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THE EFFECT OF BOARD OF COMMISSIONERS AND INDEPENDENT COMMISSIONERS ON AGENCY COST THROUGH CAPITAL STRUCTURE

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Abstract

Different interests between managers and shareholders can emerge agency conflicts resulting in agency costs. The aim of this study is to determine the effect of the board of commissioners and independent commissioners to agency cost through capital structure. This study was conducted on companies incorporated in the LQ45 Index listed on the BEI 2012-2016. The number of samples based on purposive sampling method is 24 companies or 120 analysis units. Multiple regression analysis and path analysis using Eviews 9 were used for methods of data analysis. The results showed that the board of commissioners have a positive and insignificant effect on capital structure, while independent commissioners have a positive and significant effect on capital structure. The capital structure has a negative and significant effect on the agency cost proxied by asset utilization ratio, the board of commissioners has a negative and insignificant effect on the agency cost proxied by asset utilization ratio, whereas the independent commissioner has a positive and significant effect on the agency cost proxied by asset utilization ratio. By using path analysis, capital structure is unable to mediate the effect of the board of commissioners and independent commissioners against agency cost.

INTRODUCTION

Interests between managers and shareholders within the company can emerge agency problems (Pratiwi & Yulianto, 2016). Jensen and Meckling (1976) describes the agency relationship as a reciprocal relationship because of the existence of contract which is stipulated by the principal that uses agents to perform services which become a primary interest, in this case, there is a separation of ownership and control of the company. Agency issues arise in every agency relationship (Sudarma & Putra, 2014). The agency problem arises because of the appointment of managers by shareholders to manage the company (Maftukhah, 2013). The agent has all the information about the company, while the principal does not have all the information so that it will arise the agency conflict (Andriyan & Supatmi, 2010). Supposedly, agents or managers can be accounted for and provide benefits to the principal or investors (Prasetyo, 2013). The different interest between manager and shareholder is what ultimately leads to agency conflict. With these conflicts, it will cause various costs called agency cost (Jensen & Meckling, 1976).

The agency cost is the number of costs charged by the company consisting of the cost supervision by principal, bonding costs by agent and residual loss that is the decrease of the principal's prosperity due to different decisions taken by the agent, in which the decision should maximize principal profits (Jensen & Meckling, 1976). Agency costs hurt shareholders through

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the actions of a manager who pursue their own interests and do not give benefit to the company. By the existence of agency cost, it will decrease the company's value. Sari (2013) and Nisasmara and Musdholifah (2016) argued that the primary purpose of a company is to maximize the company's value by increasing the shareholders' wealth reflected from the company's stock price. Shareholders must control agency conflicts that emerge agency costs to avoid problems that could disrupt the operations of the company (Ahmad & Septriani, 2008). So, the occurrence of agency conflict or interest conflicts should be overcome (Anggraini & Syafruddin, 2015).

The capital structure is considered capable of reducing agency costs (Hastori et al., 2015). Furthermore, McKnight and Weir (2009) found that capital structure, in this case, is debt can reduce agency costs. Debt is an important thing that affects agency costs (Jensen & Meckling, 1976). In addition, optimal debt levels will also increase the value of the company (Yulianto et al., 2015). A company with high debt levels are closely monitored by the debtholders, so managers do not have the opportunity to act opportunistically because they are required to pay loans interest by using free cash flow (McKnight & Weir, 2009). According to Jensen (1986) by debt, the company has an obligation to repay the loan and pay interest periodically. Then, the manager will work hard to increase the company's profits in order to fulfill the obligation paying loan interest. Managers will work for the common good to get the best results, so it can minimize the agency conflict (Ayabei, 2016).

In addition, corporate governance is also considered capable of minimizing agency costs by aligning managers' interests among shareholders and managers (Jensen, 1983). The aim of corporate governance is to reduce management behaviors which prioritize personal interests (Nurim & Raharti, 2017). Corporate governance, in this case, proxied by the number of commissioners, and the proportion of independent commissioners is considered capable of reducing agency costs (Sanjaya & Christianti, 2012). Corporate governance also plays a vital role to determine the decision of the company's capital structure. Corporate governance is a guideline for corporate management in order to consider in making financial decisions, so it can be profitable for all parties (Oemar, 2014; Diono & Prabowo, 2017). Therefore principles of good corporate governance need to be applied (Khafid & Nurlaili, 2017).

Managerial opportunistic behavior on corporate financing decisions leads to conflicts between management and shareholders (Yulianto, 2013). Board of commissioners is expected to act objectively regardless of the various parties who have different interests with other parties (S Eva & Khoiruddin, 2016). Board size can determine the effectiveness of corporate governance mechanisms which can reduce agency costs (Beiner & Drobetz, 2004). In addition, the board of commissioners has a vital role in monitoring the performance of managers, disciplining managers, approving decisions that exist in the company as well as capital structure decisions (Fama & Jensen, 1983). By having a more significant number of boards of commissioners, then the company has the ability to use external funding sources which can increase the value of the company (Sheikh & Wang, 2012).

Furthermore, independent commissioners also have an essential role in determining capital structure decisions. Ayabei (2016) stated that the existence of an independent commissioner would make it easier in controlling managers' behavior through the use of debt. Companies with more independent commissioners will provide maximum benefits for shareholders (Byrd & Hickman, 1992). The high number of boards of commissioners will monitor management more actively and force management to choose actions that maximize shareholder profits so it can increase the source of corporate funding from outsiders which can increase debt ratio (Budiman & Helena, 2017).

Companies which incorporated in the LQ45 Index, asset utilization ratios decrease from 2014 to 2016. Agency costs contrast with sales to asset ratios, the declining of sales to asset ratios' value indicate the increase of agency costs (Ang et al., 2000). Debt to asset ratio decreased from 2015 to 2016, while the proportion of independent commissioners increased. Supposedly, if the proportion of independent commissioners increases, then the debt ratio will increase, which in turn can reduce the amount of free cash flow that ultimately decrease agency cost (Jensen, 1986).

Research about factors which affect agency costs still gives different results. McKnight and Weir (2009) found that capital structure (debt) has a negative effect on agency cost. In contrast to Sadewa and Yasa (2016) who found that leverage has a significant positive effect on cost agency. Saputro & Syahfruddin (2012) stated that the board of commissioners has a positive and insignificant effect on agency costs proxied by asset utilization ratio. In contrast with Garanina and Kaikova (2016), which states the number of boards of commissioners has a negative and significant ef-

fect on agency costs proxied by asset utilization ratio. Sanjaya & Christianti (2012) found that a more significant number of independent commissioners will decrease the agency cost. Contrast with Pratiwi and Yulianto (2016), the larger the number of independent commissioners will increase the agency cost.

Furthermore, research about the factors that affect capital structure also still give different results. Thesarani (2017) found that the board of commissioners have a positive and insignificant effect on capital structure. In contrast with Anderson et al. (2004), which states that the size of the board of commissioners negatively affects capital structure. Ayabei (2016) found that independent commissioners have a positive and significant effect on capital structure. In contrast with Rahadian and Hadiprajitno (2014) found that independent commissioners negatively affected capital structure.

Based on the result of the research above, then the existence of gap phenomenon and research gap from the previous researchers, hence the purpose of this research is to find empirical evidence about the effect of the board of commissioner and independent commissioner through capital structure at companies LQ45 listed in BEI year 2012-2016.

Hypotheses Development

Board of Commissioners has an essential role in monitoring manager performance, disciplining managers, approving manager decisions, as well as capital structure decisions (Fama & Jensen, 1983). By having a more significant number of boards of commissioners, then the company has the ability to use external sources, which then, increase the value of the company (Sheikh & Wang, 2012). According to agency theory, it is explained that managers (agents) tend to be opportunistic, and they pursue their own interests, thus ignoring shareholders' interests (Jensen & Meckling, 1976). Board of Commissioners has the responsibility to monitor the behavior of management and decisions taken by the manager, so as to reduce the opportunistic behavior of managers. In agency theory, free cash flow in the company can be controlled by the use of debt (Jensen & Meckling, 1976). The use of debt in the company can reduce the existence of free cash flow, in order not to be used by managers for their own interests. In this case, the role of the board of commissioners as corporate governance is to monitor and advise the directors to ensure that the decisions taken can be beneficial for shareholders. One of them is to suggest the use of debt to reduce agency problems. Sheikh and Wang (2012) research stated that the board of commissioners' size has a significant positive effect on capital structure. This is in line with Abor (2007) found that the more significant number of boards of commissioners will choose high levels of debt as well.

H1: Board of commissioners has a positive and significant effect on capital structure.

Independent commissioners as corporate governance protect shareholders' interests. The presence of independent commissioners increases the protection of shareholders' interests by increasing the effectiveness of decision making and monitoring the directors (Young, 2000). Based on agency theory, independent commissioners play an essential role in monitoring the performance of directors. Independent commissioners tend to align with the opinion of the board of commissioners; thereby, independent commissioners suggest that the use of high debt in its capital structure (Ayabei, 2016). In line with agency theory, independent commissioners can limit the opportunistic behavior of managers who prioritize their own interests. Therefore, the more independent commissioners would suggest the use of high debt levels in order to reduce free cash flow (Jensen, 1986). Furthermore, according to Ayabei (2016) states that the existence of an independent commissioner will make it easier to monitor the behavior of managers through the use of debt.

Ayabei (2016) found that independent commissioners have a positive and significant effect on the capital structure. This is in line with Abor (2007) found that independent commissioners have a positive effect on the capital structure.

H2: Independent commissioners have a positive and significant effect on the capital structure.

Debt is an important thing that affects agency costs (Jensen & Meckling, 1976). Debt policy within the company will also enhance the company's ability to carry out its operations (Darmanto & Ardiansari, 2017). By the existence of the debt, the company will be more efficient in the use of assets and will reduce agency costs (Ang et al., 2000). According to Jensen (1986) argued that by the use of debt, the company has an obligation to repay the loan and pay interest periodically.

Nazir's et al. study (2012) found that leverage negatively affects the agency cost. In contrast with Sadewa & Yasa (2016) found that leverage has a positive effect on agency costs.

H3: Capital structure has a positive and significant effect on agency cost.

Board of Commissioners is fundamental monitoring mechanism in the perspective of theory (Budiman & Helena, 2017). According to Jensen (1986) corporate governance is considered capable of reducing agency cost. Board of commissioners' size can determine the effectiveness of corporate governance mechanisms which can reduce agency costs (Beiner et al., 2004). According to Sanjaya and Christanti (2012) the function of board commissioners is monitoring the implementation of GCG's company.

Research conducted by Hastori et al. (2015) gave a result that board of commissioners had a negative effect on the agency costs. This is in line with the research by Sanjaya and Christanti (2012) stated that the board of commissioners negatively affect the cost of an agency. This is different from the results of Ang's et al. (2000) found that the board of commissioners' size has a positive effect on agency costs.

H4: Board of commissioners has a positive and significant impact on agency cost

Jensen (1986) considers that corporate governance as a mechanism to minimize agency costs by aligning managerial interests between shareholders and managers. According to Sanjaya and Christanti (2012), corporate governance proxied by independent commissioners is considered capable of reducing agency costs. The existence of an independent commissioner is intended to perform independent monitoring on the GCG's company practices, and thereby it can reduce the existence of conflict which affects the company's value (Pratiwi and Yulianto, 2016).

Research conducted by Sanjaya and Christanti (2012) found that the proportion of independent commissioners negatively affects agency costs. Unlike Pratiwi and Yulianto's research (2016) found that independent commissioners have a positive effect on agency costs. Whereas the results of McKnight and Weir research (2009) found that non-executive director has an insignificant positive effect.

H5: Independent Commissioner has a positive and significant effect on agency cost.

Corporate governance is a guideline for corporate management to consider in making financial decisions, so it can be profitable for all parties (Oemar, 2014). In Jensen and Meckling Agency Theory (1976) suggested that the mechanisms which can be used to monitor agency conflicts, including the enhancement of insider and debt financing. It means that by the increase in the number of boards of commissioners, it will suggest using higher debt, which will minimize agency costs.

H6: Board of commissioners has a positive and significant effect on agency cost through capital structure.

According to Jensen (1986) corporate governance is considered capable of minimizing agency cost. Yegon et al. (2014) argued that through the implementation of GCG and the existence of independent commissioners, it is expected that managers prioritize shareholder interests and reduce agency costs. Debt can also reduce agency costs because managers are monitored by shareholders through creditors (Faccio et al. 2001). Debt can be used as a corporate governance mechanism to reduce agency costs from free cash flow, so that the managers do not use free cash flow for personal interest (Jensen, 1986). Corporate governance, in this case, is an independent commissioner. Independent commissioners as an effective monitoring mechanism against managers' behavior, which can minimize agency costs.

H7: Independent commissioners have a positive and significant effect against agency cost through capital structure.

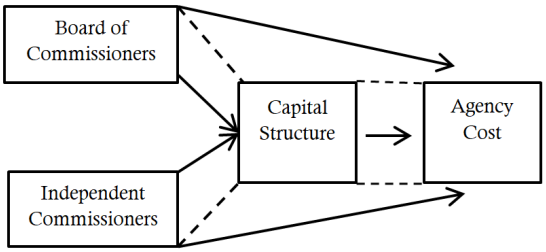

Figure 1. Research Model

METHOD

The type of this research is quantitative research. The data used in this study is secondary data sourced from financial statements in the Indonesia Stock Exchange on the official website www.idx.co.id and Indonesian Capital Market Directory (ICMD). The population in this research is companies incorporated in LQ45 periodically during 2012-2016. Determination of the sample in this study using purposive sampling method with criteria: (1) Companies included in the LQ45 Index periodically in 2012-2016; (2) Companies that publish annual reports for the period 2012-2016; (3) Companies with data of board of commissioners, independent commissioners, capital structure, and agency cost. After the sample had been selected based on the criteria, so

the sample used in this research is 24 companies or 120 units of analysis.

The dependent variable in this research is agency cost. Agency cost Measurement using asset utilization ratio or asset utilization ratio. According to Ang et al., (2000), the ratio of asset usability measures the ability of management to use company assets efficiently to obtain sales. The asset utilization ratio is proxied by total asset turnover (Brigham & Houston, 2014). The higher the asset usage ratio shows the asset significantly increases sales, and it means, it will reduce agency costs (McKnight & Weir, 2009). While independent variables in this research are the board of commissioners, independent commissioners, and capital structure proxied by debt to asset ratio (DAR).

Board of commissioners is the organ of the company which has duty and responsibility collectively to supervise and advise the directors and ensure that the companies implement GCG. The measurement of the board of commissioners uses the number of board of commissioners in the company (Monks & Minow, 2003).

An independent commissioner is a party who has no relationship with the company, and it has a function to monitor managerial decisions, company operations, and ensure that the company implements GCG (Pratiwi & Yulianto, 2016). The measurement of independent commissioners by dividing the number of independent commissioners with the entire board of commissioners (Monks & Minow, 2003).

Debt to asset ratio is used to find out how much assets are financed by the debt. Debt to asset ratio is measured by dividing the total debt by total assets (Brigham & Houston, 2014). The increase in this ratio indicates that the operational activities of the company are more funded by debt (Nisak & Ardiansari, 2016). In addition, being an independent variable, the capital structure is also an intervening variable.

The descriptive analysis method used in this research to give an overview of each variable studied. Descriptive statistics consist of average (mean), standard deviation, maximum, and minimum. Besides, the classical assumption test and multiple linear regression analysis and path analysis and Sobel test to determine the effect of the intervening variable (Ghozali, 2016). Testing was done by using Eviews 9 software.

There was two models of the multiple linear regression model used in this research. The first model is regression analysis to know the independent variable against mediation variable, while the second model is regression analysis to know all independent variable and mediation variable against the dependent variable. The regression model in this research is as follows:

$$DAR = \alpha + \beta\ 1DK1t + \beta 2KIit$$
$$ACit = \alpha + \beta 1DAR\ 1t + \beta 2DKit + \beta 3KIit$$

Where
AC : Agency Cost
DAR : Capital Structure
DK : Board of Commissioners
KI : Independent Commissioner

RESULTS AND DISCUSSION

Table 1. Descriptive Analysis

	AC	DAR	DK	KI
Mean	.732	.4911	6.383	.447
Median	.688	.4390	6.000	.400
Maximum	2.421	.8800	12.000	.833
Minimum	.065	.1050	3.000	.285
Std. Dev.	.561	.2150	1.691	.132
Obs	120	120	120	120

Table 1 showed that the number of samples in this study is 120 units of analysis during 2012-2016. Descriptive statistical results for the agency cost, which is proxied by the asset utilization ratio indicate that the average value is 0.732. This value indicates that the company's ability to generate sales on asset management is 0.73. The maximum value (maximum) is 2,421 owned by PT Unilever Indonesia Tbk. This means PT Unilever Indonesia Tbk is the most effective company in managing its assets compared to companies that are included in other LQ45 Index. Having a high asset utilization ratio indicates lower agency costs compared to other companies. Whereas, the lowest asset utilization ratio is owned by PT Bank Central Asia Tbk. The low value of asset utilization ratio owned by PT Bank Central Asia Tbk shows less effective in the management of corporate assets, thus indicating a higher agency problem compared to other LQ45 Index companies.

The average value of DAR is 0.4911162. The highest value is owned by PT Bank Negara Indonesia Tbk, PT Bank Rakyat Indonesia Tbk, and PT Bank Mandiri Tbk is 0.88 or 88%. High debt used can allow alternatives monitoring to minimize agency costs. Furthermore, the lowest value is owned by PT Semen Gresik (Persero) Tbk is 0.105. The average value of the board of commissioners is 6.3 defined as the average of the

board of commissioners in the companies included in the LQ45 Index is 6. The highest value is owned by PT Astra International Tbk is 12, while the lowest value is 3 owned by PT AKR Corporindo Tbk and PT Gudang Garam Tbk

The result of Descriptive statistics from independent commissioners showed average value is 0.447. This value indicates that the average of independent commissioners owned by companies included in the LQ45 Index is 44.7% of the entire board of commissioners. The highest value is owned by PT Lippo Karawaci Tbk is 0.83, while the lowest value is 0.285 owned by PT Semen Gresik (Persero) Tbk.

Classic Assumption Test

Standard assumption test in this research included: normality test, multicollinearity test, heteroscedasticity test, autocorrelation test. Here are the explanations of each of standard assumption tests:

Table 3. Normality Test

Model	Jarque-Bera	Probability
1	2.394029	.302095
2	4.499661	.105417

In model 1, based on Jarque Bera test with probability level> 0.05 which means the residual is normally distributed, whereas in model 2 still not generally distributed because there is still outlier data, so the elimination is done on the detected data outlier and after the probability outlier shows> 0.05.

Table 4. Multicollinearity Test Model 1

	DK	KI
DK	1	
KI	.00616493974	1

Table 5. Multicollinearity Test Model 2

	DAR	DK	KI
DAR	1		
DK	.025098	1	
KI	.364060	.124525	1

On the multicollinearity test of model 1 and model 2, the correlation value between the independent variable no more than 0.80, it means, there is no high correlation, so there is no multicollinearity.

Table 6. Heteroscedasticity Test (Glejser)

Model	Probability		
	DK	KI	DAR
1	.0094	.0001	
2	.0012	.0018	.0819

Glejser test was done to detect the existence of heteroskedasticity; the two regression models still occur heteroskedasticity because there are still variables whose probability level <0.05. Weighted least square method (WLS) used to correct heteroskedasticity (Gujarati & Porter, 2009). WLS method is a particular form of Generalized Least Square (GLS) method (Widarjono, 2017). So the next test using the GLS method.

Table 7. Autocorrelation Test

Model	Durbin-Watson stat
1	.372210
2	.563131

Based on DW values above, in model 1, DW value is 0.372210 <value dU 1.668 and less than 4 - dU 2,264, so there is still autocorrelation. In model 2 the DW value is also still not on the receiving boundary where there is no autocorrelation where DW 0.563131 <dU 1.736 and less than 4-dU 2,264. To correct autocorrelation, it can be done by adding a lag variable bound to the model (Ghozali & Ratmono, 2013). The following is the result of the autocorrelation test by using the addition of lag dependent variable.

Table 8. Autocorrelation Test add by Lag Dependent Variables

Model	Durbin-Watson stat
1	1.968541
2	2.009543

After the improvement by adding a lag dependent variable, it can be seen in the table above that the DW value has increased. So DW is in the range of dU and 4-dU. Thus it can be concluded that the above model there is no autocorrelation occurred.

Table 9. The goodness of Fit test

Model	R-squared	Adj. R-squared	F-Statistic	Prob (F-Statistic)
I	.990348	.990034	3146.700	.0000
II	.990540	.990105	2277.390	.0000

Based on the Table 9, the result of the regression analysis model 1 obtained Adjusted R2 value is 0.990034 (99%). It means that 99% variation of the debt to asset ratio (DAR) variable can be explained by the independent board and commissioner variables. While the rest (100% - 99%). = 1%) is explained by other variables outside the regression model. The result of the regression analysis of model 2 obtained Adjusted R2 value is 0.990105 (99%). This means that 99% of the variation of agency cost variable (AC) can be explained by debt to asset ratio variable, the board of commissioner, an independent commissioner. While the rest (100% - 99% = 1%) is explained by other variables outside the regression model.

Based on the results of statistical tests F in the table above, it can be seen that the value of F-statistics is 3146.700 with prob F-statistics 0,0000 <0.05. Then it can be concluded that the variables board of commissioner (DK) and independent commissioner (KI) influence simultaneously to the dependent variable DAR.

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Regression analysis model 1 is used to find out the influence of the independent board of commissioner and commissioner variable on capital structure. Regression model 1 with the addition of the DART-1 variable lag. Regression analysis model 2 to find out the influence of the variable of the board of commissioner, independent commissioner, and intervening variable of capital structure proxied by Debt to Asset Ratio (DAR) to agency cost. Regression on model 2 with the addition of variable lag ACt-1.

Table 10. Regression Model Results Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-.009756	.015135	-.644645	.5208
DK	.001315	.000965	1.362818	.1763
KI	.054122	.024168	2.239436	.0275
DAR(-1)	.954370	.013613	70.10644	.0000

Table 11. Regression Model Results Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-.026512	.033690	-.786916	.4335
DAR	-.076928	.032484	-2.368161	.0201
DK	-.001217	.002300	-.529358	.5979
KI	.192936	.045901	4.203276	.0001
AC(-1)	.937869	.021196	44.24811	.0000

In model 1, constant coefficient value is -0.009756 means that if the value of DK, KI, and DARt-1 is zero, then the DAR is valued as big as the constant value that is -0.009756. Coefficient of the board of commissioner equal to 0.001315 means that if the board of commissioners increased by one unit, then the debt to asset ratio will increase by 0.001315 with the assumption that other variables remain. Independent commissioner coefficient is 0.054122; it means that if the independent commissioner increased by one unit, then the debt to asset ratio increased by 0.054122 with the assumption that other variables remain. Coefficient of debt to asset ratio last year is 0.954370; it means that if DAR last year experienced an increase of one unit, then DAR will experience an increase is 0.954370 assuming other variables remain.

In model 2, the constant coefficient is -0.026512 means that if the value of DAR, DK, KI, and ACt-1 is zero, then AC is valued as big as a constant value of -0.026512. DAR regression coefficient is - 0.076928 means that if the value of DAR increased by one unit, then the value of agency cost decreased by 0.076928. The coefficient of the board of commissioner equal to -0.001217 means that if the board value increased by one unit, the agency cost value decreased by 0.001217. The regression coefficient of the independent commissioner is 0.192936 means that if the value of independent commissioners increased by one unit, then the value of agency cost increased by 0.192936. Coefficient of agency cost regression last year is 0.937869 means that if the value of independent commissioners increased by one unit, then the value of agency cost last year increased by 0.937869.

Criteria for decision making on regression analysis model 1 and 2 that used level of trust 95% or α 5% (0.05). Based on table 3 above showed that the board of commissioner (DK) variable has t-statistics is 1.362 with probability value 0.176> 0.05. It means that the board of commissioners has a positive and insignificant relationship affect the capital structure so that it is rejected. On the independent commissioner variable t-statistics is

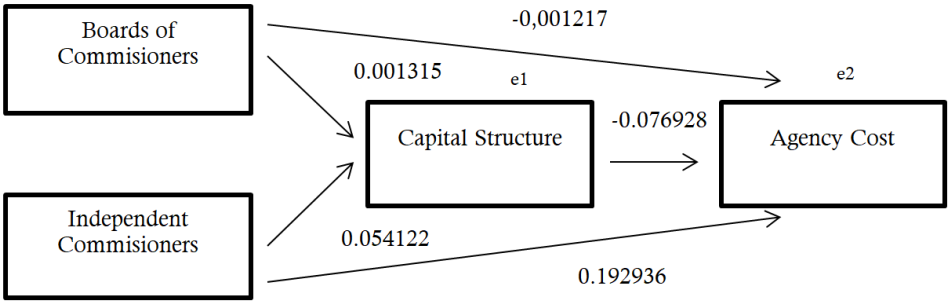

Figure 2. Path Analysis

4.203 with probability value 0.0275 <0.05. This means that independent commissioners have a positive and significant relationship in affecting the capital structure so that ha2 is accepted.

Based on table 4, it can be seen that debt to asset ratio (DAR) variable has t-statistics is -2.368 with probability value 0.0201 <0.05. This means that DAR has a negative and significant relationship in affecting agency cost so that ha3 is rejected. The board of commissioner (DK) variable has t-statistics is -0.529 with probability value 0.597> 0.05. This means that the board of commissioners has a negative and insignificant relationship in affecting agency cost so that ha4 is rejected. Independent commissioner variable (KI) has t-statistics of 4,203 with probability value is 0.0001 <0.05. This means that independent commissioners have a positive and significant relationship in affecting agency cost so that ha5 is accepted.

Path Analysis

The result of the regression analysis of models 1 and 2 becomes the basis for seeing the direct and indirect effect on path analysis model because path analysis is an extension of multiple linear regression. The result of path analysis about the effect of the board of commissioner and independent commissioner against agency cost trough capital structure as an intervening variable can be seen in Figure 2.

Based on the results of the path analysis above, it can be seen that the amount of direct influence (direct), indirect effect, and the overall influence of independent commissioner and commissioner variables against agency cost in Table 12.

Table 12. Summary of Path Analysis Results

No	Information	Direct Effect	Indirect Effect	Total Effect
1	DK → AC	-.001217	-.00010	-.001320
2	KI → AC	.192936	-.00416	.188773

Sobel Test (Sobel Test)

The Sobel test is used to determine the effect of mediation on the intervening variable. Sobel test is done by testing the strength of the indirect effect of X to Y through M (Ghozali, 2016). This study examines the effect of independent variables (board of commissioners and independent commissioners) on agency cost through capital structure. Here's a description of the formula for the Sobel test:

$$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2}$$

$$t = \frac{ab}{sab}$$

Based on the calculation of the formula above then obtained t count equal to -1.265. At a significant level is 0.05 and df (117) obtained t table is 1.9804 then t arithmetic (-1.2625) <t table (1,9804), so it can be concluded that the capital structure proxied by debt to asset ratio is not capable of mediating the influence of board of commissioners against agency cost or ha6 is rejected.

Based on the calculation of the above formula then obtained t count equal to 00093. At a significant level is 0.05 and df (117) obtained t table is 1.9804 then t arithmetic (1.583) <t table (1.9812), so it can be concluded that the capital structure proxied by debt to asset ratio is not capable of mediating the influence of independent commissioner against agency cost or ha7 rejected.

The Effect of the Board of Commissioners on Capital Structure

Test results in this study indicate the rejection of ha1, which states that the board of commissioners have a positive and significant effect against the capital structure. Based on the analysis results in Table 10, it can be seen that the coefficient of board value is 0.001315, with probability 0.1763> α 0.05.

The results of this study indicate that the board of commissioners has no significant effect on capital structure. The insignificance of the board of commissioners against capital structure may be because of the ineffectiveness of the board of commissioners in supervising and controlling over the company's operations (Thesarani, 2017). The results of this study indicate the positive coefficient value, which means the higher the number of boards in the company LQ45 Index, then it will suggest the use of high debt levels.

Board of Commissioners has the responsibility to monitor the directors' behavior and decisions made by directors in order not to act opportunistically. In agency theory, free cash flow should be controlled using debt (Jensen & Meckling, 1976). By the existence of the debt, it will reduce the free cash flow in the company, in order not to be used by the managers for personal interest (Jensen, 1986). In this case, the board of commissioner's role is to advise the directors to ensure that shareholders' interests are protected. One of them by suggesting high debt on the capital structure, so the agency problem can be minimized. Companies that have a more significant number of boards of commissioners, then the company has the ability to use external funding sources which can increase a company's value (Sheikh & Wang, 2012).

The results of this study are in line with Thesarani's (2017) study, which found that the board of commissioners has a positive and insignificant effect against the capital structure. Furthermore, Abor's research (2007), Sheikh and Wang (2012), and Helena (2017) found that the board of commissioners' size has a positive effect on the capital structure. In contrast to Anderson et al. (2004) stated that the board of commissioners' size has a negative effect on the capital structure.

The Effect of Independent Commissioner on Capital Structure

The results of this study indicate the acceptance of ha2, which states that independent commissioners have a positive and significant effect on capital structure. Based on the analysis results in Table 10, it can be seen that the coefficient of the board of commissioners value is 0.054122 with probability value 0.0275 <α 0.05.

The results of this study indicate that independent commissioners have a significant effect on capital structure. The result shows that the positive coefficient value means that the higher the proportion of independent commissioners in the companies incorporated in the LQ45 Index will use a high debt level. This is because of independent commissioners monitor management more actively and force management to obtain a capital structure with more genetic risk and generate maximum profit (Budiman & Helena, 2017). The higher the number of commissioners it will suggest to use higher debt levels (Ayabei, 2016). Independent commissioners are in charge to protect shareholders' interest. Based on agency theory, independent commissioners play an essential role in monitoring board of directors. Independent commissioners tend to agree with the board of commissioners, thereby suggesting the use of more debt in the structure of modes (Ayabei, 2016). In line with agency theory, independent commissioners can limit the opportunistic behavior of managers that are concerned with their own interests. Thus, more independent commissioners would suggest using more debt levels in order to reduce free cash flow (Jensen, 1986).

The results of this study support Ayabei's research (2016) found that independent commissioners have a positive and significant effect on capital structure. In line with Budiman and Helena (2017) found that independent commissioners have a positive and significant effect on the capital structure, Rahadian and Hadiprajitno (2014), Went et al. (2012) found independent commissioners negatively affected the capital structure.

The Effect of Capital Structure on Agency Cost

The results of this study indicate the rejection of ha3, which states the capital structure has a positive and significant effect on agency cost. Based on the analysis result in table 4:18, it can be seen the coefficient value of the board of commissioner equal to -0.076928 with probability value 0.0201 <α 0.05.

The result of this research showed that the capital structure affect to the agency cost with positive coefficient value which means that the higher the debt in the LQ45 Index company will decrease the asset utilization ratio, meaning that the higher the debt of the company will reduce the management efficiency in using company's assets to get maximum sales. Decreasing the asset usability ratio indicates a high agency problem and increases agency costs (McKnigt & Weir, 2009). In addition, the use of high debt will lead to an increased risk to the company (Sadewa & Yasa, 2016). This study does not support agency theory, which states that debt is a monitoring mechanism to reduce agency costs.

The results of this study support the research of Sadewa and Yasa (2016) found that the

higher the debt, the higher the agency cost. In contrast to Singh and Davidson's (2003), McKnight and Weir (2009) found that higher sales were correlated with lower agency costs.

The Effect of Board of Commissioners on Agency Cost

The result of hypothesis testing shows rejection of ha4, which states that the board of commissioner has a positive and significant effect on agency cost. Based on the analysis result in Table 12 can be seen the coefficient value of the board of commissioner equal to -0.001217 with probability value 0.5979> 0.05.

The results of this study indicate that the board of commissioners has no significant effect on agency cost. This happens because the corporate governance mechanism has not been able to minimize conflicts between shareholders and company management (Saputro & Syahfruddin, 2012). The result of the research shows that the negative coefficient value, which means the higher of the board of commissioner in LQ45 Index company, the agency cost proxied by asset utilization ratio decreased. While the usage asset ratio has a negative relationship with agency cost. The agency costs are in contrast to the asset utilization ratio, the decline of asset utilization ratio value, indicate the increased in agency costs (Ang et al., 2000). The increased agency costs imply that the board of commissioners has not been able to monitor optimally over the company's net as a whole.

The result of this research is in line with Saputro and Syahfruddin (2012) research, which stated that the board of commissioner has a positive and insignificant effect on agency cost, which is proxied by asset utilization ratio. In contrast with research by Garanina & Kaikova (2016), which states that the number of boards of commissioners has a significant negative and significant effect against agency costs proxied by asset utilization ratio.

The Effect of Independent Commissioner on Agency Cost

The results of this study indicate the acceptance of ha5, which states the independent commissioner has a positive effect on the agency cost. It is seen based on the result of analysis in Table 12, it can be seen the coefficient value of the board of commissioner equal to 0.192936 with probability value 0.0001 <0.05.

The results of this study indicate that the independent commissioners affect the agency costs with a positive coefficient value which means that the higher number of independent commissioners in the company incorporated in the LQ45 Index will increase the agency cost proxied by the asset utilization ratio. While the usage asset ratio has a negative relationship with agency cost. This increased asset utilization ratio means more effective management in managing company assets to generate sales, thus indicating lower agency costs (McKnight & Weir, 2009). Low agency costs imply that independent commissioners have the duty to monitor and ensure oversight mechanisms runs effectively. This is because independent commissioners have the responsibility to monitor and protect minority shareholders who do not have direct control over company performance (Sanjaya & Christanti, 2012).

The capital structure is unable to mediate the effect of the board of commissioners on the agency cost proxied by the asset utilization ratio. Capital structure is not able to mediate because the board of commissioners has not been optimal in GCG supervision in order to run effectively. So the problem has an impact on the decision on capital use and how to use capital, which should be required the implementation of good corporate governance, so that agency conflict can be minimized (Rahadian & Hadiprajitno, 2014). This is in accordance with Kautsar & Kusumaningrum (2015) which stated that capital structure is not able to mediate the influence of corporate governance on corporate performance because corporate governance has not been able to control the capital structure, where corporate governance is structured to reduce agency costs. This is not in accordance with Jensen's (1986) research that debt can be used as a corporate governance mechanism to reduce agency costs from the current free cash flow.

The Effect of Board of Commissioners on Agency Cost through Capital Structure.

Based on the result of research indicate that the total indirect influence of independent commissioner against agency cost through the capital structure is less than the direct influence of the independent commissioner against agency cost -0.00416 <0.192936. Furthermore, the test shows that the t-test shows at count are 1.583. At a significant level is 0.05 and t table of 1.9804 then t arithmetic (1.582) <t table (1.9804), so it can be concluded that the capital structure proxied by debt to asset ratio is not able to mediate the effect of independent commissioner against agency cost or ha7 is rejected. The capital structure is not able to mediate the effect of the board

of commissioners against the agency cost proxied by the asset utilization ratio due to the board of commissioners in performing the oversight function on the management performance regardless of how much debt is used by management in managing the company's assets to obtain significant sales. The result of the research is not in accordance with Ayabei (2016) stated that an independent commissioner would be more relaxed in controlling managers' behavior through the use of debt.

CONCLUSION AND RECOMMENDATION

Based on the result of the research, the conclusion of this research is a board of commissioner has a positive and insignificant effect against the capital structure, while the independent commissioner has a positive and significant effect on the capital structure. The capital structure has a negative and significant effect on the agency cost proxied by the asset utilization ratio. With the use of more considerable debt can reduce the adequate level of asset use in LQ45 companies. Board of commissioners has a negative and insignificant effect on the agency cost proxied by the asset utilization ratio. Independent commissioners have a significant positive effect on the agency cost proxied by the asset utilization ratio. By the more significant number of independent commissioners it will increase the effective use of the asset, so that agency costs can be minimized. Furthermore, by using path analysis, the capital structure proxied by the debt to asset ratio is unable to mediate the effect of the board of commissioners and the independent commissioners against the capital structure.

For the next researcher can add proxy from agency cost variable by using SGA Expense to Ratio to measure managerial load, and can change the mediation variable. For corporate management, it is advisable to be more careful in making decisions that may affect changes in board of commissioners, independent commissioners, and capital structures, as well as other variables that will affect agency costs. Companies in making capital decisions should see consideration of corporate governance mechanisms in order to minimize agency costs. For investors, if they are going to invest in a company incorporated in the LQ45 index, they can consider the corporate governance mechanism in the company and pay attention to how much the debt used to rate, because based on the results of this study, the variable of capital structure and independent commissioner significantly affect the agency cost.

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