Big Four Public Accounting Firm.

5. Firm Size (Variable Z)

Firm Size : Ln (Total Asset)

Population and Research Sample

The population in this study are 769 companies listed on the Indonesia Stock Exchange until 2021. The sample in this study are issuers that are always included in the LQ45 Index on the Indonesia Stock Exchange from 2017 to 2021.

Types and Sources of Data

The type of data in this research is quantitative data. And the data source in this research is secondary data.

Data Analysis Methods

Methods of data analysis in this study using multiple linear regression and moderated regression analysis. Multiple linear regression analysis is used to determine the effect of three independent variables with one dependent variable displayed in the form of a regression equation. To test the regression with moderating variables, the technique used is MRA (Moderated Regression Analysis) or interaction test which is a special application of linear multiple regression where the regression equation contains an element of interaction (multiplication of two or more independent variables) with the following equation formula:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4Z + \beta 5X1Z + \beta 6X2Z + \beta 7X3Z + e$$

Information:

Y = Realized Stock Return
X1 = Inflation
X2 = Interest rates
X3 = Reputation of Public Accounting Firm
Z = Firm Size
X1Z = Interaction between Inflation and Firm Size
X2Z = Interaction between Interest Rates and Firm Size
X3Z = Interaction between Reputation of Public Accounting Firm and Firm Size
β = Koefisien
e = error term

RESULT AND DISCUSSION

Results

The t test is used to determine the effect of the dependent variable on the independent variables individually. If the value of Sig. <0.05, it can be said to be significant and said to be influential if $t_{count} > t_{table}$.

Table 1. T Test

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.

1	(Constant)	.090	.120		-.756	.451
	X1_Inflation	9.807	3.422	.312	2.865	.005
	X2_InterestRate	-5.832	2.694	-.237	-2.165	.032
	X3_PAFReputation	.076	.064	.103	1.190	.236
a. Dependent Variable: Y_RealizedStockReturn						

Based on table 1, the regression equation can be arranged as follows:

$$Y = 0.090 + 9.807X_1 - 5.832X_2 + 0.076X_3 + e$$

1. A constant of 0.090 means that if there is no change in the variable inflation, interest rates, and PAF's reputation, the value of realized stock return is 0.090, the value of inflation is 9.807 indicating that every 1% increase in inflation will increase the realized stock return by 9.807, the value of interest rates a negative value of -5,832 indicates that every 1% increase in interest rates will reduce realized stock returns by -5,832, the PAF reputation value is 0,076 indicating that every time the company is audited by the Big Four, it will increase realized stock returns by 0,076.
2. The effect of inflation on realized stock returns has a t_{count} value of 2,865 > of a t_{table} value of 1,657 indicating a positive direction and has a Sig value. 0.005 < 0.05 so it can be concluded that inflation has a significant effect on realized stock return.
3. The effect of interest rates on realized stock return has a t_{count} of 2,165 > of a t_{table} value of 1,657 indicating a negative direction and has a Sig value. 0.032 < 0.05 so it can be concluded that interest rates have a negative and significant effect on realized stock return.
4. The effect of PAF's reputation on realized stock return has a t_{count} value of 1,190 < of a t_{table} value of 1,657 indicating a positive direction and has a Sig value. 0.236 > 0.05 so that it can be concluded that PAF's reputation has no effect and is not significant on realized stock return.

Table 2. Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.590[a]	.349	.314	.3642
a. Predictors: (Constant), X3_PAFReputation, X1_Inflation, X2_InterestRate				

The R^2 value of 0.349 indicates that the independent variables Inflation, Interest Rates and PAF's Reputation are able to explain a change of 34.9% in the dependent variable Realized Stock Return. Meanwhile, 65.1% is influenced by other factors.

Table 3. Moderating Test X1Z

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.859	.302		-2.844	.005
	X1_Inflation	30.656	11.144	.976	2.751	.007
	Z_FirmSize	.033	.014	.784	2.357	.020
	X1Z	-1.208	.510	-1.180	-2.367	.019
a. Dependent Variable: Y_RealizedStockReturn						

Based on the table 3 above, the value of Sig. X1Z (Inflation * Firm Size) is 0.019 less then 0.05 which means it is significant, meaning that the firm size variable is a pure moderator variable that moderates the effect of inflation on realized stock returns.

Table 4. Moderating Test X2Z

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.236	.427		-.552	.582
	X2_InterestRate	3.600	9.185	.146	.392	.696
	Z_FirmSize	.013	.020	.304	.646	.519
	X2Z	-.239	.422	-.348	-.567	.572

a. Dependent Variable: Y_RealizedStockReturn

Based on the table 4 above, the value of Sig. X2Z (InterestRate * Firm Size) is 0.572 greater then 0.05 which means that firm size is not a moderator variable that moderates the influence between interest rates and realized stock returns.

Table 5. Moderating Test X3Z

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.475	.276		-1.719	.088
	X3_PAFReputation	.410	.291	.555	1.410	.161
	Z_FirmSize	.014	.010	.325	1.348	.180
	X3Z	-.012	.011	-.404	-1.061	.291

a. Dependent Variable: Y_RealizedReturnSaham

Based on the table 5 above, the value of Sig. X3Z (PAF Reputation * Firm Size) is 0.291 greater then 0.05 which means that firm size is not a moderator variable that moderates the influence between reputation of public accounting firm and realized stock returns.

Discussion

1. The Effect of Inflation on Realized Stock Returns

Based on the results of testing the first hypothesis (H_1), it shows that inflation has a significant effect on realized stock returns. The magnitude of the inflation value is 9,807, the t_{count} is 2,865 > of the t_{table} value of 1,657 indicating a positive direction and has a Sig value. 0.005 < 0.05 so it can be concluded that inflation has a significant and significant effect on realized stock returns. High inflation can hurt the economy as a whole and lower stock prices. However, when the inflation rate is too low, it will cause economic growth to be very slow and cause slow movement of stock prices.

2. The Effect of Interest Rates on Realized Stock Returns

Based on the results of testing the second hypothesis (H_2), it shows that interest rates have a negative and significant effect on realized stock returns. The value of the interest rate is -5,832, a t_{count} of 2,165 > of a t_{table} value of 1,657 indicates a negative direction and has a Sig value. 0.032 < 0.05 so it can be concluded that interest rates have a negative and significant effect on realized returns. When an increase in interest rates occurs, the impact on the company is that if the company has a large debt, then the debt interest expense that is borne is also large, so that it can affect cash flow and decrease profits, so that because of this information, investors tend to move their funds to safer investment instruments. namely time deposits because the interest is high, unless the company can maintain its performance so that investors remain in their investment in the company.

3. The Effect of Reputation of Public Accounting Firm on Realized Stock Return

Based on the results of testing the third hypothesis (H_3), it shows that the reputation of a public accounting firm has no effect and is not significant on realized stock returns. The magnitude of the PAF reputation value is 0.076, the t_{count} is 1.190 < of the t_{table} value of 1.657 indicating a positive direction and has a Sig value. 0.236 > 0.05 so it can be concluded that PAF's reputation has no effect and is not significant on realized stock returns. From the investors' point of view, companies audited by the Big Four Public Accounting Firms are more expensive than non-Big Four Public Accounting Firms. Investors tend to see efficiency from the company's audit side so they don't pay too much attention to the audit results issued so that there is no effect on the stock price. , because what affects the stock price is the audit results.

4. The Effect of Inflation on Realized Stock Returns with Firm Size as a Moderating Variable

Based on the results of testing the fourth hypothesis (H_4), it shows that firm size moderates inflation on realized stock returns. The interaction between inflation and firm size gets a value of 0.019 <0.05 which means it is significant meaning that the firm size variable is a pure moderator variable that moderates the effect between inflation and realized stock returns. This is because when inflation occurs, investors tend to look for security by investing their funds in large companies. In general, large companies that have been established for a long time, and moreover, have gone through various kinds of financial crises that occurred, are considered by some investors to be able to survive in a state of inflation, because apart from having a strong capital structure, large companies also have an effective and efficient production system in making its products, which means that the products created can be marketed at competitive prices, so it can be assumed that large companies when inflation occurs can still operate properly.

5. The Effect of Interest Rates on Realized Stock Returns with Firm Size as a Moderating Variable.

Based on the results of testing the fifth hypothesis (H_5), it indicates that firm size does not moderate interest rates on realized stock returns. The interaction between interest rates and firm size is 0.572 > 0.05 which means it is not significant, meaning that firm size is not a moderator variable that moderates the effect between interest rates and realized stock returns. This is because when interest rates increase investors will tend to time deposit their funds compared to investing in shares of even large companies. Even though the condition of a good company is characterized by stable asset ownership, it will later affect the level of return on shares that will be received by shareholders.

6. The Effect of Reputation of a Public Accounting Firm on Realized Stock Returns with Firm Size as a Moderating Variable.

Based on the results of testing the sixth hypothesis (H_6), it indicates that firm size does not moderate interest rates on realized stock returns. The interaction between PAF reputation and firm size is 0.291 > 0.05 which means it is not significant meaning that the firm size variable is not a moderator variable that moderates the influence between PAF reputation and realized stock returns. This is because investors tend not to pay much attention to who the company's financial statements are audited by, but pay more attention to the results of the audit. Investors tend to trust the Indonesian Stock Exchange, which always issues policies to protect investors, such as giving warnings to companies that have not submitted quarterly/semester/annual financial reports, and so on.

CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that:

1. Inflation has a significant and significant effect on realized stock returns, because when the economic situation is good with a low inflation rate, the economic turnover will be better which will also affect the company's performance which in the end will affect its stock price.

2. Interest rates have a negative and significant effect on realized stock returns, if interest rates are high it will cause stock prices to fall so that interest rates become one of the considerations for investors to invest, because investors are more interested in investing their funds in banks because interest rates are higher besides interest rates high interest rates will lead to high interest expenses on debt so that it can burden the company's income which will affect the stock price.
3. PAF's reputation has no effect on realized stock returns, because investors see that companies audited by Public Accounting Firms Big Four costs more than PAFs that are not Big Four, investors tend to look at efficiency in terms of company audits so they are not too concerned with the audit results issued so that there is no effect on the stock price, because what influences stock prices is the audit results.
4. Firm size moderates inflation on realized stock returns, because when inflation occurs, investors tend to look for security by investing their funds in large companies.
5. Firm size does not moderate interest rates on realized stock returns, because when interest rates increase investors will tend to deposit their funds compared to investing in shares of even large companies.
6. Firm size does not moderate PAF's reputation on realized stock returns, because investors tend not to pay too much attention to who the company's financial statements are audited by, but pay more attention to the results of the audit.

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