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Good Corporate Governance and Leverage Control Variables at Agency Cost: Non Financial Companies in Indonesia

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Abstract

This study aims to determine the effect of good corporate governance and leverage as a control variable on agency costs. Agency cost is proxied by asset turnover ratio and good corporate governance is proxied by institutional ownership, managerial ownership and independen board of commissioners. The population in this study are non-financial companies listed on the Indonesia Stock Exchange in 2008-2020. The sample in the study was 60 companies obtained through purposive sampling technique. The study used multiple linear regression using the random effect model. This study has the result that institutional ownership and independen board of commissioners have an insignificant negative effect on agency costs. Managerial ownership has a significant negative effect on agency costs. Leverage as a control variable has a significant negative effect on agency costs.

INTRODUCTION

The development of the company creates conditions where the owner must appoint a manager to be involved in managing the company. A company is divided into two parties, namely the principal or shareholders and the agent or management (Hatang & Hapsari, 2020). The existence of two parties in the company will create an agency relationship. According to Jensen & Meckling, (1976) agency relationship is a contract between the principal and the agent in which the principal will give authority and duties to the agent to make decisions on behalf of the principal. The agent should make decisions in accordance with the interests of the principal or owner. Managers also have an obligation to maximize the welfare of shareholders or principals and the value of the company (Fujianti, 2013). Pratiwi & Yulianto, (2016) in making decisions managers have the principle of "Self Interest Behavior" where the principle says that in making decisions a person will choose decisions that can benefit himself (financially).

In line with the opinion of Lukviarman, (2016) which suggests that agency theorists use the assumption that the two parties (owners and management) have their own interests and these interests experience more differences from the point of view of both. These differences in interests will lead to agency conflicts or agency problems. The emergence of the agency problem will cause agency costs that should not need to occur if the company is managed by the owner himself (Hadiprajitno, 2013). Agency costs are used to supervise management so that they continue to carry out their duties to achieve company goals with a predetermined contract between shareholders and company managers. High agency costs can describe bad conditions for the company and for shareholders (Erfiana & Ardiansari, 2016).

Good corporate governance can be one way to reduce agency costs through monitoring or supervision. Good corporate governance can

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be defined as a network of relationships, not only between the company and its owners, but also between the company and the board, and other stakeholders such as employees, customers, suppliers, creditors, and other parties (Yegon et al., 2014). The mechanism in corporate governance is designed to reduce the inefficiency of the company's management performance that arises due to moral hazard, mistakes in decision making to achieve company goals (Rinaldo, 2012). Corporate Governance will regulate the relationship between company management, commissioners, shareholders and other stakeholders (Iswandi & Rahmawati, 2011). Agency theory has two types of governance tools in an effort to reduce the effects of agency problems, namely internal and external control mechanisms (Lukviarman, 2016:57).

Internal control is guided by the effectiveness of internal control devices, one of which is the existence of a board of commissioners, while external control is through ownership by external parties of the company. The implementation of a good corporate governance system is also included in one aspect that can affect agency costs, one of which is through the ownership structure and the proportion of independent commissioners (Al-Kahfi et al., 2021). Theoretically, GCG practices can improve their financial performance, reduce the risks that may be carried out by the board with decisions that benefit themselves, generally GCG can increase investor confidence to invest their capital which will have an impact on their performance (Rahmawati & Khoiruddin, 2017).

In this study, GCG is used as a monitoring mechanism which is represented by variables of institutional ownership, managerial ownership and the proportion of independent commissioners. Institutional ownership has greater authority in monitoring company performance and can influence decision making and company operational activities so that institutional shareholders can contribute directly to reducing agency costs (Pratiwi & Yulianto, 2016).

In addition to institutional ownership, there is also managerial ownership where managerial ownership is the shareholder of company insiders (Yulianto, 2013). According to Brigham & Houston, (2016), managers will maximize share prices if they themselves also act as shareholders in the company. This ownership will motivate managers to seek profitable investments and reduce consumptive actions. Managers will position themselves as owners of the company so that they can reduce opportunistic behavior (Mustapha & Ahmad, 2011).

In supporting the performance of the board of commissioners to work effectively, there are members who come from parties who do not have a business relationship with the company or also called non-affiliated parties. These board members are also known as independent commissioners (Pratiwi & Yulianto, 2016). Yegon et al, (2014) suggest that through the existence of independent commissioners it is expected that managers can prioritize the interests of shareholders and reduce agency costs.

Supervision can also be represented by the use of debt or leverage in the company. The higher the debt used in the company, the creditors can carry out more supervision over the management of the company (Risdiyani dan Kusmuriyanto, 2015). In this study, Leverage is used as a control variable, where in previous studies there were several researchers using the control variable leverage and most of these studies have the result that leverage can affect agency costs. The use of leverage as a control variable because in addition to funds from shareholders, management also manages funds from creditors, both from bondholders, banks and other parties. Therefore, conflicts of interest may occur between the manager and creditors in the debt policy, so that it can lead to an increase in agency costs (Retno & Priantinah, 2012). The existence of these control variables is expected to be able to find out how well managers manage resources that generate profits because leverage can describe the resources owned by the company and can reduce consumptive actions that may be carried out by management who have an impact on increasing agency (Salim & Christiawan, 2017).

This study uses all non-financial companies listed on the Indonesia Stock Exchange because agency problems do not only occur in one sector but it can be said that other sectors also have the potential for agency problems that have an impact on increasing agency costs. (Sadewa & Yasa, 2016). The use of this sector is also due to the fact that the financial sector is a sector that is supervised and has strict regulations which are regulated directly by Bank Indonesia so that agency problems tend to be minimal. (Kansil et al., 2017). Observation time period from 2008-2020. This period was chosen because the data available from the Indonesian stock exchange began in 2008 and also after 2020 there was a sector renewal. The sector renewal policy will start from 2021, where the sector will increase to 11 sectors and 1 investment product recorded in The long span of time in the study also affects the number

of samples to be studied more and more diversely. In theory, it is said that a tight supervisory mechanism on management can reduce agency costs from implementing GCG which can be carried out by institutional ownership, managerial ownership and independent commissioners as well as additional supervision from the use of leverage. In fact, seen from the average asset turnover ratio in that year, it has decreased which indicates an increase in agency costs.

Agency costs or agency costs in this study were measured using the asset turnover ratio, where when the asset turnover ratio increased, it indicated that the agency cost of the company decreased and vice versa (Ang, et al 2000). In reality, there are differences which can be seen from the table below:

Tabel 1.1 Data on the average asset turnover ratio, managerial ownership, institutional ownership, independent board of commissioners, and leverage for all non-financial companies listed on the IDX for the period 2008-2020.

Years	Assrt Turnove Ratio	Managerial Ownership	Institutional Ownership	Independent Board of Commisssioners	leverage
2008	1.25	0.06	0.67	0.38	0.55
2009	1.20	0.07	0.65	0.38	0.59
2010	1.18	0.06	0.65	0.39	0.50
2011	1.20	0.06	0.64	0.38	0.53
2012	1.13	0.06	0.66	0.38	0.52
2013	1.09	0.06	0.65	0.38	0.54
2014	1.07	0.06	0.64	0.39	0.52
2015	0.98	0.07	0.64	0.37	0.52
2016	0.95	0.08	0.63	0.38	0.52
2017	0.92	0.11	0.62	0.38	0.50
2018	0.95	0.12	0.61	0.39	0.49
2019	0.96	0.12	0.60	0.40	0.52
2020	0.78	0.12	0.61	0.39	0.49

in 2011 to 1.13 in 2012. The table above shows that in 2015-2018 the independent board of commissioners increased from 0.37 to 0.39 but the average asset turnover decreased by 0.98 in 2015 and 0.95 in 2018 this indicates that there is an increase in agency costs. In fact, the table above shows that the increase in debt occurred in all companies listed on the IDX except the financial sector in 2010-2013, from 0.50 in 2010 and 0.54 in 2013 but agency costs the company still experienced an increase which was marked by a decrease in the asset turnover ratio in that year. Research on Good corporate governance and Leverage as a control variable on agency costs has been done previously. These studies show different results. Research conducted by Nekounam et al, (2013) institutional ownership has a significant positive effect on agency costs, Gul et al, (2012) institutional ownership has a negative effect on agency costs. Yulianto, (2013) dan Ayunitha et al, (2020) states that managerial ownership has a significant positive effect on agency costs.

All non-financial companies listed on the IDX from 2013-2017 experienced a decrease in the asset turnover ratio, this indicates an increase in agency costs, namely in 2013 by 1.09 and in 2017 by 0.92. Managerial ownership has increased from 0.06 in 2014 to 0.11 in 2017 but the agency cost has increased which is indicated by the average asset turnover decreasing that year. Meanwhile, institutional ownership from 0.64 in 2011 to 0.66 in 2012, however, agency costs also experienced an increase which was marked by a decrease in the average asset turnover from 1.20

Yegon et al, (2014) managerial ownership has a negative effect on agency costs. High managerial share ownership means the decisions that will be taken pay more attention to shareholders.

Pratiwi & Yulianto, (2016) found that the higher the ratio of independent commissioners to the company, the agency costs will increase. Sanjaya & Christianti, (2012) found a negative relationship between independent commissioners and agency costs.

Penelitian Sadewa & Yasa, (2016) has the result that if a company's financial leverage is high then the company's agency costs are also

high, because the use of high leverage will increase the company's risk. Putri, (2017) who found the results that leverage had a significant negative effect on agency costs where when the company's debt level rose, agency costs were low. Good corporate governance practices, if carried out by the company consistently, can reduce problems in performance engineering activities which result in financial statements not showing the true value of the company (Sadewa & Yasa, 2016). The Indonesian government also hopes that the GCG system can be implemented by all companies in Indonesia, this is evident from the formation of the National Committee for Governance Policy (KNKG). Based on the gap phenomenon and the dissimilarity of the results of previous studies, this study wants to know: the effect of good corporate governance as measured by institutional ownership, managerial ownership and independent board of commissioners on agency costs with the control variable leverage.

HYPOTHESES DEVELOPMENT

Jensen & Meckling (1976) This means that agency theory or agency theory is a form of relationship that is formed because of a contract between the principal or owner and agent or manager, in which the principal will give authority or duty to the agent to make decisions on behalf of the principal. This theory arises when the company is not managed by the owners themselves. Due to the separation of ownership and control functions of the company, agency costs cannot be avoided due to differences in interests between shareholders and managers. Agency theory says that agency problems can be reduced by the role of institutional shareholders because they act as supervisors for the agent and can affect decision making that is usually done by the agent or manager. (Gul et al., 2012).

Institutional ownership is one of the factors that can have an impact on minimizing agency problems that have an impact on increasing agency costs, this is because institutional ownership of the supervisory or monitoring function becomes more leverage on the performance of the agent or company management (Mayangsari, 2015). The division of ownership structure that exists in Indonesia, namely between the majority and the minority, proves the explanation that when institutional control tends to be high or increasing, it can reduce agency problems that may occur between the principal and the agent so that it has an impact on providing benefits to the minority. (Prasetyo, 2013).

Noveliza, (2020) states that institutional ownership tends to have a large impact on the efficient use of assets in the company. Efficient use of these assets can result in asset turnover ratios that tend to be large, this shows that managers are less likely to take actions that are wasteful in running the company. Gul et al, (2012) also stated that agency problems can be reduced by the role of institutional shareholders because they act as supervisors and can influence decision making that is usually done by agents or managers.

Research result Yegon at al, (2014) and Gul et al (2012) states that institutional shareholders will ensure that managers act in the interests of shareholders, this will certainly reduce the difference in interests between managers and shareholders so that it has an impact on reducing agency costs. The results of this study mean that institutional ownership has a negative effect on agency costs. The proposed hypothesis is:

H1: Institutional Ownership has a significant negative effect on agency costs

Jensen & Meckling, (1976) argues that agency theory says that share ownership by agents or managers can be said as a solution in agency conflicts where it is used as a unifying interest between shareholders and managers, the greater the percentage of shares owned by managerial parties can have a good impact on performance company. Managerial ownership can be interpreted as ownership of shares in companies owned by insiders (Jannah & Khoiruddin, 2017).

Managerial share ownership is one way to reduce agency costs because managers will have interests that are parallel to shareholders, so managers will pay more attention to increasing company value if they also become shareholders. (Brigham & Houston, 2006). The increasing share ownership by managerial parties in the company will encourage management to increase its business in maximizing the utilization of assets within the company so that it can increase the company's asset turnover ratio (Putra et al., 2018).

According to research conducted by Nozari & Nozari, (2015) and Mustapha & Ahmad, (2011) who found the results that an increase in the percentage of managerial owned shares had a significant negative effect on agency costs. The agent or in this case the manager will tighten supervision and maximize the maximum utilization of finance and company assets because they are also included in the shareholders themselves. Based on the explanation above, the proposed hypothesis is:

H2: Managerial Ownership has a significant negative effect on agency costs

Agency theory says that agency conflicts that can lead to agency costs can be minimized with quality supervision (Jensen & Meckling, 1976). The independent board of commissioners has the task of monitoring every action and various policies carried out by the company's management and also to encourage the creation of maximum good corporate governance in the company (Al-Kahfi et al., 2021). The voices of company shareholders can be more represented when the percentage of independent commissioners in a company increases and can minimize the possibility of agency problems that occur between management and shareholders, besides that the supervision will be more stringent which has an impact on reducing agency costs (Pratiwi & Yulianto, 2016).

Regulations issued by Otoritas Jasa Keuangan Number 33/POJK.04/2014 stated that in connection with the implementation of good corporate governance, publicly listed companies are required to have an independent board of commissioners with a minimum percentage of 30% of the total members of the board of commissioners. According to Sunarsih & Oktaviani, (2016) stated that the percentage of the board of commissioners also has a contribution in providing strict supervision of the performance of the company's management so that they can act in the interests of shareholders.

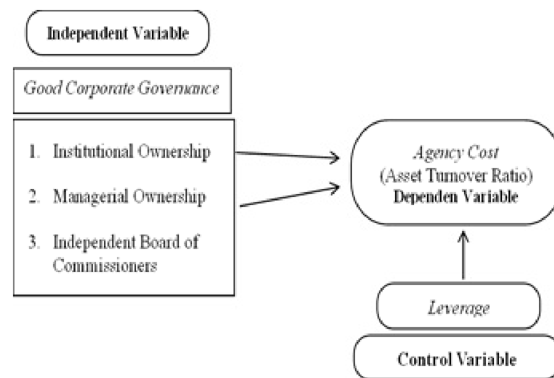
The increase in the number of independent commissioners will have an impact on increasing the supervision carried out by the management to make decisions by prioritizing the wishes of the shareholders which will increase the company's asset turnover ratio. The increase in the asset turnover ratio indicates that the company's sales have increased and indicates that agency costs are low (Krisnauli & Hadiprajitno, 2014). This statement is supported by research Fujianti, (2013) which have independent board of commissioners results have a negative effect on agency costs. Based on the explanation above, the proposed hypothesis is:

H3: Independent Board of Commissioners has a significant negative effect on agency costs

This study uses a control variable, namely the debt ratio or leverage, where these variables can reduce agency conflicts. Wijayanto, (2010) states that financial debt is the ability of a company to pay its debts or obligations using the capital owned by the company. The existence of debt will make the creditor will carry out the function as a monitoring mechanism for the company (Jensen, 1986). Managers are required to generate cash to pay interest expenses. With this pressure, managers will certainly maximize the company's performance in order to pay interest expenses (Jensen, 1986). Conflicts between shareholders and managers in making investment choices can be reduced by higher leverage (Myers, 1977).

Research Yegon at al, (2014) and Putri, (2017) result that a high debt ratio or leverage can reduce agency costs. Based on the description above, the framework of thinking in this study can be described as follows:

Figure 1. Research Model



METHOD

This study is included in quantitative research which aims to determine the effect of good corporate governance on agency costs with leverage as a control variable in non-financial companies listed on the Indonesia Stock Exchange from 2008-2020. The sample used is 60 non-financial companies listed on the Indonesia Stock Exchange with a time span of 2008-2020 with 780 observational data, through purposive sampling method with criteria: 1) Non-financial companies that are listed on the IDX and are not delisted and have issued financial reports and annual reports ending December 31 during 2008-2020; 2) Non-financial companies that have complete data related to the variables used in the study during 2008-2020;3) non-financial companies that use the rupiah currency in their financial statements for the period 2008-2020.

Data collection was carried out using documentation techniques with secondary data types in the form of company financial statements and annual reports of non-financial companies listed on the Indonesia Stock Exchange 2008-2020 obtained from www.idx.co.id. In this study, the multiple linear regression analysis model was

assisted by the Eviews 9 program.

The dependent variable or the dependent variable in this study is the agency cost or agency cost where the variable is proxied by the asset turnover ratio. Septiyeni & Sudarma, (2018) states that the asset turnover ratio is the ratio obtained from total sales divided by the company's total assets. The use of this ratio is because it can describe the efficiency of managers in managing company assets. Ang, et al (2000) said that this asset turnover ratio is inversely proportional to agency costs, which means if the ratio of sales to assets is lower then the company has high agency costs. Asset turnover in the company is low, it can be stated that the manager does not manage company assets effectively and illustrates the waste of company assets carried out by the manager so that it cannot generate maximum sales. This indicates that the monitoring or supervision mechanism has not been running well so that the agency costs that must be incurred by the principal to supervise the company increase (Hatang & Hapsari, 2020). The independent or independent variables in this study are good corporate governance which is proxied by institutional ownership, managerial ownership and independent board of commissioners. Institutional ownership as the ratio of share ownership owned by other parties or companies from the total outstanding shares. These other parties or companies can come from pension funds, insurance, financial institutions, corporations, mutual funds, securities companies, banks and foundations (Nekounam et al., 2013).

The ownership of these shares can represent the power used to support or reject the existence of the management (Wijayati, 2015). Institutional ownership in this study is obtained by adding up all the shares owned by the institution and dividing by the number of shares outstanding in the company (Nekounam et al., 2013).

Managerial ownership can be interpreted as the number of share ownership owned by company insiders such as directors, commissioners and company managers (Yulianto, 2013). The increase in shares owned by managerial will cause the manager to feel ownership of the company so that he will reduce actions that cause losses or decrease performance in the company, so that the high managerial ownership will reduce the conflict between the principal and the agent which has an impact on the reduction of the company's agency costs (Pratiwi & Yulianto, 2016). This managerial ownership ratio can be obtained from the number of shares owned by the company's management divided by the number of shares outstanding (Maftukhah, 2013).

An independent board of commissioners is a board of commissioners who does not have a substantial interest in the company's business (Wardoyo & Veronica, 2013). This independent board of commissioners has a neutral attitude towards decisions made by management (Krisnauli & Hadiprajitno, 2014). The use of this independent commissioner will be able to minimize management behavior that prioritizes its own interests (Wahidah & Ardiansari, 2019). The use of this independent commissioner will be able to minimize management behavior that prioritizes its own interests (Hadiprajitno, 2013).

The use of this independent commissioner will be able to minimize management behavior that prioritizes its own interests (Wijayati, 2015). The use of increased corporate leverage will increase the supervisory function of the management of creditors so that actions that deviate from the company will be more difficult to do (Sadewa & Yasa, 2016). Martono et al (2020) said that the use of debt can increase the risk to the company. This opinion is in accordance with Nazir & Saita, (2013) which says that the use of high debt will have an impact in the form of potential bankruptcies on the company, this will certainly cause pressure on managers to be more careful in managing company funds effectively so that the possibility of fraud by managers will be reduced and agency costs can also decrease

Leverage can be calculated by the debt total asset ratio where the ratio describes the use of debt used to run the company's operations (Putri, 2017). A high debt-to-asset ratio will indicate an increased possibility of default because the company has too much in funding assets derived from debt (Azis & Hartono, 2017). So that this increase will make the management more careful in managing their funds.

According to Risdiyani & Kusmuriyanto, (2015) states that the use of high debt will increase the supervision carried out by creditors in order to avoid improper use by company managers. The increase in supervision will certainly reduce agency costs in the company. Leverage can be calculated by dividing the total liabilities by the total assets of the company (Mowen et al., 2017). This study uses multiple linear regression model for hypothesis testing with random effects model, so that the regression equation in this study is as follows:

ACit = β1 + β2KIit + β3KMit + β4DKIit + β5LEVit + µit

abrreviation:
ACit : Agency cost company i year t
KIit : Institutional Ownership of company i year t
KMit : Managerial Ownership of company i year t
DKIit : Board of Commissioners Independent com pany i year t
LEVit : level of debt at company i year t
β1 : constant
β2,3,4,5 : regression coefficient
µit : error term

RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

	AC	KI	KM	DKI	LEV
Mean	1.048	0.631	0.140	0.382	0.519
Median	0.880	0.650	0.030	0.330	0.510
Max	5.580	0.990	0.710	1.000	2.510
Min	0.010	0.070	0.000	0.140	0.030
Std Dev.	0.853	0.188	0.132	0.098	0.247

The average agency cost as measured by the asset turnover ratio (the ratio of sales to the company's total assets is 104.8%, which means that the sales generated are greater than the company's assets, this indicates that agency costs in non-financial companies listed on the IDX in 2008 -2020 low, standard deviation of 85.3%.

The average institutional ownership in non-financial companies is 63.1% of the total outstanding shares. This indicates that the level of institutional ownership in non-financial companies listed on the IDX is high. High ownership has high voting rights in the GMS. with a standard deviation of 18.8%.

The average managerial ownership in non-financial companies listed on the IDX is 14%, this shows that managerial ownership of shares in non-financial companies listed on the IDX is quite low so that the voting rights that will be obtained at the GMS are also small with the standard deviation owned by 13.2%.

The average independent board of commissioners in non-financial companies listed on the IDX is 38.2%, this indicates that the average non-financial companies listed on the IDX have implemented OJK regulations No.33/POJK.04/2014 which states that companies listed must have an independent board of commissioners at least 30% of the total number of commissioners with a standard deviation of 9.7%.

The average leverage of non-financial companies listed on the IDX is 51.9%, this indicates that most of the non-financial companies listed on the IDX finance part of their assets with debt with a standard deviation of 24.7%.

Table 3. Chow Test

Effects Test	Statistic	**d.f.**	**Prob.**
Cross-section F	60.972535	(59,716)	0.0000
Cross-section Chi-square	1400.72153	59	0.0000

Before doing the regression test, it is necessary to select the model first. Table 3 shows the results of the Chow test to find out the right model to use between the Fixed Effect and Common Effect. It can be seen that the probability value of the chi-square cross-section <0.05, so that the selected model is Fixed Effect.

Tabel 4. Hausman Test

Test Summary	Chi-Sq. Statistik	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	3.724151	4	0.4446

Then the Hausman test is carried out to select the late model between Fixed effect or Random Effect. Table 4 shows that the results of the random cross section probability value> 0.05 so that the selected model is Random Effect.

Furthermore, the Lagrange Multiplier test is carried out to determine the right model between Random Effects and Common Effects. In table 5 it can be seen that the results show the probability of the Breusch-Pagan Cross-section <0.05 so that the Random Effect model is the best model to be used in the regression model compared to the Common Effect model.

Table 5. Lagrange Multiplier Test

	Test Hypothesis		
Test Summary	Cross-section	Time	Both
Breusch-Pagan	3054.136	1.922298	3056.058
	(0.0000)	(0.1656)	(0.0000)

Based on the results of the estimation model selection using the Chow test, Hausman test and Lagrange test, it was found that the Random Effect Model is the best and most appropriate

estimation model. The model uses Generalized Least Square (GLS). The Random Effect Model using the Generalized Least Square (GLS) method is said to have met the classical assumptions and produced a BLUE estimator (Best Linear Unbiased Estimator) and also has the advantage that it does not require classical assumption testing on research data (Gujarati & Porter, 2013).

Tabel 6. Determinasi Determination Coefficient Test

	Value
R-squared	0.105
Adjusted R-squared	0.104

Based on the table above, it can be seen that the results of the determination coefficient test have an Adjusted R Square with a value of 0.104. it can be interpreted that 10.4% of the variation in agency costs can be explained through four variables, namely institutional ownership, managerial ownership, independent commissioners and debt. The next remaining 89.6% can be explained by other reasons outside the model.

Tabel 7. F-statistic Test

	Value
F-statistik	2.801
Prob(F-statistik)	0.025

Based on the results of the F statistic test in the table above, it can be seen that the F-Statistic Prob or probability value is 0.025031 less than 0.05. These results have the conclusion that the variables of institutional ownership, managerial ownership, independent board of commissioners as independent variables and debt as a control variable together have an influence on agency costs as the dependent variable in all non-financial sector companies listed on the Indonesia Stock Exchange with the period 2008 -2020.

Tabel 8. Random Effect Model Test

Variable	Coefficient	Std. Error	t Statistik	Prob.
AC	0.733	0.171	4.276	0.000
KI	0.211	0.146	1.443	0.149
KM	0.511	0.199	2.565	0.010
DKI	0.180	0.178	1.013	0.311
LEV	0.218	0.073	2.977	0.003

The results of multiple linear regression using the random effects model have the following equation:

$$AC = 0.733 + 0.211\ KI + 0.511\ KM + 0.180\ DKI + 0.218\ LEV + wit$$

Based on table 8, the regression analysis above is generated based on the asset turnover ratio where the asset turnover ratio is the opposite of agency costs. When the asset turnover ratio has a positive result on the regression coefficient, it will have the opposite meaning, which is negative for agency costs so that the equation can be explained as explained below:

The constant (α) has a value of 0.733 which means that when institutional ownership, managerial ownership, independent commissioners, and debt have a constant or equal to zero, the agency cost has a value of 0.733.

The regression coefficient for KI or institutional ownership has a value of 0.210, when institutional ownership increases by 1%, it will be followed by a decrease in the average agency cost of 0.210 or 21% with the assumption that other variables are constant.

The regression coefficient for KM or managerial ownership has a value of 0.511, when managerial ownership increases by 1%, it will be followed by a decrease in agency cost of 0.511 or 51.1% with the assumption that other variables are constant.

The regression coefficient of DKI or the independent board of commissioners has a value of 0.180 which means that when the independent board of commissioners increases by 1%, it will be followed by a decrease in agency cost of 18% with the assumption that other variables are constant or constant.

The regression coefficient of LEV or debt has a value of 0.218 which means that when debt increases by 1%, it is followed by a decrease in agency cost of 0.218 or 21.8% with the assumption that other variables are constant.

Table 8 is generated based on the asset turnover ratio where the asset turnover ratio is contrary to agency costs, when the asset turnover ratio has a positive result on the regression coefficient, it will have the opposite meaning, which is negative for agency costs so that Institutional Ownership (KI) has a high level of significance 0.149 > 0.05 with a regression coefficient of 0.211. So it can be interpreted that the independent variable of institutional ownership has an insignificant positive effect on the asset turnover ratio, which means that it has an insignificant negative effect

on agency costs, so Ha1 is rejected.

Managerial Ownership (KM) has a significance level of 0.010 <0.05 with a regression coefficient of 0.511. So it can be interpreted that the independent variable of managerial ownership has a significant positive effect on the asset turnover ratio which means that it also has a significant negative effect on agency costs so that Ha2 is accepted.

The Board of Independent Commissioners (DKI) has a significance level of 0.311 > 0.05 with a regression coefficient of 0.180. So it can be interpreted that the independent variable of the independent board of commissioners has an insignificant positive effect on the asset turnover ratio, which means that it is also not significant negative on agency costs, so H3 is rejected.

RESULT & DISCUSSION

The results of the t-static test for hypothesis testing resulted that institutional ownership had an insignificant negative effect on agency costs. The negative results show that if the institutional ownership of non-financial companies listed on the IDX in 2008-2020 has increased, then the agency costs of these companies have decreased, which is indicated by an increase in the asset turnover ratio. On the other hand, if the institutional ownership of the company decreases, the agency costs of the company will increase, which is indicated by a decrease in the asset turnover ratio.

Agency theory says that institutional ownership has greater rights and power when compared to individual ownership so that institutional ownership can supervise and control managerial decisions. This supervision will reduce the possibility of fraud committed by the management and also decisions that have an impact on harming the company (Pratiwi & Yulianto, 2016).

Insignificant results indicate that institutional ownership has not been able to represent all non-financial companies listed on the IDX in 2008-2020 however, only affects the research sample. These results can show that institutional share ownership in non-financial companies listed on the IDX in 2008-2020 can be said to have not fully implemented an optimal monitoring and control system for decisions made by managers. Although institutional ownership has greater rights and power in influencing managers' decisions. Allows the manager to take actions that are opportunistic or self-interested, agrees with the research conducted by (Septiyeni & Sudarma, 2018).

In addition, supervision that is not optimal can be due to the large number of institutional ownership originating from passive investors rather than active in this study where institutional ownership from passive investors is 33% while active investor ownership is 30% of the total outstanding shares. Total outstanding shares can be interpreted as the number of shares outstanding in the capital market that can be traded by investors which can consist of institutional investors, insider or managerial investors and general investors or the public (Elta & Kamal, 2016). Based on this, it can be interpreted that the remainder of institutional ownership originating from passive and active investors can be in the form of insider investors, namely managerial and general investors, namely the public. Institutional ownership that comes from passive investors prefers not to be too involved in management decisions while those involved in management decisions are active investors.

The ownership of these investors will have an influence on voting rights in the GMS which will have an impact on management decisions related to the company (Anggarini & Srimindarti, 2009). These results support research conducted by Hatang & Hapsari, (2019) and Mahdavi et al, (2012) who found the result that institutional ownership was not significant to agency costs.

Effect of Managerial Ownership on Agency cost

The results of the t-statistical test for hypothesis testing show that managerial ownership has a significant negative effect on agency costs. Negative results indicate that managerial ownership has increased, the agency cost of the company will decrease, which is indicated by an increase in the asset turnover ratio. On the other hand, if the managerial ownership of the company decreases, the agency cost of the company will increase, which is indicated by a decrease in the asset turnover ratio.

Agency theory states that managerial share ownership in a company can balance the possible differences in interests between shareholders and management, so that problems that may occur due to differences in interests and have an impact on agency costs can be minimized if a manager is a shareholder (Jensen & Meckling, 1976). According to Susanti & Titik, (2014) also stated that the amount of managerial ownership will have an impact on the effective supervision of the activities of a company.

Significant results can indicate that managerial ownership can represent all non-financial companies listed on the IDX in 2008-2020.

Managerial ownership is the number of shares owned by the commissioners and directors of the total outstanding shares of the company. Managerial ownership can also act as a way of internal control and can function as a monitoring party in order to reduce agency conflicts that may occur on the principal and agent involved. have an impact on increasing agency costs (Sintyawati & Dewi S, 2018).

The results of this study are in accordance with research conducted by Yegon et al, (2014), Gul et al (2012), Schauble (2019) and Nozari & Nozari, (2015) which says that managerial ownership has a significant negative effect on agency costs. Increased managerial share ownership will provide more motivation for managers to be able to utilize and maintain company finances properly because they are also shareholders of the company who do not want to suffer losses. Increased managerial ownership can also align the position between shareholders and management. Increased managerial ownership will have an impact on reducing the cost of monitoring manager behavior so that it can reduce agency costs that exist in the company.

Effecr of Independent Board of Commissioners on Agency cost

The results of the t-static test for hypothesis testing resulted that the independent board of commissioners had an insignificant negative effect on agency costs. The negative results show that if the independent board of commissioners in non-financial companies listed on the IDX in 2008-2020 has increased, then the agency costs of these companies have decreased, which is indicated by an increase in the asset turnover ratio. On the other hand, if the independent board of commissioners in the company decreases, the agency costs of the company will increase, which is indicated by a decrease in the asset turnover ratio.

Agency theory says that the existence of independent commissioners can improve the quality of the supervisory function because the board of commissioners comes from unaffiliated parties so that they are able to represent the interests of shareholders and have a good influence on decision making and can minimize agency problems that cause agency costs to increase. (Jensen & Meckling, 1976).

Insignificant results may indicate that the independent board of commissioners has not been able to represent all non-financial companies listed on the IDX in 2008-2020 but only affects the research sample. This can be interpreted that the percentage of independent commissioners in non-financial companies listed on the IDX does not guarantee good monitoring to minimize the possibility of manager behavior that can prioritize their own interests rather than the interests of shareholders (Wardoyo & Veronica, 2013). Although the non-financial companies listed on the IDX have the percentage of independent commissioners on average 38.16% which has fulfilled the requirement of 30% independent commissioners in the company.

The ownership structure of companies in Indonesia has a higher level of concentration, so sometimes the owner or founder also has a position on the board of directors or commissioners and becomes a shareholder, this allows them to control the company's management. As a result of the high level of concentration, the supervision carried out by the independent board of commissioners is very weak and has resulted in not being able to represent the interests of minority shareholders and not being able to carry out the function as a fully independent supervisor (Prasetyo,2013). In line with opinion Wedahwati et al, (2015) who said that the important role was still held by the majority shareholder so that the performance of the independent board of commissioners was not optimal, which resulted in the supervisory activities carried out by the independent commissioner not being able to reduce agency costs.

The results of this study are in accordance with research conducted by Siregar et al (2014), Destriana, (2015), Amaliyah & Herawati (2019), found that the results of independent commissioners had an insignificant negative effect on agency costs. The reason it is said so is because there is a possibility that the percentage of independent commissioners in the company is only intended to fulfill the requirements or regulations made by the company Otoritas Jasa Keuangan where the regulations are contained in the Regulations Otoritas Jasa Keuangan Nomor 33/POJK.04/2014 which stipulates that every company must have an independent commissioner of at least 30% of the total number of commissioners so that the functions of supervision or monitoring carried out by the independent board of commissioners has not been fully maximized.

CONCLUSSIONS AND RECOMMENDATION

The conclusion of this research is that institutional ownership and independent board of commissioners have an insignificant negative effect on agency costs. Managerial ownership and leverage as control variables have a significant negative effect on agency costs in non-financial

companies listed on the IDX in 2008-2020. This indicates that the supervisory mechanism through good corporate governance proxied by institutional ownership and an independent board of commissioners has not been effective enough in reducing agency costs in the company. Agency costs in the company can be reduced through a supervisory mechanism through good corporate governance which is proxied by managerial ownership and the use of leverage in the company.

Suggestions that can be given to further research from the limitations that exist in this study are suggested in measuring agency costs or agency costs can be added with other variables such as expense ratios, asset liquidity ratios or others. In addition, you can add other variables related to the monitoring function such as the audit committee, board of commissioners and board size. Then, further research can conduct research on agency costs by adding in terms of the bonding mechanism to reduce agency costs by using the company's dividend policy variable. And can add other control variables such as company size, company age and others.

Increase debt and managerial ownership. The proportion of institutional ownership and independent board of commissioners does not have to be large, but the implementation of supervision must be carried out strictly and optimally on the company's management. Investors and creditors can be advised that before making a decision to invest in non-financial companies, they can see how much managerial ownership, debt and agency costs are.

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