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The Effect of Non-Executive Directors and Institutional Ownership on Firm Size: The Role of Audit Committee as a Moderating Variable

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ABSTRACT

Purpose : The study explores the influence of non-executive directors (NED) and institutional ownership on firm size. Additionally, it examines the role of the audit committee as a moderating variable.
Method : The research uses data from the annual reports on the Indonesia Stock Exchange (IDX). The research focuses on the banking industry from 2019 to 2023 with 105 units of analysis. The study employs moderated regression analysis (MRA) to assess the relationship among the variables.
Findings : The results indicate that non-executive directors and institutional ownership have a negative effect on firm size. In addition, the audit committee significantly contributes to moderating the relationship between non-executive directors (NED), institutional ownership, and firm size. This study contributes to companies where the audit committee can mitigate the adverse effects of corporate governance and reinforce governance structures to promote firm growth.
Novelty : As far as the researcher's knowledge, this is the first research that examines the role of the audit committee as a moderating variable on the framework of the relationship between non-executive directors, institutional ownership, and firm size.

INTRODUCTION

Firm size is an essential component for the stability of companies. Firm size is a fundamental indicator in determining resources, production capacity, and the company's ability to compete with other companies. Company size is one of the elements in accessing funding and attracting investors to invest. Therefore, company size is very important for the sustainability of a company. Company size can be influenced by several factors, including board structure, institutional ownership, effectiveness of corporate governance, and the composition of the audit committee that oversees strategic decision making (Almomani et al., 2023). Firm size serves as a key indicator of business success. In addition, firm size is not only a determinant of firm performance but also of environmental performance. Furthermore, firm size contributes to environmental performance. Hence, firm size should be considered for all stakeholders. Large companies have superior access to resources, technology, and global markets. Conversely, larger companies encounter great challenges in managing risk. In addition, large companies also face bureaucratic challenges and minimal flexibility. Hence, companies need good corporate governance.

Several banking scandals have occurred. One of them is the case of Silicon Valley Bank (SVB), one of the best banks in the United States, but surprisingly went bankrupt. This bank has high profitability and a fairly large company size, but it still went bankrupt. The collapse of Silicon Valley Bank (SVB) in 2023 shows that large companies need strong corporate governance (Van Vo & Le, 2023). In addition, banking cases in Indonesia, such as the Bank Century case, show that large-scale banking does not guarantee good corporate governance, resulting in large losses (Sitepu & Utami, 2023).

Corporate governance is essential in supporting risk management and achieving company performance as measured by company size. One key aspect of corporate governance is the role of non-executive directors, which must be given careful attention. Non-executive directors (NEDs) who are not directly involved in operational acti-

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vities can act as strategic supervisors. Although non-executive directors (NEDs) are often considered to strengthen supervision, too many of them can have a negative impact on the size of the company (Adithipyangkul & Leung, 2018). On the other hand, institutional ownership can also improve corporate governance through supervision from institutional shareholders. This condition is able to provide an effect of increasing the size of the company (Ghazi H Sulimany, 2024). However, other research states that the existence of institutional ownership actually hinders companies from carrying out business expansion and limits risk taking by management so that the company's size does not experience a significant increase (Tariq & Naveed, 2016).

The involvement of non-executive directors (NED) and institutional ownership can positively impact the company. Non-executive directors can increase objectivity in decision-making, thus positively impacting accountability (Li & Ming, 2024). The large number of NEDs encourages companies to adopt innovative and efficient strategies (Rehman, 2024). Innovative and efficient corporate management will encourage firm size. In addition, institutional ownership can reduce agency problems and prevent manipulation practices by executives (Salehi et al., 2021). On the contrary, the reality in the business world does not align with the research. The involvement of non-executive directors can increase financial transparency, but its impact on company growth is not yet understood (Singhania & Panda, 2025)

Institutional ownership is the ownership of shares by large institutional companies, which can be in the form of companies, insurance, and others (Badwan & Awad, 2023). Institutional ownership is strongly motivated to ensure management goals, namely the company's long-term interests. Further, institutional ownership has been shown to positively impact return on assets (Ha & Hiep, 2019). An increase in return on assets means an increase in firm size. Institutional ownership has a positive relationship with firm performance (Queiri et al., 2021). In addition, firm size is important for firm performance, including environmental performance (Hidayah et al., 2022). In addition, institutional ownership can encourage companies to expand. This is because institutional ownership has a vast network, so it can encourage growth. Institutional ownership provides growth opportunities (Sakawa & Watanabel, 2020). However, previous research believes that institutional investors put more pressure on management to behave efficiently and focus on profitability. This condition leads companies to limit themselves in terms of growth and make firm size decrease (Adithipyangkul & Leung, 2018; Saepudin, 2019). The institutional ownership tends to have a negative impact on firm size.

Non-executive directors (NEDs) is member of board who perform control management function. Due to the two-tier system in Indonesia, this study uses the non-executive director variable, which is an independent commissioner. The function of a non-executive director are expected to have the capability to provide strategic supervision and direction (Tweed & Wallace, 2021). However, the results of the study have different perceptions regarding their role in the company, especially in achieving company size. NEDs who are not directly involved in company operations tend to have little information. This condition reflects weaknesses and inefficient decision-making (Abdel-Azim & Soliman, 2020). Institutional ownership has a significant influence on corporate decision-making, which impacts the size of the company. One of the key elements in corporate governance is the audit committee. However, institutional ownership puts pressure on management to focus on operational efficiency and return on investment. This condition triggers management to ignore company expansion and focus more on profitability without increasing firm size (Umam & Halimah, 2021).

Many previous studies have had inconsistent results regarding the direction and influence of non-executive directors and institutional ownership on firm size, and there are not many studies that test the effects of both in one model. In addition, there is a lack of research that uses the audit committee as a moderator, even though the role of the audit committee is very strategic in the governance mechanism. An effective audit committee can increase accountability and supervision, which directly impact the scale of operations. Referring to the agency theory, which believes there is a conflict between investors and company management. So the presence of the audit committee and NED can suppress the agency conflict (Jensen & Meckling, 1976).

The audit committee plays a crucial role in enhancing company performance (Alzeban, 2020). This committee has a strategic position to support any agenda of companies that is focused on increasing firm size. Company performance will increase if the audit committee's meetings are held frequently. Moreover, another study believes that audit committee meetings can improve performance in family firms (Al-Okaily & Naueihed, 2020). In addition, audit committee meetings can increase company performance, especially in financial companies listed on the Amman Stock Exchange (ASE) (Alqatamin, 2018). Previous studies have discussed the role of the board in company performance (Alajmi & Worthington, 2023; Merendino & Melville, 2019; Noja et al., 2021). Research on non-executive directors has also been conducted at the NHS UK (Tweed & Wallace, 2021). However, the audit committee's role is rarely studied (Hidayat et al., 2022). Furthermore, the role of the audit committee in the context of the relationship between institutional ownership and firm size remains underexplored (Ghazi H Sulimany, 2024). The audit committee plays a crucial role in overseeing the financial reporting process and internal controls, particularly in relation to institutional ownership and non-executive directors, to support the company's growth.

Therefore, this study is important to investigate how the ownership structure, represented by institutional ownership, and governance, represented by non-executive directors, impact the company's size, with the audit committee as a moderator. Limited research explicitly examined the audit committee's moderating effect in this framework. In addition, the study focuses on the banking sector because the industry in this sector has a vital role in the national financial and economic system (Tsindeliani et al., 2022). Furthermore, banking manages public funds directly, so it has a high systemic risk.

Theoritical Background

Based on agency theory, it states that in a company, there is a relationship between agent and principal. This relationship has a gap that causes a conflict of interest. (Jensen & Meckling, 1976). Therefore, the existence of a conflict of interest can be minimized by external and internal supervision. The presences of non-executive directors is one element in external supervision that is considered effective in suppressing conflict of interest (Chen et al., 2020). A high number of non-executive directors can hamper decision-making and thus have a negative impact on the size of the company (Garba & Mohamed, 2018). In addition, the ownership structure has its own role in suppressing opportunistic management behavior (Holly et al., 2022). Institutional investors tend to choose risk avoidance, thus limiting managers' actions to increase the size of the company. The existence of institutional ownership that is too conservative in expansion has the potential to reduce the size of the company. Furthermore, the audit committee is one of the internal monitoring mechanisms that can booster the effectiveness of corporate governance. The existence of an audit committee is able to provide supervision of management activities. In addition, an effective audit committee can improve the quality of supervision by non-executive directors and maintain the stability of asset growth (Ghazi H Sulimany, 2024). Hence, according to agency theory, conflicts of interest can be minimized with a reliable monitoring mechanism.

Indonesia is a country that implements a two-tier system of corporate governance. Therefore, the non-executive directors referred to independent commissioners. Non-executive directors (NEDs) have the main task of ensuring that the company runs well in terms of governance (Tweed & Wallace, 2021). According to the agency theory, it is believed conflict of interest happened in company, where management has a lot of information but the company owner has very little (Jensen & Meckling, 1976). Therefore, supervision by non-executive directors is very important. Previous study believe that increasing the number of non-executive directors can suppress company performance (Adithipyangkul & Leung, 2018). This condition is caused by the addition of NED, which only increases the size of the organizational structure but does not increase the efficiency of the company. Furthermore, the more non-executive directors, the more incentives must be paid. This increase in the amount of compensation actually increases the company's costs so that the company cannot focus on business expansion to increase the size of the company. Hence, increasing the number of non-executive directors does not always provide contributions to the size of company (Goh & Gupta, 2016)Ha.

A large number of non-executive directors actually slows down the decision-making process (Saravanan et al., 2016). This delay in decision-making impacts company performance, leading to the development of a passive company size. Therefore, non-executive directors influence company performance in non-financial companies (Marashdeh et al., 2021). Non-executive directors negatively impact company growth. Non-executive directors tend to be risk-averse and tend to restrict management's capabilities. Non-executive directors tend to have greater influence over dividend policy, thus limiting strategic decisions regarding company size and growth (Tayachi et al., 2023). Non-executive directors are cautious, and decision-making during economic expansion is complex. While the presence of non-executive directors can provide strategic insights to support company growth, a large number of non-executive directors actually suppresses company size. The greater the number of non-executive directors, the greater the negative impact on company size.

H_1: Non-executive directors have a negative and significant effect on firm size

Institutional ownership refers to investors from a specific institution or organization. Institutional ownership involves investors from banking institutions, insurance companies, and others (Badwan & Awad, 2023). This type of investor has high credibility and preference when investing their funds. Furthermore, institutional ownership impacts company performance (Herdjiono & Sari, 2017)

Referring to the agency theory perspective, a conflict of interest always happen between shareholders and company management (Jensen & Meckling, 1976). Therefore, external governance mechanisms are needed to mitigate this conflict of interest. When institutional ownership is high, managers tend to feel more scrutinized and discourage overinvestment, which only increases the company's size without increasing its value. Strong institutional ownership can monitor managerial actions related to company growth decisions. Institutional investors can encourage management to be more frugal and avoid being lured by the pursuit of company size as a symbol of reputation. This is certainly in line with agency theory, which suggests that oversight by majority owners can reduce opportunistic managerial behavior. Research in Japan shows that higher institutional ownership improves company performance (Abedin et al., 2022). Furthermore, institutional ownership motivates management to perform more optimally (Dhifi & Zouari-Hadiji, 2024).

Conversely, high institutional ownership has the potential to pressure management to maintain efficiency and refrain from disproportionately increasing company size. Institutional ownership impacts company performance, as measured by return on assets (Al-Ahdal et al., 2023). Furthermore, institutional ownership pressures management to avoid high-risk investments, thus preventing optimal company size growth ((Dirman et al., 2019; Rusnaeni et al., 2022). Institutional ownership tends to discourage unpromising market expansion (Abedin et al., 2022; Akmalia

& Aliyah, 2022). The high levels of institutional ownership push the company to focus on risk management and avoid aggressive actions. Companies with high institutional ownership actually reduce real investment, resulting in a decline in company assets (Cella, 2020). Therefore, institutional ownership negatively impacts company size.

H_2: Institutional ownership has a significant negative effect on firm size

The audit committee has a strategic power in corporate governance. It is a committee within a company that focuses on controlling management functions, particularly in the process of preparing financial statements. Agency theory believes that the audit committee is a corporate oversight mechanism capable of suppressing management behavior that could potentially create conflicts of interest (Jensen & Meckling, 1976). An effective audit committee can strengthen the NED in overseeing management. Non-executive directors can ensure management complies with applicable accounting standards and regulations. Implementing the audit committee's duties and functions effectively can influence non-executive directors to be more effective in policy-making. These policies include business expansion and restructuring processes. An effective audit committee within the company will assist non-executive directors in overseeing the company's strategy. An audit committee that can optimally complete its duties will increase company growth (Almujamed & Alfraih, 2020).

The audit committee handle a more crucial role in the relationship between non-executive directors and company size. The effectiveness of the audit committee can ensure independent oversight by non-executive directors over the company's strategic policies, especially in terms of company size (Almomani et al., 2023). Thus, the audit committee can minimize the risk of errors in decision-making that focus on the interests of non-executive directors. Large companies tend to have complex transactions and a volatile business climate. These conditions require non-executive directors to be more active in overseeing strategic decisions. The audit committee as an internal control mechanism can ensure that non-executive directors act objectively (Garba & Mohamed, 2018). An effective audit committee can minimize conflicts of interest between principals and agents (Mansour et al., 2022; Saari et al., 2020). Non-executive directors play a role in providing input on the company's strategic and operational policies. The audit committee can balance the influence of non-executive directors when determining policies (Okolo & Sinebe, 2025). This is because the audit committee has access to the company's financial information to provide accurate and detailed analysis of company data (Singhania & Panda, 2025). The audit committee can encourage NEDs to behave in accordance with company policies that do not harm the company's interests and focus on increasing company size as a measure of company performance (Singhania & Panda, 2025). Therefore, the third hypothesis is as follows

H_3: The audit committee can moderate the relationship between non-executive directors and firm size

Agency theory believes that owners and agents have different interests (Jensen & Meckling, 1976). The presence of institutional ownership indicates that the company accommodates multiple interests. Institutional ownership is an effective external governance mechanism to mitigate agency conflicts. However, its effectiveness can be influenced by internal governance mechanisms like the audit committee. Furthermore, the majority of companies aim to achieve higher profits. This encourages company management to maximize profits through various means. Therefore, an audit committee is necessary to oversee and ensure the company's operational efficiency (Swastya et al., 2023). Furthermore, institutional investors have an interest in profiting from their investments. Therefore, the audit committee ensures that both parties achieve the company's goals harmoniously (Rudiatun & Anggorowati, 2024). The audit committee acts as a bridge between the two parties. It acts as a liaison between institutional ownership and management. The audit committee is tasked with ensuring that management meets investors' interests. High frequency of audit committee meetings indicates audit committee effectiveness (Alzeban, 2020).

In contrary, audit committees with a high frequency of meetings also contribute to lower firm size (Ben Barka & Legendre, 2017). Audit committees strengthen the influence of institutional ownership on firm size. This relationship can encourage sustainable growth and achieve firm efficiency. High oversight can increase opportunities for further development (Sakawa & Watanabel, 2020). An effective audit committee can increase corporate

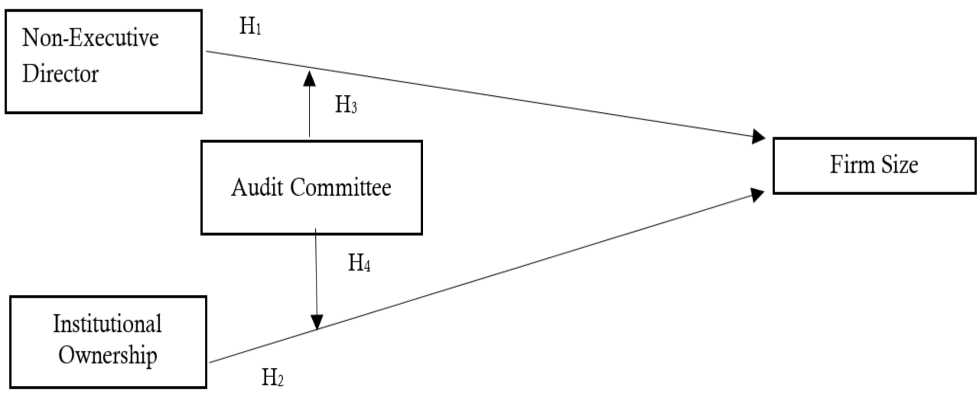

Figure 1. Research Framework

Table 1. Criteria for Sample Selection

No	Criteria	Total
1	Banking entities officially recorded on the Indonesia Stock Exchange (IDX) in the period 2019-2023	46
2	Banking companies that do not provide complete data required for the study	(25)
Banking companies selected as samples		21
Observation Years 2019 to 2023		5
Number of unit analysis (21x 5)		105

transparency, thereby strengthening the governance mechanisms and external oversight carried out by institutional ownership (Ghazi H Sulimany, 2024). Audit committees encourage institutional ownership to focus on increasing firm size. Audit committees can provide guidance to institutional ownership to focus on firm efficiency in line with good governance (Ratnawati et al., 2019). Therefore, this study believes that audit committees can moderate the relationship between institutional ownership and firm size. The proposed research framework is illustrated in Figure 1.

H_4: The audit committee can moderate the relationship between institutional ownership and firm size

RESEARCH METHODS

This study uses panel data. The research used indirect information sourced from published yearly financial statements. The population for this study includes every company registered on the Indonesian Stock Exchange, while the sample is drawn explicitly from the banking industry. The banking industry was chosen because the banking sector across multiple nations contributed significantly to economic growth (Pratami et al., 2022). The observation period was five (5) years, from 2019 to 2023 (Table 1). This research used 21 banking companies that met the research data needs. This study used independent variables such as non-executive directors and institutional ownership. The dependent variable is firm size. The moderating variable used is the audit committee meeting during a year.

This study uses a dependent variable in the form of firm size. The independent variable consists of institutional ownership and non-executive director (NED). The moderating variable is the audit committee. Based on Table 2. Variable Measurement presents the approach for each variables used in this study. Data analysis uses Moderating Regression Analysis (MRA). Furthermore, research in the socio-economic field uses significance levels of 5% and 10% (Manderscheid, 1965). Hence, this study accomodir the level significance of 5% and 10%. This study uses an analysis tool, namely E-views 13. The research model equation consists of regression without moderation (Equation 1) and regression with moderation (MRA) (Equation 2).

$$Y = C(1) + C(2)*NED + C(3)*IO \quad \text{......} 1$$

$$Y= C(1) + C(2)*NED + C(3)*IO + C(4)*Z + C(5)*(NED* Z) + C(6)*(IO* Z) \quad \text{......} 2$$

RESULTS AND DISCUSSIONS

Based on Table 3. Descriptive Analysis shows the minimum value for firm size is 29.20 and the maximum va-

Table 2. Variable Measurement

Variables	Definition	Measurement
Non-executive Director	A non-executive director is an independent commissioner in a company who has no family relationship with the board of directors or controlling shareholders. The NED's duties include supervising management and protecting the interests of stakeholders (Handriani & Robiyanto, 2019)	This measure by the proportion of independent commissioners divided by the total board members (Marashdeh et al., 2021)
Institutional Ownership	The overall percentage of ownership held by institutional investors, including insurance companies, cooperatives, or others (Sakawa & Watanabel, 2020)	Derived by comparing the amount of shares owned by instituions to the firm's total outstanding share (Sakawa & Watanabel, 2020)
Audit Committee	The audit committee is a committee that plays a role in supervising financial reporting, risk management and compliance (Mardjono et al., 2020)	The total of audit committee meeting during a year (Alzeban, 2020)
Firm Size	Firm size is a reflection of the company's economic capacity and resources (Musa et al., 2024)	Firm Size = Ln Total Assets (Lechner & Gatzert, 2018)

Table 3. Descriptive Analysis Results

Variable	Minimum	Maximum	Mean	Std. Deviation
Firm Size	29.20	35.32	32.42	1.72
Institutional Ownership	0.3961	0.9997	0.89	0.16
Non-Executive Director (NED)	0.33	1.00	0.59	0.10
Audit Committee	4	41	15.30	8.93

lue is 35.32. The mean value is 32.42, while the standard deviation is 1.72. This shows that the firm size of banking companies listed on the Indonesian Stock Exchange has a homogeneous distribution. The relatively large company size shows that most research samples have large assets and operations. This is reasonable because the banking industry has high minimum capital requirements and large-scale intermediary activities (Almomani et al., 2023).

For NED, the minimum value is 0.33 with a mean of 0.59 and a maximum of 1.00. This condition indicates that, in general, the companies in the sample have at least one-third to all independent commissioners. This condition is in accordance with the provisions of the Financial Services Authority regarding the proportion of independent commissioners in the company structure.

The minimum value for the institutional ownership variable is 0.3961, while the maximum is 0.9997. The mean is 0.89 with a standard deviation of 0.16. This condition shows that most companies in the sample have a high average ownership level of 89% and relatively minor variations. The high proportion of institutional ownership does not encourage the creation of efficient governance practices because it all depends on the audit committee (Abedin et al., 2022).

The audit committee variable, which is proxied by the number of meetings during a year, shows a mean value of 15. The minimum value is 4, and the maximum value is 41. The average value is 15.30 with a standard deviation of 8.93. Therefore, this study shows that most banking companies in Indonesia have complied with OJK regulations regarding the minimum number of audit committee meetings, which is once every quarter (four times a year). However, some companies have meetings 41 times a year. This condition can not guarantee that the companies are in a stable condition. The higher number of meeting sometimes show an ineffective audit committee (Dakhlallh et al., 2021). Hence, the companies should consider the number of audit committee meetings.

Table 4, the data test results show the probability value in the Chow test is below 0.05, while the cross-section F and cross-section for Chi-Square are 0.0000. Therefore, the fixed effect model (FEM) was selected. In addition, the Hausman test shows the probability value in the random Cross-section of 0.0000. This condition indicates that the selected model is the fixed effect model (FEM). For VIF on NED, institutional ownership and audit committee are 1.036752, 1.024008, and 1.013629. This condition means that there is no multicollinearity when a variable has a VIF value of less than 10.

The adjusted R-squared shows a value of 0.996715. This value indicates that this research model can explain the firm size variable by 99.7%, while variables beyond this study account for the remaining 3%. Moreover, based on Figure 2. The results of the heteroscedasticity test show that the graph does not cross the limits (500 and -500). This identifies the same residual variance so there are no heteroscedasticity symptoms.

Based on Table 5. The Result of the Regression Analysis Using Eviews shows the statistical significance value of the NED variable of 0.0128 and the coefficient value of -61.17563. This means that non-executive directors have a significant negative impact on firm size at 5% level of significance. Hence, H_1 is accepted. Furthermore, the institutional ownership variable's value is substantial at 0.0949 with a coefficient of -68.38054. This condition shows that institutional ownership negatively and significantly affects firm size at a 10% significance level. Hence, H_2 is accepted. The formulation of these results is shown by Equation 3.

$$Y= 3288.537 - 61.17563NED - 68.38054IO \quad \text{......} 3$$

Table 6. Results of Moderated Regression Analysis using Eviews show results that support the hypothesis. The significance value for the audit committee as a moderating variable between NED and firm size is 0.04 with a coefficient value of 11.25325. This shows that the audit committee can moderate the relationship between NED and

Table 4. Data Testing Results

Component	Value
Chow Test (Cross-section F; Cross-section Chi-square)	Prob.= 0.0000; Prob.= 0.0000
Hausman Test (Cross-section random-prob.)	Prob= 0.0000
Multicolinearity Test with VIF (NED; IO; AC)	1.036752; 1.024008; 1.013629 < 10
Adjusted R-Squared	0.996715

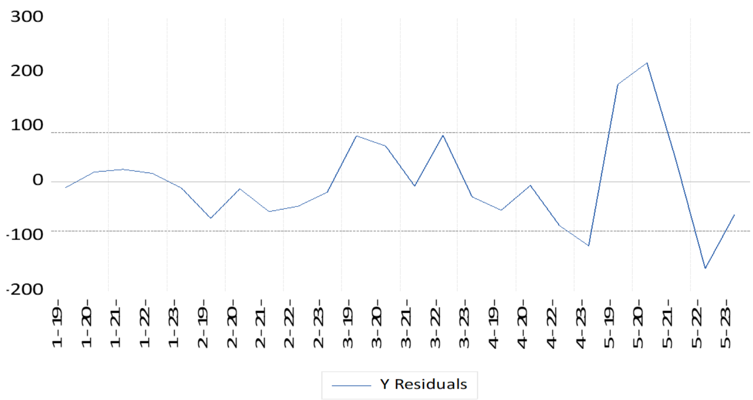

Figure 2. Heteroscedasticity Test Results

firm size in a positive direction, so H_3 is accepted. The presence of an audit committee positively impacts the relationship between NED and firm size. Next, the value of the IO audit committee as a moderating variable between institutional ownership and firm size is 0.0200, which is significant at 5% level, and the coefficient is -0.000174. This shows that the audit committee has the capacity to influence the strength of the relationship between institutional ownership and firm size.

Hence, the audit committee can increase the negative influence of NED on firm size. Moreover, the audit committee can decrease the relationship between institutional ownership and have a negative impact on firm size. Hence, the formulation is shown by Equation 4. Overall, the decisions regarding the hypotheses are summarized in Table 7.

$$Y=3384.495-180.8101NED - 94.26348IO - 5.271035Z+ 11.25325(NED \times Z)-0.000174(IO \times Z) \quad ....4$$

Non-Executive Directors Have a Significant Negative Effect on Firm Size

The results show that the presence of non-executive directors negatively impacts firm size. This finding supports agency theory, which suggests that oversight by the board, particularly non-executive directors, can inhibit inefficient expansion. The greater the number of non-executive directors, the greater the control over management. This makes it difficult for management to expand the firm. Furthermore, a large number of non-executive directors increases incentive costs, negatively impacting firm growth (Adithipyangkul & Leung, 2018). Furthermore, the greater the number of non-executive directors on the board, the smaller the firm size. This finding aligns with previous findings that non-executive directors focus on supervision and control, thus limiting business expansion (Chen et al., 2020). Furthermore, the presence of non-executive directors can improve internal control mechanisms (Ngoc & Phuong, 2023; Truong & Nguyen, 2024). A certain proportion of non-executive directors slows down strategic decisions (Scholtz & Kieviet, 2018). This, in turn, leads to a decrease in company size.

Non-executive directors focus solely on compliance and implementing appropriate oversight systems. This type of non-executive directorship tends to be far removed from involvement in the company's operational systems. Consequently, innovation within the company tends to be minimal, resulting in less than optimal long-term growth. Furthermore, a large number of non-executive directors can create problems with transition and expansion to larger shareholdings (Chowdhury & Wang, 2020). The greater the number of non-executive directors, the greater their perception of the company's growth. This situation exacerbates conflicts within corporate governance. Furthermore,

Table 5. The Result of Regression Analysis Using Eviews

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NED	-61.17563	21.83710	-2.801454	0.0128**
IO	-68.38054	38.51614	-1.775374	0.0949*
Z	0.978849	0.570286	1.716417	0.1054
C	3288.537	34.87168	94.30396	0.0000
R-squared	0.997715	Mean dependent var		3215.000
Adjusted R-squared	0.996715	S.D. dependent var		210.2557
S.E. of regression	12.05073	Akaike info criterion		8.077329
Sum squared resid	2323.520	Schwarz criterion		8.470013
Log likelihood	-88.92794	Hannan-Quinn criterion.		8.181508
F-statistic	997.9424	Durbin-Watson stat		0.695196
Prob(F-statistic)	0.000000			

Notes: ** Indicates significance at the 0.05 level; *significance at the 0.1 level

Table 6. Results of Moderated Regression Analysis using Eviews

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NED	-180.8101	57.68524	-3.134425	0.0073
IO	-94.26348	33.65525	-2.800855	0.0142
Z	-5.271035	3.405095	-1.547985	0.1439
NEDZ	11.25325	5.123855	2.196247	0.0454**
IOZ	-0.000174	6.64E-05	-2.624767	0.0200**
C	3384.495	53.23070	63.58164	0.0000
R-squared	0.998630	Mean dependent var		3215.000
Adjusted R-squared	0.997750	S.D. dependent var		210.2557
S.E. of regression	9.973676	Akaike info criterion		7.732112
Sum squared resid	1392.639	Schwarz criterion		8.222968
Log likelihood	-82.78535	Hannan-Quinn criterion.		7.862337
F-statistic	1134.163	Durbin-Watson stat		1.340799
Prob(F-statistic)	0.000000			

Notes: ** Indicates significance at the 0.05 level; *significance at the 0.1 level

the level of incentives received by non-executive directors also impacts their motivation to engage in strategic activities aimed at increasing company size (Adithipyangkul & Leung, 2018). Disagreements between non-executive directors tend to slow down decision-making. This situation can be caused by minimal involvement of non-executive directors in company operations, low incentives, and lengthy bureaucracy in decision-making. The existence of appropriate policies will encourage non-executive directors to contribute positively to the company's size. Borrowing concepts from agency theory, companies need internal mechanisms to resolve conflicts of interest. Therefore, companies must reconsider the composition of non-executive directors in this situation. Furthermore, companies need to involve non-executive directors further in achieving business strategies. NEDs tend not to increase company size because a large company size will make it difficult for companies to transform to global economic changes. The greater the number of NEDs, the smaller the company size because the funds owned are used to finance NEDs rather than to purchase company assets.

Institutional Ownership Has a Significant Negative Effect on Firm Size

The test results show that institutional ownership has a negative effect on firm size at a significance level of 0.10. Thus, H_2 is accepted. This condition indicates that the higher the institutional ownership, the more difficult it is for the firm to grow. Institutional investors actually impose restrictions on increasing firm size. Based on agency theory, institutional ownership can minimize conflicts of interest (Jensen & Meckling, 1976). The higher the proportion of institutional ownership, the stronger the control over management, thus restricting management's freedom to expand the business and decreasing assets. Furthermore, institutional ownership control influences business strategy and company expansion policies in determining firm size (Dirman et al., 2019; Umam & Halimah, 2021). The presence of institutional ownership is associated with a higher dividend policy, thereby reducing corporate funding to increase firm size (Saepudin, 2019). Institutional ownership is more often used to strengthen the capital structure, thereby reducing firm size (Handriani & Robiyanto, 2019). Institutional ownership has a negative impact on firm size. This is in line with other research findings showing that institutional ownership can also reduce a company's real investment level, thereby reducing its size in the long term (Cella, 2020). Institutional ownership is negatively related to company size in developing countries (Meilanda et al., 2025). Furthermore, institutional ownership that supports opportunistic management behavior negatively impacts company performance (Nashier

Table 7. Summary of Hypothesis test

Hypothesis	B	Sig.	t	Result
Non-executive directors have a negative and significant effect on firm size	-61.17563	0.0128**	-2.801454	Accepted
Institutional ownership has a significant negative effect on firm size	-68.38054	0.0949*	-1.775374	Accepted
Audit committees can moderate the relationship between non-executive directors and firm size	11.25325	0.0454**	2.196247	Accepted
Audit committees can moderate the relationship between institutional ownership and firm size	-0.000174	0.0200**	-2.624767	Accepted

Notes: ** Indicates significance at the 0.05 level; *significance at the 0.10 level

& Gupta, 2016). This occurs because some institutional investors do not actively carry out their supervisory role, creating opportunities for collaboration with management. This collaboration is carried out to safeguard short-term business interests and reduce the quality of governance, thus hampering company growth. The greater the institutional ownership in a company, the more difficult it is for the company to increase its size. This is because companies are more encouraged to focus on distributing larger dividends rather than purchasing company assets

The Audit Committee Can Moderate the Relationship Between Non-Executive Directors and Firm Size

The results of this study showed a significance level of 0.0454, which is less than 0.05. This indicates that H3 is accepted. This study proves that the presence of an audit committee serves as a moderating factor in the relationship between non-executive directors and company size. This means that when the audit committee works effectively, the negative impact of non-executive directors on company size can be reduced. Therefore, the audit committee can act as a balancing factor in strategic decision-making related to increasing company size.

Agency theory believes that information asymmetry between the principal and agent creates a conflict of interest (Jensen & Meckling, 1976). This conflict of interest can be minimized by the existence of an audit committee. The audit committee is considered an internal oversight mechanism that safeguards the interests of the principal (Ali, 2024). The audit committee can strengthen the relationship between non-executive directors and company size. The audit committee can strengthen governance effectiveness and improve organizational performance. Therefore, the existence of an effective audit committee can mitigate the negative impact of non-executive directors. A strong audit committee can increase the effectiveness of monitoring non-executive directors. The audit committee plays a crucial role in achieving good corporate governance. It ensures the accountability of policies adopted by the NED (Pathiraja et al., 2022). Regular audit committee meetings can provide input to non-executive directors on various strategic decisions to increase the company's size. Following previous research, this study shows that the audit committee can balance the influence of the NED on a company's strategic decisions (Garba & Mohamed, 2018). Audit committee oversight can suppress the NED's opportunistic behavior, thus achieving optimal company size. Furthermore, an audit committee is essential for overseeing NED decisions in the financial sector, which focuses on optimizing company size (Okolo & Sinebe, 2025). The existence of an audit committee can enhance the optimization of a company's strategic decisions (Singhania & Panda, 2025). Furthermore, institutional ownership can ensure long-term policy stability (Alodat et al., 2023). This condition certainly has a positive impact on company size. The more stable a company's long-term policies, the more likely it is to increase company size. Therefore, the audit committee plays a role in the affect between NED and firm size. Thus, this study proves that the audit committee significantly moderates the relationship between non-executive directors and firm size. The existence of an effective audit committee can mitigate the negative influence of non-executive directors on firm size. In other words, the audit committee can increase the effectiveness of the non-executive directors' oversight role in terms of firm growth

The Audit Committee Can Moderate the Relationship Between Institutional Ownership and Firm Size

The results showed a significance value of 0.0200, which is less than 0.05, thus accepting H4. This study demonstrates that the audit committee can amplify the negative effect of institutional ownership on firm size. Therefore, when the audit committee is effective, investor pressure to limit business expansion is stronger.

This study demonstrates that the audit committee acts as a moderating variable in the relationship between institutional ownership and firm size. The more effective the audit committee, the more negative the effect of institutional ownership on firm size. In other words, the audit committee amplifies the negative impact of institutional ownership on firm size. Based on agency theory, the audit committee is a monitoring mechanism that can mitigate conflicts of interest (Jensen & Meckling, 1976). This role enables the audit committee to suppress inefficient managerial decision-making. The existence of an audit committee can strengthen the corporate governance mechanism, namely institutional ownership, to appropriately control firm size.

Furthermore, institutional ownership encourages companies to focus on profits and dividend distribution while neglecting asset growth. This condition causes a decline in firm size from an asset perspective. The presence of an audit committee helps encourage companies to meet the interests of institutional investors rather than increasing company assets. This aligns with the audit committee's role of protecting investor interests (Almarayeh, 2024; Almarayeh et al., 2022). Furthermore, the audit committee can strengthen the position of institutional investors within the company. The audit committee's role can mitigate the negative effects of institutional ownership on company size. The greater the proportion of share ownership by institutions, the more effective the audit committee is in encouraging institutional investors to reduce company size to maintain proportionate or manageable size. This is because larger companies increase their operational costs, which in turn reduces profits. In addition, Investors are more focused on profits than company size.

CONCLUSIONS

This study examines the connection between non-executive directors and institutional ownership on firm size. This study also uses the audit committee as a moderating factor in the relationship between independent and dependent variables. Research indicates that H_1, H_2, H_3, and H_4 are accepted. Non-executive directors and institutional ownership have a negative influence on firm size. This study proves that the audit committee has a moderate effect on institutional ownership and firm size. The existence of an effective audit committee can strengthen the influence of institutional ownership on firm size. The presence of an audit committee that works effectively encourages institutional ownership to be more courageous in any company's actions. This leads to management being more careful in making high-risk decisions. Institutional ownership directs management toward cost efficiency and increased investment returns rather than expansion. Furthermore, the audit committee affect the linkage between non-executive directors and firm size. Optimally, an audit committee can reduce the negative effects of non-executive directors on firm size.

This study offers a tremendous contribution to academics and regulators. For academics, this study broadens the understanding of the perspective of the role of the audit committee in the context of the relationship between NED and institutional ownership on firm size. From this point, it gives a perspective that an audit committee could enhance corporate governance and protect the firms from potential conflicts between shareholders and management. For companies, this study highlights the significance of the composition and functions of the board of directors as well as the role of the audit committee within the company. Therefore, companies should consider the composition of non-executive directors and improve the audit committee's performance. However, it should be noted that this study has limitations. There are two limitations to this research. First, these findings may be limited to the specific banking industry. Therefore, future studies should consider exploring this relationship in other types of industries. Second, this research only focuses on institutional ownership, even though there are many types of ownership in companies. Hence, the next research should examine different ownership settings, including government ownership and family ownership.

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