Research Article

The Influence of Institutional Ownership, Managerial Ownership, and Board of Commissioners on Agency Costs

Nugi Mohammad Nugraha[1], Deden Novan Setiawan Nugraha[2], Bulan Tati Fitria[3], Annisa Ayunitha[4], Hesti Wuri Sulastri[5]

[1]Faculty of Economics & Business, Widyatama University Bandung
[2]Faculty of Economics & Business, Widyatama University Bandung
[3]STIE Pasundan, Bandung
[4]Faculty of Economics & Business, Widyatama University Bandung
[5]Faculty of Economics & Business, Widyatama University Bandung
nugi.mohammad@widyatama.ac.id[1], deden.novan@widyatama.ac.id[2],
bulan@stiepas.ac.id[3],annisa.ayunitha@widyatama.ac.id[4], hesti.wuri@widyatama.ac.id[5]

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Abstract: This research aims to determine the effect of institutional ownership, managerial ownership, and the board of commissioners for agency costs in basic industrial sector companies and chemicals listed on the Indonesia Stock Exchange for the period 2015-2019. The independent variables used in this study are institutional ownership, managerial ownership, and the board of commissioners. Meanwhile, agency cost is the dependent variable used in this study. Secondary data is the data used in this study with a total of 60 companies used as a population and 15 companies used as samples in companies in the basic industry and chemical sectors. This study uses multiple linear regression and statistical analysis methods of classical assumption test data. The results of this study indicate that institutional ownership has a positive influence on agency cost. However, managerial ownership and board of commissioners variables have a negative effect on agency cost.

Keywords: Agency Cost, Board of Commissioners, Corporate Governance, Institutional Ownership, Managerial Ownership

1. Introduction

The capital market has a very important role for the economy of a country because the capital market is a meeting place for companies that need funds for business development or additional working capital with parties (the public) who have more funds to invest. The capital market in Indonesia consists of various kinds of industries, one of which is the basic industry and chemicals. The basic industrial sector and chemicals are some of the sectors that play an active and prominent role. This is because the basic industrial sector and chemicals can stimulate the productivity of society. The industrial and chemical sectors have links to imported raw materials and have very large initial investment requirements (Pudyastuti, 2000)**.** The basic industry and chemical sectors have very clear objectives because the basic industry and chemical sectors have the objective of meeting human needs in the long term and indirectly the basic industry and chemical sectors illustrate the large role of society in carrying out the production process. This makes investors increasingly interested in investing in the basic industry and chemical sector (Christina, 2013). The products we use in our daily life are products made by basic industrial companies and chemicals listed on the IDX. This sector consists of the cement sub-sector, the animal feed sub-sector, the ceramics, glass and porcelain sub-sector, the metals and similar sub-sectors, the chemical sub-sector, the plastics and packaging sub-sector, the wood and processing sub-sector, and the pulp and paper sub-sector.

Companies that are included in and participate in the basic and chemical industries consist of investors or shareholders who invest in the company and managers or managers of the capital required by the company to carry out its operational activities properly so that the company's goals can be achieved and generate optimal profits. For this goal to be achieved by what is expected by both parties, a functional contractual agreement is needed so that both parties (investors and managers) can carry out their duties properly and avoid agency conflicts.

Agency conflicts usually occur due to problems that arise between the two parties, namely investors and managers. The difference in interests between investors and managers is an agency conflict that often occurs. According to agency theory, agency conflict can occur because the company manager or management wants to increase the wealth they have so that management is more concerned with itself to get optimal income compared to the company's goals to be aimed at.

Company managers who have contributed highly to the performance they have done optimally to the company also want to get feedback in the form of high wages or salaries by the performance that has been given to the company. Likewise, on the other hand, company owners or shareholders often only want high-profit income for themselves, which aims to increase the wealth they already have. The existence of differences in objectives like

this or differences in interests that occur between the two parties that cause agency conflicts can be resolved or minimized by incurring agency costs. In supervising the management's actions to carry out their duties properly by the agreement between the two parties, namely investors and company managers, to achieve the company's goals, agency costs are required.

In minimizing the conflicts that can occur between shareholders and stock managers, good corporate governance is required. Company managers must apply a predetermined process or pattern in running the company which aims to increase the income received by shareholders while still paying attention to the earnings of all parties involved and having a high-performance contribution to the company. The implementation of corporate governance can have a positive impact on all parties. The company's objectives will be achieved optimally and agency conflicts can be minimized if the rights that should be obtained by both parties, namely investors and stock managers are guaranteed. This will also benefit all parties concerned (Angelina, 2020).

Based on this explanation, the authors are interested in researching whether institutional ownership, managerial ownership, and the board of commissioners can affect agency costs in basic industrial and chemical sector companies listed on the Indonesia Stock Exchange for the period 2015-2019 or not. Agency cost is measured by selling and general administrative (SGA), while corporate governance is measured using variables of institutional ownership, managerial ownership, and the board of commissioners.

2. Literature review

Agency Theory

Agency Theory explains the separation relationship that occurs between the function of company management performed by managers and the function of company ownership carried out by shareholders. This agency relationship can occur when one party or shareholder employs another party or agent to provide services and then delegates decision-making authority to the agent he trusts to manage the company. An increasing company value accompanied by increased shareholder wealth is a goal desired by managers and shareholders because both will benefit (Brigham, E. F., & Houston, 2011). However, sometimes managers act in their interests against the wishes of shareholders so that conflicts that occur between managers and shareholders can be called agency conflicts. This agency conflict itself can occur because managers whose rights are not fulfilled properly are due to shareholders who are not responsible for providing appropriate wages or salaries (Wongso, 2013).

Agency Costs

There are differences in interests or because of asymmetric information that results in agency conflicts that occur between shareholders or company owners and agents or managers, which can lead to agency cost Jensen and Meckling (1976). Agency costs that occur due to agency conflicts consist of monitoring costs, bonding costs, and residual losses according to (Wirahadi Ahmad, A., & Septriani, 2008). Monitoring costs are costs incurred by shareholders to monitor, measure, observe and control the behavior of managers to act by predetermined contracts. Examples of monitoring costs are audit fees, costs of establishing a manager's compensation plan, costs to impose budget restrictions, and costs incurred to establish operating rules. Meanwhile, bonding costs are costs incurred by managers to provide guarantees by establishing and complying with existing mechanisms so that managers can act according to the wishes and interests of shareholders (Ayunitha, 2020). An example of these bonding costs is the costs incurred by managers to provide financial reports to shareholders, where these costs can be incurred if these costs can reduce monitoring costs. Residual loss is a cost incurred when managers take actions that are sometimes different from actions that maximize shareholder interests. The agency cost formula is as follows:

$$Agency\ Cost\ = \frac{Operating\ Expenses}{TotalSales\ of}$$

Corporate Governance

Every company must implement good corporate governance, so that the condition of the company can be said to be healthy and good which allows it to attract investors to invest in the company because there is prosperity given to shareholders or company owners and its company managers (Gitman, 2012). If a company fails to implement corporate governance, then the company may experience financial difficulties which in turn will have an impact on shareholders and managers of the company itself. Corporate governance consists of institutional ownership, managerial ownership, the number of independent commissioners in the company, and the number of directors in the company according to (Cinantya, I. G. A. A. P., & Merkusiwati, 2015).

Meanwhile, the notion of corporate governance itself is corporate governance which explains the relationship between various participants involved in a company which has a function to determine the direction and performance of the company to create value for all interested parties according to Santoso, in (Kusanti, O., & Andayani, 2015). According to Agusti in Kusanti (2015) explains that 5 basic principles of corporate governance have been written in the general guidelines for good corporate governance in Indonesia, namely: transparency, accountability, responsibility, independence, and fairness.

Institutional Ownership

Shleifer and Vishney, in Arianandini (2018) have an opinion that institutional ownership in a company can improve supervision carried out by institutions to make it more optimal by playing an important role in monitoring, disciplining, and influencing the performance of managers so that they are more careful in making decisions and not taking opportunistic actions. Institutional ownership is the ownership of company shares owned by an institution or institution such as insurance companies, investment companies, banks, and other institutional ownership according to Permanasari, in (Arianandini, P. W., & Ramantha, 2018).

Damayanti and Susanto (2015) argue that institutional ownership based on the size and voting rights they have, should be able to force managers to stay focused on their performance towards the company and avoid selfish behavior so that managers can maximize shareholder welfare. Institutional ownership can be measured by the proportion of shares owned by the institution at the end of the year which is expressed as a percentage with the following formula:

$$Institutional\ Ownership\ = \frac{\Sigma\ Institutional}{Shares\ \Sigma\ Outstanding\ Shares}$$

Managerial

Ownership Managerial ownership is the ownership of company shares owned by the manager who also serves as shareholders in the company (Christiawan, Y. J., & Tarigan, 2007). If a company has managerial ownership, then a manager who is also a shareholder will certainly align his interests, policies, and decisions as manager and shareholder. Managerial ownership can help unify interests between managers and shareholders, so that managers can directly experience the benefits of the decisions taken and also bear the losses as a consequence of making wrong decisions, so that the equality of These interests can minimize the occurrence of agency conflicts according to (Hidayah, 2015). Managerial ownership is calculated by comparing the number of shares owned by the manager at the end of the year with the total number of shares outstanding according to (Anita, A., & Yulianto, 2016). Managerial ownership can be formulated as follows:

$$Managerial\ Ownership\ = \frac{\Sigma\ Managerial\ Shares}{\Sigma\ Circulating\ Shares}$$

Board of Commissioners

Independent commissioners are commissioners who have no family or business relationship with the directors or shareholders which can affect their ability to act neutrally and independently in the interests of the company according to Adam in (Candradewi, I., & Sedana, 2016). The existence of an independent board of commissioners in a company can reduce agency problems and prevent opportunistic behavior because this board of commissioners can function to supervise the company, to minimize agency costs. Candradewi and Sedana (2016) argue that the board of commissioners is a supervisory body that has the authority to supervise directors and managers in each of their activities in carrying out their operational activities to achieve company goals. If independent supervision is weaker than the executive power in a company, it will have a negative impact on the downfall of the company. Independent board of commissioners, measured using the proportion indicator for the number of commissioners in the company with the following formula:

$$Board\ of\ Commissioners\ = \Sigma\ Members\ of\ the\ Board\ of\ Commissioners$$

3. Research Hypothesis

Based on the theoretical study and relevant research results that have been stated above, this research hypothesis is formulated as follows:

H1: Institutional ownership has a positive effect on *agency costs* for basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2015 - 2019

H2: Managerial ownership has a positive effect on *agency costs* for basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2015 - 2019

H3: The Board of Commissioners has a positive effect on *agency costs* in basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2015 - 2019

4. Research methodology

The research method used in this study uses a hypothesis through processing and statistical data testing, namely by verificative descriptive analysis where the research results are processed, then conclusions are drawn (Issn & Nariswari, 2020; Nugraha, N. M., & Riyadhi, 2019; Wijaya, 2020). The type of data used in this study is panel data (Octavia, 2020; Susanti, 2020; Widajatun, 2020). Panel data is a type of data that is a combination of time-series data processing and cross-section data processing (Nugraha, N. M., Fitria, B. T., Puspitasari, D., & Damayanti, 2020; Susyana, 2021).

The unit of analysis of this research is the basic industrial sector companies and chemicals listed on the Indonesia Stock Exchange during the study period 2015 to 2019. The population used in this study is 60 companies. While the sample used in this study amounted to 15 companies. The purposive sampling method is used in this study to select the companies to be studied (Setiawan, 2021; Taohid, 2021; Widajatun, 2019). The definition of purposive sampling method, itself is a sample selection method using certain criteria in selecting the appropriate sample (Amalia, 2020; Nugraha, 2021). The sample criteria used in this study, namely:

1. Basic Industrial and Chemical Companies listed on the Indonesia Stock Exchange in the 2015-2019 period.
2. Basic Industry and Chemical Companies that present their financial statements consistently during the period of observation.
3. Basic Industry and Chemical Companies that have a Board of Commissioners in succession in their company during the observation period.
4. Basic Industry and Chemical Companies which part of the shares are owned by the institution and management respectively during the observation period.

5. Result and discussion

Panel Data Regression Results

Table 1. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	- 2.565643	0.282001	-9.097983	0.0000
	0.554284			
	1.824832			1.01147
Institutional Ownership	0.0722			5
	0.651586			
	-0.615308			-
Managerial Ownership	0.5403			0.400926
	0.036835			
	-0.445313			-
Board of Commissioners	0.6574			0.016403

Source: Eviews Processed Data, 2021

Based on the panel data regression results above, the panel data regression equation model can be formed as follows:

$$\mathbf{Y = -2.565643\,C + 1.011475\,X_1 - 0.400926\,X_2 - 0.016403\,X_3 + e}$$

The regression equation above can be interpreted as follows: The

1. Constant in the regression model above is -2.565643 which indicates that at the time of institutional ownership, managerial ownership, and the board of commissioners, the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange is equal to zero, then agency fee (agency cost) will decrease by 2.565643.
2. The regression coefficient value for institutional ownership is 1.011475, indicating that if institutional ownership increases by one unit, the agency cost in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange will increase by 1.011475.
3. The regression coefficient value of managerial ownership is -0.400926 indicating that if managerial ownership increases by one unit, the agency cost in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange will decrease by 0.400926.
4. The regression coefficient value for the board of commissioners is -0.016403, indicating that if the board of commissioners increases by one unit, the agency cost in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange will decrease by 0.016403.

F-Test Model

Table 2. Result of F-Test

R-squared	0.126835	Mean dependent var	-0.163295
Adjusted R-squared	0.089940	SD dependent var	0.126126
SE of regression	0.120321	Sum squared resid	1.027875
F-statistic	3.437781	Durbin -Watson stat	1.661411
Prob (F-statistic)	0.021331		

Source: Eviews Processed Data, 2021

Based on the f model test table above, it can be seen that the probability $F_{calculated}$ has a smaller value of 0.021331 of 0.05, which indicates that the variables of institutional ownership, managerial ownership, and the board of commissioners have a linear relationship with agency cost or the estimation model used in the study is correct at the 95% confidence level.

Determination Coefficient Test (R^2)

Based on table 2. above in the Adjusted R-squared section, you can see the magnitude of the determination coefficient in the research model (R^2) equal to 0.089940 or by 8.99%, which means that the variation in the dependent variable is the cost of the agency (agency cost) can be explained by variations in the independent variables are institutional ownership, managerial ownership, and the board of commissioners. While the rest, 91.01% is influenced by other variables not included in this study.

Hypothesis test (t-test)

Table 3. Result of t-Test

Variable	t	$\propto_{count}$	Conclusions
Institutional Ownership (X_1)	1.824832	0.0722	Not Significant
Managerial Ownership (X_2)	-0.615308	0.5403	Not Significant
BOC (X_3)	-0.445313	0.6574	Not Significant

Source: Eviews Processed Data, 2021

Based on the results of the hypothesis test above, it shows that the institutional ownership variable has a positive effect on agency costs. Meanwhile, managerial ownership and board of commissioners variables have a negative effect on agency costs.

6. Conclusion

This study aims to determine the factors that can affect Agency Cost by using independent variables consisting of Institutional Ownership, Managerial Ownership, and the Board of Commissioners in the basic industrial sector and chemical companies listed on the Indonesia Stock Exchange in 2015-2019 period. Based on the results of the research and analysis that has been carried out, the conclusions are as follows:

1. Institutional ownership (X_1) has a positive effect on agency cost (Y) in basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2015-2019
2. Managerial ownership (X_2) has a negative effect on agency cost (Y) in basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2015-2019
3. The board of commissioners (X_3) has a negative influence on agency cost (Y) in basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2015-2019

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