

The Effect of Family Ownership and Institutional Ownership on Agency Costs in Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract

This study aims to determine the effect of family ownership and institutional ownership on agency costs in manufacturing companies listed on the Indonesia Stock Exchange. This research was conducted at manufacturing companies in the food and beverage sub-sector that were listed on the Indonesia Stock Exchange (IDX) for 2018-2022 which had complete data (family ownership, institutional ownership and SGA) of 9 companies with 45 years of observation. This research used a quantitative descriptive approach and non-parametric statistical tests using the Spearman approach. Data processing using SPSS software version 16.0. The results show that family ownership and institutional ownership are not significant to agency costs. Family Ownership has a very weak correlation to agency costs. Meanwhile, family ownership has a very high correlation with agency costs. Family ownership has a negative relationship direction. Meanwhile, institutional ownership has a positive relationship direction. With reference to the results of this study, companies need to increase the activities of institutional investors in carrying out supervision in carrying out collective actions so that agency costs can be reduced because low agency costs are very important for companies to attract investors and are considered to provide satisfactory feedback for investors.

Keywords: Family Ownership, Institutional Ownership, Agency Costs



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INTRODUCTION

In recent years, the level of business competition that has occurred continuously has shown an increase. This requires the company to manage its business properly so that the company is able to compete in improving the performance and value of the company. In carrying out its business, companies going public are managed by separating the ownership function from the company management function. Jensen and Meckling (1976) describe agency theory as an agreement relationship called the nexus of contract, between shareholders and managers to perform some services in the interests of shareholders. According to Jensen and Meckling (1976) agency costs are costs incurred by company owners to regulate and supervise the actions of managers so that they act based on the interests of the company.

The Indonesian food and beverage industry has become an important pillar in the Indonesian manufacturing sector. However, in 2017, the average operating expenses (SGA) for manufacturing companies listed on the Indonesia Stock Exchange increased from previous years. Because SGA expenses are considered to reflect management discretion in spending company resources, agency conflicts can be reflected in the high SGA expense ratio. The higher the SGA load ratio, the higher the monitoring costs incurred by the company to control the actions of managers. This has an impact on increasing company costs which will reduce funding for investment activities and will reduce investor interest. Therefore, companies must know the factors that can overcome agency conflicts and minimize agency costs, such as increasing company size and optimizing institutional supervision.

Jensen and Meckling (1976) state that family ownership has a negative and insignificant effect on agency costs because it can prevent unnecessary company expenses and encourage managers to operate the company more efficiently so as to reduce agency costs. However, this is not in line with Fachrudin's research (2011) which states that leverage has a positive and significant effect on agency costs. Referring to the above matters which is the background of this research, the formulation of the problem is as follows: Does family ownership affect the agency costs of manufacturing companies listed on the Indonesian stock exchange? Does institutional ownership affect the agency costs of manufacturing companies listed on the Indonesian stock exchange? Do family ownership and institutional ownership together affect the agency costs of manufacturing companies listed on the Indonesian stock exchange?

RESEARCH METHODS

The data used in this research is quantitative data. Quantitative data, namely research on data collected and expressed in the form of numbers, then data in the form of numbers is analyzed using statistical methods (Sugiyono, 2014: 144). In this study, the type of data used is secondary data. The data source was obtained from the Indonesian Stock Exchange website, namely www.idx.co.id, the data taken was in the form of financial reports of food and beverage sub-sector manufacturing companies listed on the IDX for 2018-2022.

RESEARCH RESULTS AND DISCUSSION

Variable Descriptive of Family Ownership, Institutional Ownership and Agency Costs

Table 1.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Family Ownership	45	.00016	.60459	.1617696	.19583586
Institutional Ownership	45	.11226	.82794	.5367437	.18165652
Agency Fees	45	.02469	.90033	.3837105	.29550713
Valid N (listwise)	45				

The data in Table 1 shows that the family ownership variable has a fairly low gap in agency costs. There are 6 companies (66.67%) with below average family ownership, this means that most of the manufacturing companies listed on the IDX still have a small amount of family ownership. Meanwhile, only 3 manufacturing companies (33.33%) with family ownership above the average were listed on the IDX. Institutional ownership has a fairly large gap between institutional ownership in agency costs. There are 4 companies (44.44%) with below average ratio of institutional investors. This means that manufacturing companies listed on the IDX have the same institutional owners. Meanwhile, the manufacturing companies listed on the IDX currently have more than 5 companies (55.56%) as institutional investors. The value of manufacturing companies listed on the IDX is smaller than the average. This shows that there is a sizable difference between agency costs. There are 5 companies (55.56%) companies with agency fees below the average. This means lower agency costs for manufacturing companies listed on the IDX. Currently there are 4 companies (44.44%) manufacturing companies listed on the IDX whose agency costs are above average.

Research Hypothesis Testing

Table 2.

Correlations					
			Family Ownership	Institutional Ownership	Agency Fees
Spearman's	Family	Correlation Coefficient	1.000	-.421**	-.082

rho	Ownership	Sig. (2-tailed)	.	.004	.591
		N	45	45	45
	Institutional Ownership	Correlation Coefficient	-.421**	1.000	.100
		Sig. (2-tailed)	.004	.	.513
		N	45	45	45
	Agency Fees	Correlation Coefficient	-.082	.100	1.000
		Sig. (2-tailed)	.591	.513	.
		N	45	45	45
	**. Correlation is significant at the 0.01 level (2-tailed).				

The interpretation of the Spearman correlation test data above is as follows:

1. Because the significance value is $0.004 < 0.05$, it can be concluded that the relationship between the three variables is significant or correlated. This means that family ownership and institutional ownership are correlated with agency costs
2. Because the Correlation Coefficient value is -0.421 it is included in the moderate relationship, where 0.421 is in the criteria for a correlation coefficient value of $0.26-0.50$. meaning that family ownership and institutional ownership have sufficient relationship to agency costs.
3. Because the Correlation Coefficient is negative, the direction of the relationship between variables is negative. This means that family ownership and institutional ownership have a negative direction towards agency costs.

Discussion

Hypothesis testing shows that family ownership has no effect on agency costs (0.19583586) for manufacturing companies listed on the IDX. This is because most of the manufacturing companies are listed on the Indonesia Stock Exchange, with only 33.33% family ownership. Meanwhile, when compared to companies below the average of 66.67% . So family ownership does not have the power to vote on strategic issues. The results of this study support research conducted by (Hadiprajitno 2013) family ownership has a negative but not significant relationship to agency costs. Furthermore, it was found that institutional ownership has an effect on the agency costs of manufacturing companies listed on the Indonesia Stock Exchange of 0.5367437 , but not significant. The average institutional ownership is 55.56% and the percentage of companies with institutional ownership below the average is 44.44% . The low impact of institutional ownership on agency costs is because institutional ownership is positioned too low on agency costs so that it no longer needs to have an impact, and the implications are good and average: up to 85% . The results of this study support research conducted by (Makhdalena 2014) and Pratiwi (2016) institutional ownership has no significant effect on agency costs. Companies with large institutional ownership indicate the company's ability to monitor management performance, because greater institutional ownership results in efficiency in the use of company assets, so as to reduce waste by managers in running the company concerned Faizal (2005). From the results of research conducted on food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange, it can be seen that simultaneously family ownership and institutional ownership have an effect on agency costs. This can be seen from the results of calculating the coefficient of determination (R^2) which is explained by 0.012 or 1.2% by the variables of family ownership and institutional ownership. This means that the dependent variable in this study only explains the variation of the independent variable by 1.2% , while the rest is explained by other variables not included in this study such as foreign ownership, government ownership, public ownership, capital structure and corporate governance (Makhdalena 2014).

The same result is also seen in the Spearman correlation test that the significance value is $0.004 < 0.05$ where the relationship between the three variables is significant or correlated. This

means that family ownership and institutional ownership are correlated with agency costs. Furthermore, the Correlation Coefficient value is -0.421 which is included in the moderate relationship, where 0.421 is in the criteria for a correlation coefficient value of 0.26-0.50. meaning that family ownership and institutional ownership have sufficient relationship to agency costs. Then the Correlation Coefficient value is negative, then the direction of the relationship between variables is negative. This means that family ownership and institutional ownership have a negative direction towards agency costs.

CONCLUSION

Based on the formulation of the problem and the research hypothesis as well as the analysis of the results of the study, it can be concluded that the partial and simultaneous effects of family ownership and institutional ownership on agency costs of manufacturing companies in the food and beverage sub-sector as measured by SGA are as follows: Family ownership has no effect and is not significant on agency costs partially. This shows that the lower the ownership shares owned by family ownership, the lower the agency costs will be. Institutional ownership has an effect but not significant on agency costs partially. This shows that the greater the institutional ownership share, the more influence it will have on suppressing agency costs. Family ownership and institutional ownership have no effect on agency costs.

This study provides recommendations, including: Based on the results of research on the effect of family ownership and institutional ownership on agency costs in food and beverage sub-sector manufacturing companies listed on the Stock Exchange, the researchers provide recommendations that are expected to provide benefits. It is expected that investors and potential investors should invest in large companies because large companies are required to work with high professionalism to reduce agency costs. In addition, large companies have high profits. In future research that will examine the same problem, it is recommended to increase the number of other variables that affect agency costs such as foreign ownership, government ownership, capital structure, and others. So that they can develop their knowledge.

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