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The Effect of IFRS Adoption, Firm Performance, Audit Quality, Leverage, and Firm Size on Foreign Ownership

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ABSTRACT
IFRS and IAS are internationally accepted accounting standards issued by the IASC/IASB with the aim of uniform accounting standards throughout the world. In diversifying their investments, in addition to understanding the financial statements, investors also need to understand the firm performance and audit quality to increase confidence that the investment will generate profits in the future. The purpose of this research is to determine whether the IFRS adoption, firm performance, and audit quality will significantly affect foreign ownership. The method applied to process research data is a quantitative-descriptive method with unbalanced panel data of eighteen companies registered in the manufacturing sector from 2017-2020. From the results of multiple regression analysis using SPSS, it is known that IFRS adoption has a positive and insignificant effect on foreign ownership. Meanwhile, based on the research results, it is known that the firm performance and audit quality show significant positive results on foreign ownership.

Keywords: *IFRS Adoption, Firm Performance, Audit Quality, Foreign Ownership*

1. INTRODUCTION

Many investors have realized that it is important to diversify their investments. There is a theory that suggests investors diversify their investments as much as possible to maximize the returns on their investments and minimize risk, which is called the International Portfolio Theory. This makes many investors increasingly want to invest their money by diversifying their investments in companies in various countries to minimize risk and maximize potential profits in the future. However, diversifying by investing in various worlds is not easy. In addition to being hindered by the large costs that must be prepared by investors for maximum investment returns, there are also language limitations that make it difficult for investors to study the company and financial statements where investors will invest. So if foreign investors do not want to fall into a deviant investment, foreign investors need to study the company first.

With the adoption or convergence of international accounting standards into the local accounting standards of each country, it is expected that the financial statements presented will be similar or similar. The company's financial statements are very important because its role is as a liaison between the investment container and its investors. The financial statements that the company provides to third parties such as investors will help them in making various investment decisions. This financial report can convince investors to invest or not invest in the company because the financial statements can provide the analysis results needed by investors to make decisions.

Although there are many studies on foreign ownership, the results are still inconsistent. Mita et al. (2018) [1] show that foreign ownership has a significant positive effect on foreign ownership. Bajaher (2021) [2] show that firm performance has a significant positive effect on foreign ownership but audit quality has an insignificant positive effect on foreign ownership. Yatim et al. (2014) [3]

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1.1. Related Work

According to Signalling theory to the foreign ownership as an investor, regarding the company’s information comes from financial statements that are the liaison between company management and investors. The first party is said to have a role representing the company's internal (company management) and the second party is said to have a role representing the company's external parties. The first and second parties will be involved with each other and serve as signal senders and signal recipients. As a signal sender, the first party is expected to be able to convey information about the company from within the company so that it can be well received by the signal recipient. While the second party as a signal receiver is expected to receive the signal from the first party and use the signal as well as possible.

According to Modern Portfolio theory to foreign ownership as investment diversification, contains recommendations issued by Markowitz who want to suggest to his readers, especially for investors to diversify their investments to minimize investment risk. The theory tells that investor should wisely not put all their investments in one basket but it is better to diversify investments. If investors are not wise and put all their investments in one place, then when the investment loses in the future, it will have a bad impact on investors. So, investors need to consider the risk as minimal as possible with diversification.

Sadjiarto (1999) in Dewanti & Kiswara (2015) [4] argues that the reasons for adopting international financial standards such as IFRS and IAS are based on two things, namely internal and external. The company's internal reasons for adopting international accounting standards are because public companies are primarily required to use local standards that have adopted or adopted IFRS/IAS, while the company's external reasons that encourage adoption and convergence are one of them because of the benefits that companies will get in terms of investing with foreign investors. Foreign investors certainly prefer companies with financial reporting that follow international accounting standards because for foreigners it will be easier to understand than if they only use local standards, so it is clear that the most benefiting from the adoption or convergence of these international standards are foreign investors. Sulistiyowati et al. (2018) [5] argue that with the convergence of IFRS, the quality of the presentation of financial statements can increase. Miletkov (2014) [6] and Mita et al. (2018) [1] as previous researchers have provided research results that show a positive influence between the level of IFRS adoption and foreign ownership.

Investors must do a reset before investing to assess whether the company is worthy or not given the investment. Handayani et al. (2021) [7] argue that the company's performance is highly regarded by investors because good firm performance is expected to generate maximum income from the company's working capital and provide benefits for investors. The benefits of assessing the company's performance in addition to showing a series of achievements that have been achieved by the company can also be a guide for investors to develop a good investment strategy (Yuliyanti, 2014) [8]. Bajaher (2021) [2] as a previous researcher has found that ROA which in this study is a proxy for firm performance shows significant positive results on foreign ownership.

According to Fachruddin et al. (2017) [9], audit quality is an important point that needs to be considered by users of auditor reports such as investors because the published financial statements can be a basic reference for investors' decisions to invest. If the financial statements presented are of poor quality, this will have an impact on the opinion issued by the auditor. The bad opinion will harm investors because it can cause errors in investment decisions that have been made. The Center for Financial Reporting Reform (2009) [10] External auditing plays a key role in assuring that financial reporting is reliable and trusted so the quality audit is necessary to protect the public interest because the role of financial reports to provide information is very important for external users such as foreign investors. Another opinion was also expressed by Saronggalo & Siregar (2012) [11] with the existence of a high-quality audit, the information asymmetry that usually occurs between internal parties and external parties of the company can be avoided. Based on previous research conducted by Bajaher (2021) [2], Yatim et al. (2016) [3], and Miletkov (2014) [6] found that there is a positive relationship formed between the company's audit quality and foreign ownership.

1.2. Hypothesis Development

Globalization is currently making many countries more open to foreign investment for the sake of rapid economic progress so that many foreign countries become the destination of investors to invest because they are considered to have good opportunities. This will have an impact on the emergence of a new need for an international accounting standard such as a uniform IFRS/IAS to make it easier for investors to make investments. International accounting standards will help uniform policies in corporate financial reporting so that financial statements can act as a good liaison medium. In addition, countries that have adopted or converged IFRS/IAS will help reduce the investment costs that must be incurred by investors to study local accounting standards which are certainly different from accounting standards in the country of origin. From the description above, it can be concluded that the first hypothesis in the study is as follows.
H1. IFRS adoption has a significant positive effect on foreign ownership

The company's performance needs to be a concern, especially for internal parties to maintain the company's performance in a good position. Maintaining good firm performance in addition to being profitable for the company from internal and external sides. If viewed from the internal side, this can reflect that the company can manage time and can manage all resources well. From the external side, the value of good or bad firm performance will be seen in the financial statements and this can be used by investors as an intermediary tool between companies and investors. Both domestic investors and foreign investors, of course, will do a deep reset of the company that will be the place of investment so that companies that have good performance will certainly be more attractive to investors. From the description above, it can be concluded that the second hypothesis in the study is as follows.
H2. Firm performance has a significant positive effect on foreign ownership

Foreign investors who wish to diversify their investments to various countries to minimize the opportunity for investment risk. For this to be carried out properly, investors must swiftly see good profitable investment opportunities and research carefully about the investments to be carried out. In addition to considering the company's financial statements issued by internal parties, foreign investors also need to pay attention to audit activities. Companies with financial statements that have gone through audit procedures by large Public Accountant Firm will have a small chance of having a fraud risk compared to companies audited by smaller Public Accountant Firm. Besides that, foreign investors certainly trust large Public Accounting Firms which are also trusted in their home countries because they have many partners around the world such as PwC, KPMG, EY, and Deloitte. It is believed that large Public Accountant Firm will be able to provide audit services with better quality than smaller Public Accountant Firm. So from the description above, it can be concluded that the third hypothesis in this study is as follows.
H3. Audit quality has a significant positive effect on foreign ownership

1.3. Our Contribution

The research objective is to determine whether the level of IFRS adoption, company performance, and audit quality will significantly affect the level of foreign ownership. This study will examine the direct effect of the level of adoption of IFRS on foreign ownership, so it is different from previous research by Mita et al. (2018) [1] which examines the indirect effect between the level of IFRS adoption and foreign ownership

1.4. Paper Structure

This study uses a causal research method which has the aim of knowing the cause-and-effect relationship that will arise from the research variables (Hayati, 2020) [12]. Thus, this study uses one dependent variable and three independent variables. The dependent variable used is foreign ownership in a company and the independent variable used is the level of IFRS adoption, firm performance, and audit quality.

This study takes data samples from companies belonging to the manufacturing industry listed on the IDX from 2017-2020. There are two techniques in terms of taking research samples, namely probability sampling and non-probability sampling. This study will use a non-probability sampling technique because this technique does not provide different opportunities for each selected research subject. In this study, a purposive sampling design will also be taken, which is a technique for selecting samples according to predetermined criteria. This study has the following criteria: manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020; companies with consistent financial reporting periods ending on December 31; manufacturing companies that experienced consecutive profits for the period 2017-2020; companies that present financial statements in rupiah currency; companies that have at least 50% foreign ownership of the total.

The reason for choosing a manufacturing company with at least 50% foreign ownership is so that this research focuses on companies controlled by foreign owners as the majority shareholder. Foreign investment with foreign ownership that is greater than local ownership is usually not only for temporary ownership but for long-term investment. So that in this study it will be seen what factors are considered and which can influence the decisions of foreign investors when investing in very large amounts in a company.

2. METHODS

The foreign ownership variable is measured using the percentage of foreign ownership in a company by dividing the number of foreign shares by the total number of shares, the IFRS adoption variable is measured using the guidelines issued by the Hong Kong ICPA where differences in standard adoption will be classified into three categories. namely differences in transition provisions, differences in effective date, and text differences. This category of difference will act as a deduction from the initial score of IFRS/IAS adoption. Then there is the company's performance variable calculated using ROA by dividing net income by total assets. The audit quality variable which is a dummy variable is calculated by giving a score of 1 if the company is audited by a big-for Public Accountant Firm and 0 if the company is not audited by a big-four Public Accountant Firm.

The following is the equation of the research model

$$FOREIGN_{it} = \alpha_0 + \alpha_1\, IFRS_{jt} + \alpha_2\, FP_{it} + \alpha_3\, AQ_{it} + \varepsilon_{it}$$

Description:

$FOREIGN_{it}$	:	Foreign ownership in company *i* with year *t*
$IFRS_{jt}$	:	IFRS Adoption in country *j* with year *t*
FP_{it}	:	Firm performance in company *i* with year *t*
AQ_{it}	:	Audit Quality in company *i* with year *t*
ε_{it}	:	Error in company *i* with year *t*

Table 1 Variable Operationalization

No.	Variable	Scale	Measure
1.	Dependent Variable: Foreign Ownership	Ordinal	$FOREIGN = \frac{Jumlah\ saham\ investor\ asing}{Jumlah\ saham\ keseluruhan}\ X\ 100\%$
2.	Independent Variable: Level of IFRS Adoption (X1)	Nominal	$IFRS_t = \frac{\sum_{i=1}^{n}[(SA_{it}) - 0.25 \times (ST_{it} + SD_{it} + SK_{it})]}{\sum_{i=1}^{n} SIFRS_{it}}$ where $IFRS_t$, IFRS score in year *t* for each country; SA_{it}, *i*th standard adopted in year *t*; ST_{it}, *i*th standard adopted in year *t* with different transitional provisions; SD_{it}, *i*th standard adopted in year t with different effective date; SK_{it}: *i*th standards adopted in year *t* with different text; *n*, number of standards; and $SIFRS_{it}$, number of IFRS/IAS standards prevailing in year *t*.

3.	Independent Variable: Firm Performance (X2)	Ratio	$FP = \frac{Net\ Income_t}{Total\ Asset_t}\ X\ 100\%$
4.	Independent Variable: Audit Quality (X3)	Nominal	score 1 if audited by one of the 'big-four' Accountant Public Firm, score 0 if not audited by 'big-four' Accountant Public Firm

Table 2 The Result of Regression Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.275	.532		.482	.632
	X1 IFRS	.529	.635	.094	.834	.408
	X2 ROA	.311	.099	.353	3.150	.003
	X3 AUDIT	.108	.031	.380	3.418	.001

a. Dependent Variable: Y FOREIGN

The results of the classical assumption test in this study were declared all passed so that it could proceed to the descriptive statistic test. From the descriptive statistic result, it is known that the highest value of foreign ownership (Y) is 0.980700 and the lowest value is 0.520600. Furthermore, the standard deviation obtained from testing on this variable is 0.138652880. The highest, lowest, and standard deviation from the level of IFRS adoption (X1) are 0.8780, 0.8110, and 0.0245272. The highest, lowest, and standard deviation from firm performances (X2) are 0.921, 0.00045, and 0.15765. The highest, lowest, and standard deviation from audit quality (X3) are 1, 0, and 0.490. Based from the regression test, it is known that the adjusted R square value in the study is 0.237, which means that the level of IFRS adoption, company performance, and audit quality is only able to explain foreign ownership by 23.7% while the remaining 76.3% is explained by other variables. Then the results of the F-test in the study amounted to 7.436 with a significant level of 0.000, it can be concluded that all related variables studied, namely foreign ownership has a simultaneous effect on the independent variables studied, namely the level of IFRS adoption, company performance, and audit quality.

Based on the regression model on table 2, it is known that the constant value is 0.257 which means that if the variables of IFRS adoption (X1), firm performance (X2), and audit quality (X3) are ignored, the independent variable, namely foreign ownership (Y) has a value of 0.257. Then the analysis will be continued with a partial test or T-test to see the effect of each independent variable on the related variables. The coefficient value of the IFRS adoption (X1) is known to be 0.529, which means it can indicate that if the IFRS adoption increases by one unit, the foreign ownership variable will increase by 0.529 units. The value of the company's performance coefficient (X2) is known to be 0.311, which means it can indicate that if the company's performance increases by one unit, the foreign ownership variable will increase by 0.311 units. The value of the audit quality coefficient (X3) is known to be 0.108, which means it can indicate that if the audit quality has increased by one unit, the foreign ownership variable will increase by 0.529 units.

3. FINDINGS AND DISCUSSIONS

This study aims to determine the relationship formed between the independent variables of IFRS adoption (X1), firm performance (X2), and audit quality (X3) on foreign ownership (Y). The level of confidence in this study has been set at 95% and with a significance level of 5%. The research data used have also passed the classical assumption test such as multicollinearity test using tolerance and

VIF, heteroscedasticity test, autocorrelation test using Durbin-Watson, and normality test using Kolmogorov-Smirnov.

Based on the regression results using SPSS version 25.0, it is known that the level of IFRS adoption, firm performance, and audit quality simultaneously have a significant positive effect on foreign ownership. Then for the partial regression results, it was found that there were different results for each independent variable. The level of IFRS adoption has an insignificant positive effect on foreign ownership because the significance value of X1 is greater than the significance value set by the researcher, which is 5%. Then it is known that the company's performance and audit quality have a significant positive effect on foreign ownership because the significance value of X1 is greater than the significance value set by the researcher, which is 5%.

Regarding the level of IFRS adoption, the results of the study show a positive and insignificant relationship, which means that the level of IFRS adoption does not have a positive effect on foreign ownership so hypothesis one is rejected. The results of this study contradict the previous research conducted by Mita et al. (2018) [1] with the results of the level of IFRS adoption which influences foreign ownership. Investors in investing do not focus on the level of IFRS adoption because only a few countries have fully adopted IFRS. This causes accounting standards to be only similar but not the same because there are still differences in accounting standards between one country and another even though almost all countries are adopting them gradually. The difference in adoption makes foreign investors not consider the level of IFRS adoption in the country where they invest, even though almost all countries are adopting it gradually so that the level of IFRS adoption does not affect foreign ownership in a country.

Regarding the company's performance, the research results show a significant positive relationship which means that the company's performance has a positive influence on foreign ownership so the second hypothesis is accepted. The results of this study are in line with previous research conducted by Bajaher (2021) [2] and Yatim et al. (2016) [3] which examines the relationship between ROA which in this study is a proxy for firm performance. Investors, especially foreign investors, in making investment decisions need to prepare strategies and anticipate investment risks as well as possible so that their investments can provide maximum added value. One of the most widely

used ways by investors to prepare their investment strategies is to analyze the company's financial statements and see the company's performance. If the company is equipped with good firm performance, investors' interest in investing is also great because the company is considered to be able to provide large profits to investors.

Regarding audit quality, the research results show a significant positive relationship which means that audit quality has a positive effect on foreign ownership so that the third hypothesis is accepted. The results of this study are in line with previous research conducted by Bajaher (2021) [2], Miletkov (2014) [6], and Yatim et al. (2016) [3] who examined the relationship between audit quality and foreign ownership. Foreign investors who want to diversify their investments according to the recommendations of modern portfolio theory need to calculate what risks they will face when they invest. The investment costs that must be borne by foreign investors are also greater, of course, because there are language limitations that are not understood. So it is good for investors to be careful and consider the decision carefully. One thing that can be considered by investors is audits carried out on public companies because the role of the auditor is to detect fraud so that the financial statements received by investors can be trusted and relied on to make decisions. Large-sized Accountant Public Firms and are known throughout the world such as the big four are believed to be able to present auditors' financial reports with the best quality so that it will increase investor confidence to invest.

4. CONCLUSIONS

This research aims to determine the effect of the independent variables of the study, namely the level of IFRS adoption (X1), firm performance (X2), and audit quality (X3) on foreign ownership (Y). There are several criteria in this study such as: manufacturing companies listed on the IDX from 2017-2020, companies whose reporting period ends on December 31, companies that experience consecutive profits from 2017-2020, companies that present financial statements in rupiah currency, and companies that have at least 50% foreign ownership of the total. After applying the above criteria, there were twelve companies with a total of 63 samples. The analysis used in this study is a multiple linear regression analysis using the SPSS version 25.0 application. From the test results, it can be concluded that simultaneously all independent variables in this study have a significant positive effect on foreign ownership, but it can also be concluded that partially, the level of IFRS adoption does not have a positive effect on foreign ownership, while firm performance and audit quality have a positive effect on foreign ownership. The limitations of this study should be used as learning for future researchers so that they can use more varied independent variables and also future research is not limited to the scope of manufacturing companies only

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