

AGENCY COSTS AND COMPANY PERFORMANCE IDX 30

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Abstract

This study aims to investigate the level of agency costs in companies in high and low-value companies listed on the IDX during the COVID-19 pandemic, and then to analyze the effect of corporate governance and debt on firm performance mediated by agency cost variables. The average EXPR and AUR values are used in this research as the basis for determining high or low agency costs in the IDX 30 Indonesian companies. Partial least squares structural equation modeling (PLS-SEM) analysis is used to analyze the effect of corporate governance and debt on firm performance mediated by agency cost variables. The results indicate that the average agency costs in IDX 30 companies are low. Corporate governance (CG) significantly affects the level of agency costs and company performance. While the direct effect of debt on company performance is not significant, its effect on company performance mediated by low agency costs shows a significant relationship. This means that IDX 30 corporate governance can limit company managers' policies to achieve their interests, while short-term company debt also makes managers more careful in using cash, as the company has to pay debt interest.

Keywords: Agency Costs, Corporate Governance, Firm Performance, Short-Term Debt

JEL Classification: E31, E44, G11

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INTRODUCTION

The COVID-19 pandemic is the spread of the 2019 coronavirus disease around the world, causing several countries to take *lockdown* measures. This pandemic has caused the world economy to deteriorate because all activities are restricted, so high-risk forecasts for business continuity also appear, due to the huge amount of healthcare budget allocations. This pandemic has made the world currently face uncertainty in terms of social and political aspects which have an impact on the global economic crisis. According to Baker et al. (2020), business policy analysis that considers the influence of Covid 19 is very important for policymakers because the crisis has taken place quickly.

Whatever the situation of the world economy, the goal of investors investing in stocks is to get a return. High *return* expectations are the main target of investors, therefore, companies listed on the stock exchange must be able to provide a picture of high *return* expectations for their companies amid this COVID-19 pandemic. The IDX30 index is an

index that measures the price performance of 30 stocks that have high liquidity and large market capitalization and are supported by good company fundamentals. IDX 30 stocks that are included in it are derived from LQ45 stocks, which are initially the total shares in the LQ45 index list, then classified again through strict specifications to become 30. The liquidity of stocks in the IDX30 index is higher than LQ45. LQ45 is an index that measures the price performance of 45 stocks that have high liquidity and large market capitalization and are supported by the best company fundamentals (Natalie, 2021).

During this pandemic, some companies remain in the IDX30 index, some companies are no longer listed on the IDX30, and companies are newly listed on the IDX30. This phenomenon makes a discussion for *agency theory* and *stewardship theory*, where amid this COVID pandemic, most of the companies that have been listed on the IDX30 index can still survive, and there are even some companies that before this pandemic were not included in the IDX30 list to become companies listed on the IDX30 index.

Agency theory and *stewardship theory* both discuss the relationship between two parties, namely the *principal* (owner) and the *steward* (manager/agent). The difference is that in *agency theory*, managers behave in their self-interest, while in *stewardship theory* managers behave in the interests of the *principal*. In *agency theory*, managers will act in their self-interest, which may conflict with the interests of the *principal*. However, the *stewardship theory* places the manager not as an agent who takes opportunities, but instead the company manager as a good steward for the company. The manager acts in the principal's interest and believes that by working to advance the company, the manager's personal needs will be met (Bronson et al., 2009).

The implications of *agency theory* can use the expense ratio and asset utilization ratio indicators. The expense ratio measures the manager's inefficiency in controlling operating costs, a high expense ratio means high agency costs. The asset utilization ratio measures the effectiveness of company management in using assets. The low asset utilization ratio indicates the existence of agency costs that occur in the company, in the sense that assets are not fully used for the company's operational activities. Thus, an expense ratio above the median indicates high agency costs while an asset utilization ratio below the median indicates high agency costs. (Ang et al., (2000), McKnight & Weir (2009), and Pantzalis & Park. (2013)). The expense ratio and asset ratio that occur improperly will hurt performance, which also has an impact on the decline in the company's share price, which means that it will reduce investor returns.

Some *corporate governance* mechanisms can reduce agency costs. The balance of the proportion of non-executive directors to executive directors in the governance mechanism can limit managers' policy of exploiting supervision and protect their reputation as independent decision-makers. (Florackis, 2008). If there is an excessive amount of *free cash flow* in a company, it causes a tendency for management to use company resources for personal purposes that do not increase value for shareholders. The company's policy to take action to pay

dividends to investors (principals) can minimize agency costs. Companies can minimize costs arising from information asymmetry and misaligned incentives by optimizing debt policy. (Leland, 1998; Vo & Nguyen, 2014).

According to Florackis (2008); (McKnight & Weir, 2009) high agency costs often occur in companies with high growth rates, compared to companies with low growth rates. Research that has been conducted (Allam, 2018) on companies listed on the stock exchange in the UK, shows that a large amount of *corporate governance* can reduce

agency costs and increase firm value. Research by Hoang et al., (2019) shows a negative effect of agency costs on company performance, where variable debt can minimize agency costs that occur. The results of Allam's (2018) and Huang's (2019) research were not conducted during environmental upheaval conditions, In this study the authors analyzed the factors that influence agency costs and their implications for the company's financial performance during the Covid-19 period, with the following research stages:

1. Analyzing how much agency costs occur in companies indexed in the IDX30 during the COVID-19 pandemic.
2. Analyzing most of the IDX 30 companies is worth high or low agency costs. The number of low or high agency cost tendencies that occur on IDX 30 will be the sample in this study.
3. Analyzing the factors that affect agency costs and their effect on the performance of companies indexed in the IDX30 during the covid 19 pandemic.

This research is expected to provide input and recommendations for companies in corporate governance and debt management by considering agency costs that occur in companies listed on the Jakarta stock exchange so that they can be included in the IDX30 list of companies, or other lists that are targeted by investors in buying shares, such as LQ 45, IDX 80 and others, which have a high level of liquidity. Currently, the companies with the highest liquidity on the Indonesia Stock Exchange are categorized into the IDX30. In addition, because this research was conducted during the Covid-19 pandemic, this research can be used as a recommendation when companies carry out operational activities amid a *turbulent environment* in the future because amid this pandemic many companies were not previously included in the IDX 30 list, but during this pandemic were included in the IDX30 list. Regardless of environmental conditions, the stock exchange in a country plays a very important role in running a country's economy as a financial and economic function of a country.

LITERATURE REVIEW

Agency Theory and Stewardship Theory

The main theory associated with *corporate governance* is agency theory. Agency problems that occur within the company can be overcome by implementing *Corporate Governance*. CG in this case plays an important role where the management of the company is in supervision and control to ensure that the management of the company is carried out in compliance with various applicable rules and regulations. For shareholders, CG assures that the funds invested in the company are well managed and will provide adequate *returns*, which is often called stewardship theory. (Donaldson & Davis, 1991). These efforts will certainly incur agency costs that must be incurred by the company so that the cost of reducing losses due to non-compliance is equivalent to an increase in the cost of enforcement (Leland, 1998). (Leland, 1998) and (Jensen & Meckling, 1976).

Two alternative ratios for agency cost proxies can be used (Ang & et al, 2000):

1. The expense ratio is operating expenses divided by total annual sales.
If the expense ratio measures the inefficiency of managerial control of operating costs, a high ratio (an indicator of inefficient operations) is associated with high agency costs.
An expense ratio above the median indicates high agency costs in the company.
2. Asset utilization ratio: total annual sales divided by total assets.
This ratio measures the effectiveness of the company's management in using assets. When the company's total sales are low relative to total assets, this means that managers

are inefficient with their investment decisions, bonuses for executives, and so on.

Research results Linda et al., (2020) According to the results of Linda et al.'s research, the summary of descriptive statistics of manufacturing companies from 111 samples of average agency costs as measured by the expense ratio indicator (EXPR) of 111 research samples there were 82 companies with high levels of agency costs. When using the asset utilization ratio (AUR) 78 companies indicate high agency costs.

High agency costs often occur in companies with high growth rates, compared to companies with low growth rates. (Florackis, 2008; McKnight & Weir, 2009). Companies with high growth rates can be measured by Tobin's Q indicator. The company's Tobin's Q value greater than 1 indicates a company with a high growth rate. Research results in Reza (2014) The average Tobin's Q value in LQ 45 companies is 6, which means that LQ45 companies have a high growth rate, which in theory means they have high agency costs, but on the one hand IDX 30 companies which are part of LQ45 can provide confidence to investors.

H₁: Agency costs in high-value IDX30 companies

The Effect of Corporate Governance (CG) on Agency Costs

Good Corporate Governance often abbreviated as GCG is a practice of managing a company in a trustworthy and prudential manner by considering the balance of fulfilling the interests of all stakeholders. With the implementation of GCG, the management of company resources is expected to be efficient, effective, economical, and productive by always orienting towards company goals and paying attention to the *stakeholder approach*.

Corporate governance (CG) mechanisms measure internal and external corporate governance, with independent boards, boards of directors, *dual* board leadership, and ownership concentration as internal CG measures and debt *financing* and product market competition as external CG measures. (Guluma, 2021), (Hapsari et al., 2019). Corporate governance refers to the mechanism for the company to be managed properly by professional organizers to benefit the capital providers as a return on their investment which can reduce *agency problems*. (Liang et al., 2020)

In addition, one of the main triggers that cause *agency problems* to arise is the possession of substantive *free cash flow* (FCF) in the company. If there is an excessive amount of *free cash flow* in a company, it causes a tendency for management to use company resources for personal purposes that do not increase value for shareholders. The company's policy to take action to pay dividends to investors (principals) can minimize agency costs. Companies can minimize costs arising from asymmetric information and misaligned incentives by optimizing debt and dividend payment policies (Jensen, 1993). (Jensen, 1993; Vo & Nguyen, 2014).

H₂: Corporate Governance affects agency costs

The Effect of Debt on Agency Costs

In addition to the size and composition of the company's board, the debt structure can act as a monitoring tool for agency costs. Jensen & Meckling (1976) argue that debt has an important effect on agency costs. Companies with a high level of debt will be more controlled by the debtor and therefore the manager only has a small opportunity to carry out activities that are not valuable. According to McConnell & Servaes (1995), the increasing proportion of debt will increase the risk of business investment in covering interest payments. Therefore, large interest payments due to large debt loans will improve

supervision and therefore reduce agency costs. According to Myers (1977), short-term debt is more effective than long-term debt in

reducing the expected costs of underinvestment problems, which will also reduce the expected agency costs between investors and creditors. In line with the opinion of Ang et al. (2000)(2000), bank debt can create positive externalities in the form of lower agency costs.

H3: Debt affects agency costs

The Effect of Corporate Governance on Company Performance

The mechanism of implementing CG as an important factor in the company's success can improve company performance at the same time will help *stakeholders* in determining which companies are good for investing their capital. The CG mechanism that has been running properly is believed to be able to lead to the survival and growth of the company which provides value to stakeholders and shareholders. (Gupta & Sharma, 2014).

Research results by Hapsari et al., 2019 show that the board of commissioners does not affect financial performance, while the board of directors and audit committee affect financial performance. On the one hand, there are research results that show that corporate governance has very little effect on company performance, which is due to the board's non-compliance with governance practices and investor distrust of the company due to the lack of information disclosure by the board. (Guluma, 2021)

H4: Corporate Governance has a positive effect on company performance

The Effect of Debt on Company Performance

The company's efforts to improve performance can be done by expanding its business. This business expansion means that it requires large capital, to obtain this capital can be sourced from retained earnings, issuing debt securities, or issuing shares. However, companies with high levels of debt will be more controlled by the debtor which makes managers limited to carrying out activities that do not add to the economic value of the company to reduce the occurrence of agency costs which have a positive impact on improving company performance (Myers, 1977). (Myers, 1977). Conversely, research Hoang et al., (2019) On the other hand, Hoang et al. (2019) found that too much debt results in such a large burden in paying off interest expenses that the company cannot benefit from tax shields, which can lead to a reduction in company profitability.

H5: Debt has a positive effect on company performance

The Effect of Agency Costs on Company Performance

The separation of control in all companies listed on the stock exchange requires maximum implementation of GCG. Improper implementation of CG will increase agency costs and economic inefficiency in the company due to managers using company resources exploitatively to meet their own needs which allows *moral hazard* to occur, causing instability in company performance. Agency costs that arise can be in the form of *monitoring costs*, *bonding costs*, and *residual losses*. (Abubakar Nuhu et al., 2020; Jensen et al., 1976; Yustika., 2011; Nurul Fadhilah, Fauziah, Syafruddin, 2013).

H6: Agency costs affect firm performance

The Effect of Corporate Governance and Debt on Company Performance Mediated by the Intervening Variable of Agency Costs

Agency cost problems can be minimized by the implementation of GCG. Companies with weak CG have major agency problems, where their boards of directors often receive unusually large compensation which adversely affects company performance. This board of directors (CEO) compensation is a matrix to assess the effectiveness of corporate governance, this compensation matrix is an observable CEO policy as a debate of the effectiveness of the board of directors. The composition of the board of directors, board of commissioners, and

audit committee can minimize compensation costs so that it has a positive impact on company performance. (D'Mello et al., 2018) & (Core et al., 1999).

The corporate governance mechanism also includes the debt structure, which can act as a monitoring tool for agency costs. In line with the opinion of Jensen & Meckling (1976), that debt has an important effect on agency costs. Companies with high levels of debt will be more controlled by the debtor and therefore the manager only has a small opportunity to carry out activities that are not valuable. According to McConnell & Servaes (1995), the increasing proportion of debt will increase the risk of business investment in covering interest payments. Therefore, large interest payments due to large debt loans will improve supervision and therefore reduce agency costs. According to Myers (1977), short-term debt is more effective than long-term debt in reducing the expected costs of underinvestment problems, which will also reduce the expected agency costs between investors and creditors. In line with the opinion of Ang et al. (2000)(2000), bank debt can create positive externalities in the form of lower agency costs.

H₇: The relationship between corporate governance and firm performance mediated by agency costs.

H₈: Relationship between debt and firm performance mediated by agency costs

Conceptual Framework

The conceptual framework of this research can be described as follows.

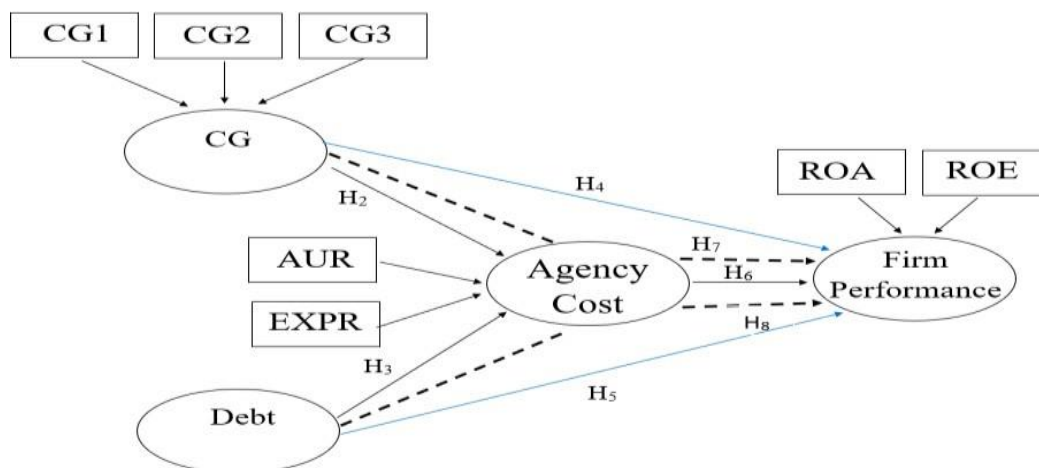


Image 1.
Conceptual Framework

RESEARCH METHOD

Scope, Population, and Research Sample

The population in this study are companies that are consistently indexed on IDX 30 on the Indonesia Stock Exchange (IDX) in the 2019-2022 period. The entire population in this study was used as a research sample. The data in this study are interim reports of companies listed on IDX 30. The total population in this study was 330.

Table 1.
Population Criteria

No.	Population Criteria	Total
1	Companies listed on IDX 30	30 companies
2	The observation period of interim financial statements	11 Quarters
3	population sampled	330 data

IDX in 2019-2022 announced companies listed on IDX 30 as follows:

1. List of IDX30 Index stocks for the period May 2019 - July 2019
2. List of IDX30 Index stocks for the period Feb 2020 - July 2020
3. List of IDX30 Index stocks for the period May 2020 - July 2020
4. List of IDX30 Index stocks for the period August 2020 - January 2021
5. List of IDX30 Index stocks for the period November 2020 - January 2021
6. List of IDX30 Index stocks for the period February 2021 - July 2021.
7. List of IDX30 Index stocks for the period May 2021 - July 2021
8. List of IDX30 Index stocks for the period August 2021-January 2022
9. List of IDX30 Index stocks for the period September 2021 - January 2022

Quarterly financial reports are used in this study which are downloaded from the IDX Indonesia website with quarterly details:

- a. January, February, March = Q1
- b. April, May, June = Q2
- c. July, August, September =Q3
- d. October, November, December = Q4

The study took data from the Q3 quarter of 2019 to the Q1 quarter of 2022, a total of 11 quarters.

The type of data used is secondary data sourced from www.idx.co.id in the form of quarterly financial reports from the third quarter of 2019 to the first quarter of 2022.

Data Analysis and Variable Measurement

Data analysis using Structural Equation Model-PLS with research variables based on previous research which can be seen in Table 3.

Table 2
Variables and Measurements

Variables	Measurement
Board Composition	A practice of managing a company in a trustworthy and prudential manner by considering the balance of fulfilling the interests of all stakeholders. The board of commissioners ratio, namely the company's independent commissioners / the number of board of directors (managers) of the company. This ratio refers to research (Baatwah et al., 2020; Pantzalis & Park, 2014) The number of audit committees, namely the number of audit committees / 3, because the minimum audit committee in a company is 3 people (Copy of OJK Regulation NUMBER 55 /POJK.04/2015; Duc and Thuy, 2013) The board of directors is measured by the ratio of total directors to total board in a company. The board of directors in the company has a major role in carrying out governance in the company, namely determining company policy and providing security for investors in the future period In this study, non-executive directors are the total board of commissioners divided by the total board (Mc Knight and Weir, 2009), (Baatwah et al., 2020) (Gupta & Sharma, 2014)
Debt	Ratio of total short-term debt / total debt (Florackis, 2008); Florackis & Ozkan (2009); (D'Mello et al., 2018)
Agency Fees	A concept that refers to the costs associated with the relationship between the principal and agent (Ang et al., 2000 Luo et al., 2018; Lanka, 2022; Anh Huu Nguyen, 2020; Agarwal & Singh, 2020; The expense ratio is operating expenses divided by total annual sales. If this expense ratio measures the inefficiency of managerial control of operating costs, a high ratio (an indicator of inefficient operations) is associated with high agency costs.) This expense ratio is formulated with $EXPR_{i,t} = \frac{OperatingExpense_{i,t}}{Sales_{i,t}}$ Asset utilization ratio, which is: total annual sales divided by total assets. This ratio measures how effectively the company's management uses assets. When the company's total sales are low relative to total assets, this means that managers are inefficient with their investment decisions, bonuses for executives, and so on. This asset utilization ratio can be formulated as $AUR_{i,t} = \frac{Sales_{i,t}}{TotalAsset_{i,t}}$
Company Performance	The potential and ability of a business to efficiently utilize available resources to achieve targets by the plans set by the company, taking into account its relevance to users. ROA ROE (Farrell & Gallagher, 2015 ; Rashid, 2017)

RESULTS AND DISCUSSIONS

Descriptive Statistics of the Research Population

Based on the population criteria for the observation period of the third quarter of 2019 to the first quarter of 2022, there are 330 company data. To determine whether the sample in this study is low or high agency costs, which is based on the median value.

Based on population criteria for the observation period from the third quarter of 2019 to the first quarter of 2022, there are 330 company data. To determine whether agency costs in companies listed on IDX 30 BEI are low or high, descriptive statistical analysis can be used. (Pantzalis & Park, 2014). Based on the results of descriptive statistics in Table 3, the median EXPR value is 0.19 and the median AUR value is 0.476.

Table 4
Descriptive Statistics of the Research Population

	N	Minimum	Maximum	Mean	Std. Deviation
EXPR	330	0.00	0.98	0.1979	41.42264
AUR	330	0.01	2.09	0.4574	53.20106
Valid N (listwise)	300				

Research results Anh Huu Nguyen (2020) The average EXPR is 2.56 which indicates high agency costs. In this study, the average EXPR is 0.198, which means that the average agency costs in IDX 30 companies are low. In research by Agarwal & Singh (2020), the asset utilization ratio shows a value of 0.132 which indicates a high value, In this study the asset utilization ratio (AUR) is 0.4574 and most companies are worth AUR above 0.4574 which indicates efficient use of assets which means low agency costs.

In this study, the measurement of high and low agency costs is based on the median value, where the expense ratio above the median indicates high agency costs while the asset utilization ratio below the median indicates high agency costs. (Ang & et al, 2000); (Pantzalis & Park, 2014). The average IDX 30 company is below the median for expense ratio (EXPR), and above the median for Asset utilization ratio (AUR), therefore H_1 is rejected.

Based on the data that has been inputted, it is obtained that some IDX companies have low

agency costs, therefore H_1 is rejected. The low agency costs in IDX 30 companies mean that the three types of agency costs are minimal. Agency costs occur due to incomplete contractual relationships between shareholders (principals) and managers (agents). According to Ross (1973); Jensen & Meckling (1976); Jensen (1986); Bernanke & Gertler (1989); and Leland (1998) agency costs include three types of costs, namely:

1. The costs incurred by the owner to monitor the agent's activities, including the costs of vetting, firing the agent, or contracting following the agent's compensation contract.
2. The cost of bonding expenses is to create a mechanism to ensure that owners will be adequately compensated when agents perform activities that cause damage to their profits.
3. Residual loss costs are relevant costs that arise due to conflicts of interest between principals and agents.

The relatively low agency costs in IDX30 companies indicate the trustworthy nature of managers (agents) in IDX30 companies, by *stewardship* theory, managers can act responsibly, and have integrity and honesty towards other parties, especially *principals*.

Descriptive Statistics of Research Samples

Furthermore, researchers took companies that were consistently listed on IDX 30 during the observation period, so that 18 companies were obtained, of these 18 companies there were 15 companies with low agency costs. Of these 15 companies:

1. There are 13 companies with low agency costs proxied by the EXPR expense ratio.
2. There are 9 companies with low agency costs proxied by the AUR asset ratio.

The descriptive statistics table for the research sample of 15 (15 x 11 observation periods, obtained 165) IDX 30 companies that are always listed during this observation period can be seen in Table 5.

Table 5
Descriptive Statistics of Research Samples

n Sample	Board of Commissioners Ratio	Audit Committee Ratio	Board of Directors Ratio	DEBT	EXPR	AUR	ROA	ROE	
Max	165	1.00	1.33	0.83	0.92	0.43	2.08	0.27	7.57
Min	165	0.17	0.67	0.29	0.00	0.00	0.22	0.00	0
Mean	165	0.35	0.99	0.54	0.51	0.51	0.56	0.06	2.19
Std Dev	165	0.11	0.23	0.14	0.23	0.23	0.53	0.05	1.52

In Table 5, 165 samples were obtained from 15 IDX 30 companies listed on the IDX for 11 quarters starting from the 3rd quarter of 2019 to the 1st quarter of 2022. The highest agency cost value for the EXPR proxy is at a value of 0.43 while the minimum value is 0.00. A low EXPR value means that company management can control operating cost inefficiencies. A low EXPR ratio indicates low agency costs.

The AUR proxy for the latent variable indicator of agency costs shows a maximum value of 2.08, the high ratio of asset utilization indicates the small agency costs incurred, on the other hand, the small AUR ratio means the high agency conflict that has occurred, which means that the company is not able to maximize the use of assets. The results of these descriptive statistics show that managers (agents) in IDX 30 companies

can improve performance so that the company is listed on IDX 30. This indicates that managers in IDX 30 companies are relatively trustworthy. According to *stewardship theory*, company managers can indeed act responsibly, and have integrity and honesty towards other parties, especially the *principal*.

The results of these descriptive statistics show that managers (agents) in IDX 30 companies can improve performance so that the company is listed on IDX 30. This indicates that managers in IDX 30 companies are relatively trustworthy. According to *stewardship theory*, company managers can indeed act responsibly, and have integrity and honesty towards other parties, especially the *principal*.

Structural Equation Model Analysis

Structural Equation Model (SEM) analysis was conducted to test hypothesis H₂₋₈, latent variables in this study are *Corporate Governance* (CG), agency costs, and company performance. Each of these latent variables consists of formative constructs (see Figure 1). Formative constructs describe the regression relationship from indicators to constructs, the assessment can be seen by looking at the regression coefficient value and P Value. The outer weight value that describes the construct relationship is justified at $p < 0.10$ or t count above

1.282 (Ghozali, 2021). Based on the outer weight analysis, there is 1 invalid CG variable, namely the audit committee ratio, so this variable cannot be used in the SEM Path analysis. The audit committee size variable indicator does not have a significant effect on the corporate governance latent variable. The high composition of the audit committee board does not provide effectiveness in monitoring financial statements. In line with research by Cai et al., (2015); Rainsbury et al. (2009); and Al-Jalahma, (2022) The audit committee plays a lesser role in the absence of strong regulations and policies, so the audit committee holds the auditor accountable for producing better audit quality and as a result

audit costs will be high which causes agency costs to be high.

The next analysis picture without including the board of directors indicator, with the intervening variable being low agency costs can be seen in Figure 2 and the outer weight results have also shown a significant value, for the company performance variable significant at the 10% level with a p-value and this is allowed as a formative indicator. (Ghozali., 2011).

Table 6
Outer Weight

Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Aur -> Low Agency Cost	0.0571	0.605	0.096	5.939 0.000
CGI -> GCG	0.967	0.964	0.017	59.313 0.000
CG3 -> GCG	0.353	0.358	0.072	4.897 0.000
DEBT <- Debt	1.000	1.000	0.000	
EXPR -> Low Agency Cost	0.977	0.980	0.016	62.550 0.000
ROA -> Firm Performance	0.045	0.044	0.025	1.879 0.062
ROE -> Firm Performance	0.999	0.999	0.001	899.238 0.000

Henceforth, this research model is as shown in Figure 2 with the intervening variable being low-level agency costs.

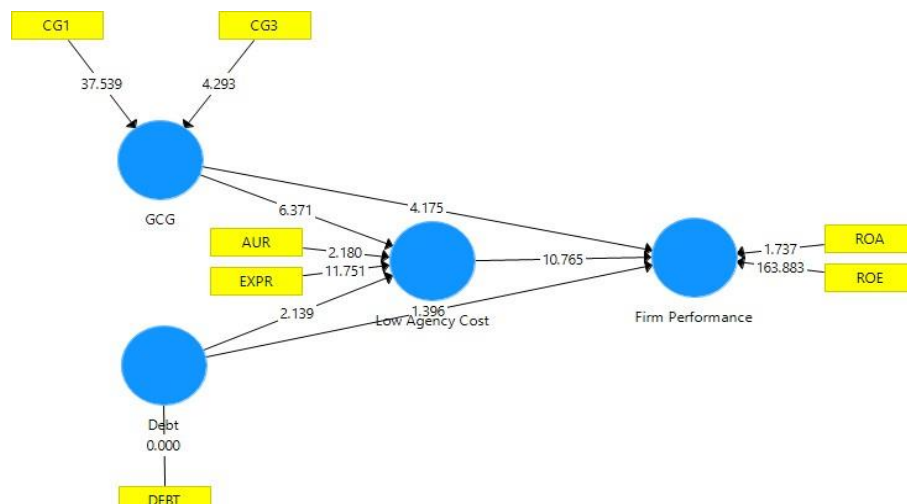


Image 2.
Research Model

Furthermore, testing the path coefficient inner model test or structural model between constructs as a basis for accepting or rejecting the hypothesis. The limit for rejecting and accepting hypotheses on t count above 1,645 with $p < 0.05$. The results of the Path analysis can be seen in Table 7 and the R Square value in Table 8.

Table 7.
Path Coefficient

		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (OSTDEV)	P Values
CG -> Low Agency Cost	H2 (accepted)	0.651	0.633	0.102	6.371	0.000
Debt -> Low Agency Cost	H3 (accepted)	0.210	0.223	0.098	2.139	0.033
CG -> Firm Performance	H4 (accepted)	0.249	0.253	0.060	4.175	0.000
Debt -> Firm Performance	H5 (rejected)	0.075	0.074	0.054	1.396	0.163
Low Agency Cost -> Firm Performance	H6 (accepted)	0.667	0.662	0.062	10.765	0.000

Table 8

R Square

R Square Adjusted

R Square

Low agency cost	0.214	0.0204
Firm Performance	0.734	0.733

The results of the analysis of the CG coefficient have a significant positive effect on company performance (H₂ accepted with a coefficient value of 0.651 at a significant level of 0,000. The significance of this effect is that the board of commissioners and the board of directors can improve company performance and have a positive influence on the low agency costs that occur on IDX 30. The direct effect of CG on company performance also shows a significant positive value (0.249 $P = 0.000$). Here, it means that the composition of the board of commissioners and the board of directors has been able to minimize agency costs in playing the role of a general and special supervisory board by the articles of association, in line with the opinion of Donaldson & Davis (1991), Jensen & Meckling (1976); Florackis, (2008) for CG shareholders should be able to provide confidence to investors, that the company can be managed properly and will provide adequate *returns (stewardship theory)*. This effort will certainly incur agency costs that must be incurred by the company, The ability of the board of commissioners to carry out its duties as a supervisor can limit the company manager's policy in the exploration of *free cash flow* while protecting their reputation as decision makers to minimize agency costs. The results of this study are in line with the results of research by Allam (2018) that CG has a supporting role in controlling manager behavior, reducing agency costs, and increasing firm value and compliance with job descriptions. **Research** results (Donaldson & Davis, 1991; Florackis, 2008) also revealed that the board of directors has been able to control operational costs and limit the expenditure of costs that are self-interested, here the manager has positioned himself as a good *steward* for the

company. The manager acts in the interests of the principal and believes that working to advance the company, will provide personal welfare for the manager as well. Research results (Fama, 2012) illustrate that the existence of the board of commissioners has a supporting role in controlling the behavior of managers so that they can work according to their *job description*. Other research results also suggest that reputation and threats can motivate the independent board of directors to act better in prioritizing the interests of investors to minimize agency costs and increase company profits which ultimately provide maximum returns to investors.

The effect of debt on company performance in this study shows an insignificant relationship (0.075 *p-value* 0.163). Research results in Nazir et al. (2021) The results of research by Nazir et al. (2021) show that short-term debt and long-term debt hurt company performance due to *agency* problems (*agency conflict*) which cause high debt policies to have an impact on performance decline. However, in this study, agency costs are low, so they do not have a direct effect on company performance. The indirect effect of debt on agency costs provides a positive relationship, which means that agency costs are correct as an intervening variable that mediates the effect of debt on company performance.

The coefficient of the effect of debt on agency costs shows a significant positive relationship to low agency costs in companies listed on IDX 30 (0.210 *p-values* 0.033). The results of this study are in line with the results of Jensen & Meckling's (1976) research, where an increase in the debt ratio can make the manager more careful because he has to pay interest and debt in the future. Managers must avoid inefficient investments to be able to fulfill debt obligations. This

can reduce the conflict between *principal* and *agent* which means it can reduce agency costs as well. In line with the research results of Allam (2018), an increase in debt reduces agency costs and company profits. Profitable companies have lower agency costs and high *firm value*. Short-term debt that exists in the company can limit the manager's policy in minimizing his decision to prioritize his personal goals. The existence of substantive *free cash flow* (FCF) has been allocated for debt repayment which can limit the activities of company management that are considered unimportant to improving company performance (Jensen, 1986; Jensen et al. 1992; Chen & Steiner, 1999; Kim et al. 2007; Vo & Nguyen, 2014)

Low agency costs in this study have a significant positive effect on the company performance variable (0.667, *p-value* 0.000). The results of this study are in line with the opinion of Jensen & Meckling (1986) where high agency costs will reduce company performance, which means low agency costs will improve company performance. Low agency costs mean that there is minimal exploitation of *free cash flow* for personal interests so that it can be used optimally for operations or company interests which will automatically improve company performance. In this study, the sample is a company with good performance, even in the midst of the turmoil of the world economic downturn due to the covid 19 pandemic, It can be listed on IDX 30.

Table 9.
Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Debt -> Firm Performance	0,0137	0,146	0,062	2,210	0,028
Debt -> Low Agency Cost					
GCG -> Firm Performance	0,439	0,418	0,085	5,136	0,000
GCG -> Low Agency Cost					
Low Agency Cost -> Firm Performance					

The indirect effect of *corporate governance* on the performance of IDX companies during the COVID-19 pandemic through the intervening variable of agency costs shows a significant effect (with a *p-value* of 0.000) which means the acceptance of hypothesis H₇. The direct effect of debt on company performance shows an insignificant effect where the *p-value* is 0.163 (Table 7), but the indirect effect of CG variables on company performance through the intervening variable of agency costs shows a significant effect with a *p-value* of 0.028 (table 9) which means that H₈ is accepted. The placement of agency costs as an intervening variable in this study is appropriate because it can provide a positive influence on *debt* and company performance. The existence of an appropriate debt proportion ratio can limit manager policies that can harm the company, to minimize agency costs which will improve company performance in IDX 30 companies during the covid 19 pandemic. Where an increase in the debt ratio can make the manager more cautious because he has to pay interest and debt in the future. This prudent attitude can minimize agency costs which can also improve company performance. (Chen & Lin, 2011) (Luo et al., 2018)(Vo & Nguyen, 2014).

CONCLUSIONS, LIMITATIONS AND SUGGESTIONS

Conclusions

The covid 19 pandemic that occurred in 2019 to 2022 caused the world economy to deteriorate because all activities were restricted, which made the world currently faced with uncertainty from a social and political perspective which resulted in a global economic crisis.

Business people need to conduct surveys to take the right policies to overhaul strategies so that the wheels of business can run based on the new economic situation. Whatever the situation of the world economy, the goal of investors investing in stocks is to get a return. High *return* expectations are the main target of investors, therefore, companies listed on the stock exchange must be able to provide an overview of the high *return* expectations of their companies during this Covid pandemic.

On the Indonesia Stock Exchange (IDX), there is a company index listed on the IDX30. The IDX30 index is an index that measures the price performance of 30 stocks that have high liquidity and high market capitalization and are supported by good company fundamentals. During this pandemic, some companies remain in the IDX30 index, some companies are no longer listed on IDX30 and some companies are newly listed on IDX30.

This study took a sample of companies that continued to list on the IDX for 11 quarters during the covid 19 pandemic with low agency costs. The results of the SEM analysis show that CG has a significant positive effect on agency costs and company performance. This means that *corporate governance* has been able to minimize agency costs by playing a role as a supervisory board that can limit the policies of company managers in the exploration of *free cash flow* while protecting their reputation as decision-makers to minimize agency costs. Low agency costs in this study have a significant positive effect on company performance. Low agency costs mean that there is minimal exploration of *free cash flow* for personal interests so that it can be used optimally for company operations/interests which will automatically improve company performance. The direct effect of debt on performance is not significant, but the effect of debt on performance mediated by agency cost variables shows a significant relationship. This means that the debt ratio can make managers more careful because they have to pay interest and debt in the future, so managers must avoid inefficient investments to be able to fulfill debt obligations. This can reduce the conflict between *principal* and *agent* which means it can reduce agency costs. The ratio of the board of commissioners, the ratio of the board of directors, and the debt ratio in the sample of IDX companies in this study can be a reference material for other companies. The ratio of the board of commissioners, audit committee, and short-term debt ratio in this sample of IDX companies has been able to minimize agency costs that occur. The average ratio of the board of commissioners and the board of directors is 34% and 54% respectively, while the ratio of short-term debt to long-term debt is 51%.

Limitations

Limitations in this study include not including the characteristics of the board of commissioners, audit committee, and board of directors. In addition, the free cash flow variable theoretically also greatly affects agency costs which are not in this study.

Suggestions

Several studies on the Indonesian IDX show that there is no effect of the audit committee on company performance. Simanjuntak & Sinaga, (2021) in Indonesia also where the audit committee is less effective in minimizing agency costs. The high composition of the audit committee board does not provide effectiveness in monitoring financial statements. Future research can add the characteristics of the board of commissioners, board of directors, and audit committee. In future studies, you should also add exogenous stock dividend variables and stock *return variables* as formative indicators for latent performance variables. Company policy to take action to pay dividends to investors (principals) can minimize agency costs and stock *returns* are also the main target of investors in making investments.

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