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Analysis Of The Influence Of Debt Policy, Company Size And Corporate Governance On Agency Costs For Property Companies In Indonesia

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Abstract:

The purpose of this study is to investigate how agency cost is impacted by corporate governance mechanisms, company size, and debt policy. The study's independent variables include audit committees, institutional ownership, and the number of commissioners in corporate governance structures. Next, determine the company's size using the natural log of its assets and its debt policy, which is determined by dividing its total assets by its liabilities. Using the sales to total assets ratio, agency cost is the dependent variable in this study. In this study, secondary data are used. The property businesses that were listed on the IDX between 2019 and 2021 made up the study's population. Purposive sampling was used to choose the research sample, yielding 50 firms annually. Following data processing according to the chosen criteria, some firms made up the sample, which meant that some companies was the final sample size that was employed. Multiple regression analysis models are used in the analysis test. The study's findings show that debt policy and the board of commissioners have a big impact on agency costs. However, the size of the business, the audit committee, and institutional ownership have little impact on agency costs.

Keywords: agency cost, company size, debt policy, audit committee.

Introduction

Corporate governance, which is helpful for boosting business performance and corporate accountability, which describes the relationships between various players in a corporation, is required of any firm that has sold its shares to the public. Corporate governance, in essence, protects and guarantees the rights of stakeholders, including shareholders, with a view to serving the interests of shareholders. This firm must publish its annual financial report, which includes its financial statements, on the official IDX website for the public to see as well as its shareholders (Ayu, 2016). The people who directly suffer the consequences of management choices are the shareholders. In practice, however, the aims of the firm and the managers' personal objectives frequently clash, making it difficult for shareholders to pick managers to manage the business. Even with the advent of contemporary corporate governance frameworks, concerns remain regarding the efficiency of the relevant corporate governance system. The separation of ownership and corporate governance is a common issue in corporate governance. This leads to agency conflicts, or the divergence of interests between the principal and the agent, which in turn drives up agency costs and disregards investor interests (Pangestika et al., 2018).

In 2014, there was a perceived acceleration and growth in the property business in Indonesia. Jakarta is among the top cities in the real estate industry out of the fifteen cities in Asia-Pacific. However, investors are now looking at Asian nations that are thought to have more promise as a result of the European economic crisis, and one such nation is Indonesia. Numerous multinational corporations are relocating their operations from Europe to Indonesia. The numerous demands for locations in various economic sectors are indicative of this. According to data from the Indonesia Stock Exchange (IDX), the property sector grew by 61% in just one year. In contrast, the trade and services sector increased 31%, while the basic industry sector only grew by 35%. At the end of October, the trade and services sector was still leading with a value of 52%, while property was at 50%. Researchers are interested in examining the presence of unstable agency costs in these companies because of the growth of property and real estate companies in Indonesia from the end of 2021 to the present. This can be observed through the companies' relationships with corporate governance mechanisms (such as the audit committee, board of commissioners, and institutional ownership), as well as from the size of the company and the debt policy used to fund it. based on this backdrop and phenomena, which further enhances the originality of this study (Subekti & Pangestika, 2020).

Prior research has shown variations in the object of the firm sample. For example, Septiawan utilized objects from non-financial enterprises and combined agency cost metrics with asset turnover (AT). Jesica conducted a study that examined the relationship between agency cost and corporate governance structures, as well as the administrative expense rate of asset turnover. Previous researcher out a second research in which she calculated the debt policy by dividing the total amount of long-term debt by its sum plus the equity. and the asset utilization ratio, which serves as a proxy for measuring agency costs (Handoko, 2014).

In addition to other issues brought on by agency expenses, such as the appropriation of minority share wealth by dominant owners. The information imbalance that exists between management and other parties—who lack the resources and access necessary to gather the information needed to oversee management actions—causes this predicament. The ownership structure is a tool that helps lessen disputes between shareholders and management, which in turn lowers agency costs. Government ownership, concentrated ownership, foreign ownership, and institutional ownership are the three types of ownership systems. Since several instances of company failure have been listed on the IDX, the topic of corporate governance has grown significantly. Share ownership and audit committees are seen as the best solutions for resolving issues with corporate governance and increasing corporate responsibility. Numerous studies have examined the impact of various corporate governance elements on financial reporting, audit quality, and the amount of audit fees. The audit committee is a crucial component of corporate governance and ensures the quality of financial reporting (Handoko, 2014).

Because ownership and control are separated, there is an agency cost issue with the accuracy of the reported accounting figures, which is why this study was done. When management and ownership are not in sync, agency conflicts occur. Even when it means undermining the interests of shareholders, management acts in their own self-interest and presents fake financial figures for opportunistic reasons. High audit quality plays a crucial role in preventing and restricting opportunistic management conduct. Large shareholders, whether they be people or institutions, will keep a close eye on the management of the business and restrict the ability of the accounting department to create financial statements that are skewed in favor of their own agendas. Under this scenario, there will be less of an adverse effect from the agency problem and the inherent risk of substantial misrepresentation in financial reporting. With these customers, auditors will assign a reduced audit risk, which will lead to a decrease in audit activity and, eventually, a decrease in audit fees. Furthermore, when management has a large degree of ownership, they are incentivized to generate more pertinent data instead of merely putting together accounting figures whenever they can for their own benefit. As a result, there are substantial misstatements, which lowers audit risk and audit expenses. Demanding high-quality services and audits is a productive way to reduce the issue (Bakri et al., 2023).

On the one hand, sophisticated shareholders will force managers of the firm to employ premium audit services in order to ensure that any financial statement fraud that is now in place is found. However, in order to attract investors and major shareholders, managers can boost the credibility of financial statement information by investing in comprehensive and high-quality audit services. Furthermore, managers seek to generate favorable impressions or values in order to reap a variety of financial rewards. As a result, supply and demand considerations influence audit fees. Although audit committees are not required and are not often present in small businesses, BAPEPAM laws require them to be present in public firms. The importance of the audit committee's role in corporate governance is growing, as evidenced by Bapepam regulation, which places a strong emphasis on the committee's role in monitoring the financial reporting process and the interaction between management and external auditors (Alfalah et al., 2022).

Agency theory, which results from the mismatch of interests between shareholders (the principal) and firm management (the agent), gives birth to earnings management. Corporate governance is one strategy to restrain management's opportunistic behavior. Agent conflicts can be settled through the employment of corporate governance procedures such as audit committees and independent commissioners. One common predictor variable used to explain discrepancies in disclosure in an organization's annual report is the size of the firm. This relates to agency theory: in order to lower their agency costs, big businesses with higher agency costs would reveal more detailed information. Furthermore, the public's desire for information about larger corporations is typically stronger than that of smaller ones. Another explanation is that in order to save agency expenses, big businesses with higher agency charges will undoubtedly divulge more detailed information. Increased shareholder numbers necessitate increased disclosures (Safrida et al., 2023). The demands of capital market experts and shareholders are to blame for this. The purpose of this study is to ascertain how corporate governance practices, firm size, and debt policy affect agency costs.

Literature Review

One of the earliest and most prevalent types of social interaction is the agency relationship, which occurs when ownership and management tasks are separated and one party (the agent) represents the other party (the principal) in decision-making. Because of the divergent interests, agency issues will arise when ownership and management activities are separated. Due to the founding family owning a large portion of the firm, agency issues are distinct in Indonesia. This is a result of the family-controlled nature of many businesses in Indonesia. In situations when the principle and the agent have differing opinions on risk and the principal is unsure whether the agent has behaved correctly, agency theory aims to address these issues (Safrida et al., 2023). The Agency Theory explains the relationship of interest that exists between one or more people (the principal) and other people (the agents) in a particular context, where the agent is expected to assist the principle in formulating decisions. As business activities become more complex, employees of the company are required to work with competent and experienced teams to carry out operational tasks. In order to allow the management to function as an extension of the owner, the company's principle engages a manager (an agent) and assigns the manager some decision-making authority. This situation could not be optimal, though, if the management takes advantage of every chance to further his personal interests at the expense of the owner's. Agency difficulties occur when the management, acting as an agent, behaves opportunistically and fails to maximize the realization of the principal's objectives. The principal will implement policies pertaining to the monitoring and bounding functions in order to address these agency issues. The corporation will undoubtedly have to pay agency costs—expenses associated with putting rules in place to reduce agency difficulties (Simamora & Elviani, 2022).

Corporate governance is the term used to define the norms, regulations, rules, and procedures that guide businesses and organizations in how they operate, manage, and oversee their operations. Corporate governance procedures serve to manage stakeholder relationships, such as those between the board of directors and shareholders, and to accomplish corporate goals. If the business has not made the most of putting corporate governance into practice, it has a serious agency problem (Ayu, 2016). Contracts can help to minimize issues in agency agreements, but they cannot cover every detail, which is why corporate governance is necessary. A variety of corporate governance techniques are suggested by the agency model in an effort to lower agency costs related to the division of ownership and control. Aligning the interests of management and shareholders is the aim. Internal and external corporate governance systems fall under these two groups. Corporate governance processes, both internal and external, play a part in lowering cost expectations that have a detrimental impact on company value (Pangestika et al., 2018).

The board of commissioners, which is the highest authority in the organization and is responsible for overseeing the internal control system, and management, which functions as the company's representative, are the sources of the internal corporate governance mechanism. The internal audit function, internal control, and the board of commissioners form the basis of the internal mechanism. Several internal corporate governance factors, including the mix of executive and non-executive directors, the size of the board of commissioners, institutional ownership, and the audit committee, can affect the growth or decline of agency expenses (Handoko, 2014). Agency cost is not just determined by internal company governance procedures; external corporate governance measures can either raise or lower agency cost. Institutional ownership will serve as a stand-in for the external corporate governance mechanism in this study. One aspect of the business in connection to its structure is its size. The size of a corporation may be determined by looking at its total assets, revenue, and market capitalization. A company's size increases with its total assets, revenue, and market capitalization. More assets equate to higher invested capital, more sales, more money in circulation, and a higher market capitalization. Since asset values are more constant than sales and market capitalization, the total asset variable—of the three—is most frequently employed to determine the size of a corporation. The capacity of a corporation to generate profit from its assets, equity, and debt is demonstrated by its performance. Size of the firm is thought to have an impact on agency expenses since a larger company will find it simpler to secure funds from both internal and external sources. According to Rachmawati's research, business value and company size are positively and strongly correlated. Siallagan, however, gives firm size a negative and noteworthy significance. The entire assets that the firm has and may employ for its operational activities provide an indication of its size (Bakri et al., 2023).

The management of the firm has more freedom to employ its assets if it has a high overall asset base. The management's latitude is correlated with the concerns raised by the company's asset owner. If evaluated from the perspective of the business owner, a sizable number of total assets will lower the company's worth. On the other hand, when seen from the management's perspective, the company's value will rise due to its ease of control. One common predictor variable used to explain discrepancies in disclosure in an organization's annual report is the size of the firm (Alfalah et al., 2022). This relates to agency theory: in an effort to lower agency costs, big businesses with higher agency costs will reveal more detailed information. Furthermore, the public's desire for information about larger corporations is typically stronger than that of smaller ones. Another explanation is that in order to save agency expenses, big businesses with higher agency charges will undoubtedly reveal more detailed information. Increased shareholder numbers necessitate increased transparency. The agency cost of total assets is impacted by the size of the organization as well, which amplifies the impact on agency cost. It is expected that the assets entrusted to firm managers would be managed with additional value. in keeping with the objective of the business, which is to maximize capital owners' welfare by growing firm value (Ayu, 2016).

A company's debt policy specifies how much of its funding comes from debt. Previous research delves into various theories regarding debt funding and its correlation to firm value and agency. One such theory is the capital structure theory. This theory posits that in an ideal world, where there are no taxes, bankruptcy costs, asymmetric information between shareholders and management, and efficient market conditions, a company's potential outcomes are unrelated to its funding strategies. Once the presumption of no taxes is eliminated, debt can reduce taxes paid (due to interest payments, which lower the amount of income liable to taxes) and enhance the value of the business (Pangestika et al., 2018). Theory of trade-offs According to this idea, a company's risk of financial issues increases with the amount of debt it uses to sustain itself since it must pay debtholders excessive fixed interest rates every year under unpredictable net income conditions (the bankruptcy cost of debt). Agency strategy This method states that the capital structure is set up to lessen disputes between different interest groups. The notion of free cash flow is really the source of contention between managers and shareholders. However, managers have a propensity to hoard resources, particularly free cash flow, in order to maintain control over them. One strategy to lessen agency conflicts associated with free cash flow is to consider taking on debt. The management will have to take money out of the business (to pay interest) if the company uses debt. Theory of signaling The manager will want to let investors know if they think the firm has bright future prospects and, as a result, wish to see an increase in share price (Safrida et al., 2023). More debt might be used by the manager as a more dependable indicator. This is due to the perception that a business that raises debt is one that is optimistic about its future. It is anticipated that investors would recognize the signal, which suggests that the firm has promising future potential. Therefore, based on the foregoing argument, we may infer that debt is a good indication or signal from the business.

Methodology

There is secondary data in this study. The property businesses that were listed on the IDX between 2019 and 2021 made up the study's population. Purposive sampling was used to choose the research sample, yielding 50 firms annually. Following data processing according to the chosen criteria, 40 firms made up the sample, which meant that 40 companies was the final sample size that was employed. A total of 120 firms make up the sample. Multiple regression analysis models are used in the analysis test. The SPSS program was used to analyze the data, and descriptive analysis was used to show the results.

Results

The data in this study were processed in the classical assumption test to meet the needs of linear regression analysis before moving on to the primary hypothesis testing. The results of the normality test indicated that the research's significant value was reached at 0.1 > 0.05, indicating that the data is normally distributed and satisfies the regression model's normality requirements. The regression model satisfies the normalcy assumption when P-Plot testing reveals that the points approach and follow the diagonal line. The tolerance value of all independent variables more than 0.1 and the VIF value of all independent variables 10 are known properties based on multicollinearity. Thus, it can be inferred from the preceding computations' findings that the regression equation model is suitable for application in this investigation and does not have a multicolonierity issue. In the meanwhile, heteroscedasticity results show that there is no heteroscedasticity since there are no dots that create a specific pattern and because the dots are dispersed above and below the 0 on the Y axis.

The constant value of 0.2 in the regression equation above indicates that the agency cost is 0.2 if the independent variable is taken to be constant. The agency cost will rise by 0.04 if the board of commissioners grows by one unit, according to the board of commissioners variable, which has a positive value of 0.01. Agency cost will rise by 0.07 if institutional ownership rises by 1 unit, as indicated by the positive institutional ownership of 0.07. The agency cost will drop by 0.06 if the audit committee grows by 1 unit, as shown by the audit committee of 0.06 being negative. The agency cost will drop by 0.001 if the firm size grows by 1 unit, as indicated by the negative company size of 0.001. The debt policy of 0.6 is positive, meaning that an increase of one unit in the debt policy will result in a rise of 0.6 in the agency cost.

The board of commissioners variable's significance level is 0.01 and less than 0.05, according to the partial test results, meaning that the board has an effect on agency cost; in other words, H1 is accepted. The institutional ownership variable, on the other hand, has a significance level of 0.09 and greater than 0.05, meaning that institutional ownership has no effect on agency cost; in other words, H2 is rejected. The audit committee variable has a significance of 0.151 and is larger than 0.05, indicating that H3 is rejected and the audit committee has no impact on agency cost. The debt policy variable shows a significance of 0.000 and less than 0.05, which indicates that the debt policy variable affects agency cost; in other words, H5 is accepted. The company size variable shows a significance of 0.7 and greater than 0.05, which indicates that company size has no effect on agency cost.

Subsequently, the F test or simultaneous test results showed that the F value was 8.5 with a 0.000 probability. The factors of board size, institutional ownership, audit committee, firm size, and debt policy taken collectively have an impact on agency cost since the likelihood is much less than 0.05. After the coefficient of determination is tested, the modified R2 result is 0.3, meaning that the variation in the independent variable can account for 30% of the variance in the dependent variable. Thus, it can be said that the factors of board size, institutional ownership, audit committee, firm size, and debt policy all have an impact on 30% of agency cost. While factors other than those employed in this analysis, such as capital structure, tax evasion, foreign ownership, management ownership, firm valuation, dividend policy, and others, affect the remaining 70%.

Discussion

The audit committee variable has a t count of 2.7 and a sig value of 0.01 based on the test findings. Given that the sig value of 0.01 < α 0.05 indicates that the board of commissioners variable affects agency cost, the hypothesis that the board of commissioners affects agency cost is either accepted or has an impact is supported. From the agency's point of view, the monitoring function plays a critical role in decreasing agency expenses and oputnis levels. This implies that a company's reduction in agency expenses may depend on the makeup of its board of commissioners. A bigger board of commissioners will be able to perform its supervisory and advising duties more effectively, which will save agency expenses.

The firm size variable has a t count of 1.7 and a sig value of 0.09 according to the test findings. Given that the institutional ownership variable has no significant influence on agency cost (as indicated by the sig value of 0.09 > α 0.05), it may be concluded that either Ha2 institutional ownership has no effect on agency cost or is rejected. This demonstrates that a company's institutional ownership level has little effect on lowering agency costs inside the organization. Because institutions are seen to have greater operational experience than other public investors, they can serve as a monitoring mechanism for policies adopted by corporations. Because institutional ownership is a source of power that may be utilized to support management choices, managers with high levels of ownership will be able to attempt to maximize their own interests. In other words, lowering agency costs is unaffected by increasing institutional ownership.

The leverage variable has a t count of -1.3 and a sig value of 0.2 based on the test findings. Since the audit committee variable has no influence on agency cost, as shown by the sig value of 0.2 > α 0.05, Ha3 "the audit committee has no effect on agency cost or is rejected" is true. This demonstrates that organizations with a large number of audit committee members, or more accurately, ineffective audit committees, will not significantly reduce agency costs associated with the company's internal control system. Instead, they will guarantee the accuracy of financial statements and boost the efficacy of the audit function, which is subsequently confirmed by external auditors. This is because the creation of audit committees with financial and accounting skills is solely dependent on the relevant Made legislation. Furthermore, the company-established audit committee fails to perform its duties and responsibilities in an efficient manner, meaning that the committee has no impact on agency expenses. The findings of this investigation support Made Ayu's and my own Surkatika's findings that the audit committee has no influence on agency costs.

The firm size variable has a t count of -0.2 and a sig value of 0.8 based on the test findings. Given that the sig value of 0.8 > α 0.05 indicates that the agency cost is unaffected by the business size variable, it may be concluded that either Ha4 company size is rejected or has no influence on agency cost.The efficacy of the asset utilization carried out is not determined by the company's growing size in terms of its asset count. Managers might not always take advantage of this circumstance to perpetrate fraud in order to achieve their own goals, such as raising agency fees. The fact that there is comparatively little asset utilization effectiveness can undoubtedly contribute to the growth in the number of company assets. This situation also encourages the accumulation of assets, which managers can take advantage of to commit fraud and earn personal benefits, one of which is an increase in agency costs. The study's findings support those of Nadia, Didik, and Nurdin, who found no relationship between agency cost and firm size.

The debt policy variable has a t count of 5.9 and a sig value of 0.000 according to the test findings. Since the debt policy variable impacts agency cost, the H5 debt policy either influences agency cost or is approved, as shown by the sig value of 0.000 < α 0.05. According to the data analysis results, there is a considerable positive relationship between debt policy and agency cost. This implies that raising debt policy would undoubtedly raise the asset utilization ratio and lower agency cost in the opposite direction. The agency cost can be reduced by the company's policy of raising debt in its capital structure. Agency expenses can be reduced by monitoring done by the fund owner or by other parties, as third parties, including banks and other financial organizations, can take the place of firm owners in monitoring. The business is required to reimburse loans and cover interest costs on a regular basis. According to the findings of the earlier study, debt policy reduces agency costs.

Conclusion

The purpose of this study is to ascertain how agency expenses are impacted by corporate governance practices, firm size, and debt policy. Several inferences may be made in light of the analysis's findings, including: Agency cost is influenced by the board of commissioners variable. The impact of institutional ownership on agency cost is zero. The agency cost is unaffected by the audit committee. The impact of company size on agency cost is null. Agency cost is influenced by debt policy. Agency cost is influenced by a number of factors, including the size of the audit committee, institutional ownership, corporate size, and debt policy. The varied size of the board of commissioners, institutional ownership, the audit committee, the size of the firm, and the debt policy can all have an impact on the agency cost. While factors other than those employed in this analysis, such as capital structure, tax evasion, foreign ownership, management ownership, firm valuation, dividend policy, and others.

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