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Research Article

Firm Performance in Control Corporate Governance

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Abstract

This study analyzes the influence of corporate governance on state-owned companies listed on the Indonesia Stock Exchange. Where this research data uses purposive sampling method for data collection. And this data sampling was taken from state companies listed on the Indonesia Stock Exchange in the period 2012 to 2020. And the measurement of corporate governance uses 4 indicators of managerial ownership, audit committee, and board size. Corporate performance was measured by three indicators of agency, accounting, and market perspectives. The multivariate analysis used was PLS-SEM. Based on empirical findings, it was revealed that a significant effect was shown by leverage and board size on agency costs, while an insignificant effect was indicated by managerial ownership and the audit committee. Leverage and agency costs have a significant effect on return on assets. In contrast, managerial ownership, audit committees, and board size show no significant effect. Significantly, audit committee, leverage, agency cost, and return on assets affect firm value. Meanwhile, board size and managerial ownership have no effect.

Keywords: Corporate Governance, Agency Cost, ROA, Firm Value.

Introduction

The rapid technological progress in the industrial revolution 4.0 emphasizes the importance of adjustment for productivity. This applies to companies to innovate faster in supporting corporate performance. Criteria for measuring and evaluating corporate performance include agency, accounting, and market approaches. The process of handing over authority to agents in modern companies is what derived agency problem. There are two types of categories in the conflict of interest between principals, (Lei et al. 2013) they are as agency type I and type II. It is reflected in the majority shareholder's policy of taking over the minority shareholders' wealth. Agency problem causes high agency costs which are interpreted as a decrease in corporate performance. It is because, although it is more objective, the market-based criteria are easily influenced by a number of factors beyond management's control (Gani and Jermias, 2006). Rostami et al. (2016) mentions that the relationship between corporate governance can be used to determine corporate performance, which it shows that accounting-based criteria have advantages when it compared to market-based criteria. Scrimgeour (2010) explains that accounting profit is criticized, it is because the future events forecasts are only partially mentioned in the form of depreciation and amortization, while more often reflect the past. The aforementioned considerations and arguments become the basis for the collaboration of the three approaches to corporate performance.

The application of corporate governance is used in realizing policies for maximizing company performance from the perspective of agency, accounting, and market. And based on the professional ethics to create added value for stakeholders, it is the basis of corporate governance. Core et al. (1999) Inti et al. (1999) stated that the big picture of agency problems can be seen from the weak corporate governance. Ionescu (2012) states that improving corporate governance practices can reduce the capital cost and also increase its value of market. Because with the improvement of corporate governance, conflicts between management and shareholders will be reduced; it is because higher earnings and lower earnings management are related to corporate governance. (Balka et al., 2007; Leuz et al., 2003; Vafeas, 2005). Jensen (1986) pointed out that corporate governance reduces agency costs.

Corporate governance plays a role in policy monitoring through a mechanism. Nekhilia et al. (2012) proffer internal mechanisms as a way of controlling the company by using internal processes including the ownership structure. Jensen & Meckling (1976); Agrawal & Mandelker (1987) Agrawal and Mandelker (1987) view the step to bind managers in making policies that lead to the interests of the owner, it is called the ownership structure. Davidson et al. (2005) consider that the next mechanism, it serves as the best protection to maintain credibility, that is by monitoring financial statements and audits, it is also other mechanisms such as board size and the board of commissioners, it is the so-called audit committee. the level of debt repayment is one of the external mechanisms (Barnhart & Rosenstein, 1998; Nekhilia et al. 2012). According to Demougin & Fluet (2001), minimizing agency problems between monitoring efforts and bonding efforts are substituted for each other. The previous research has explored the role of managerial ownership in measuring company performance from an accounting perspective by taking assets as a proxy, it has researched by Cui dan Mak (2002); Wahba (2013); Wellalage dan Locke (2014). The ratio of total managerial ownership to the number of shareholders used in this study. Another study conducted by Kamardin (2014) used the percentage of executive stock ownership of directors as a proxy for managerial ownership. And it was revealed that the positive influence shown by managerial ownership on ROA. Wellalage dan Locke (2014) emphasize that if the percentage of managerial ownership is higher (≥70%) and 0%, there is a negative influence on ROA. In line with this, the negative influence of managerial ownership is also expressed by Mandacı dan Gumus (2010); Allam (2018).

The studies conducted by Chen et al. (2003); Fahlenbrach dan Stulz (2009); Wellalage dan Locke (2014); Based on Kamardin (2014) the value of each company is measured using the q tobin ratio. Furthermore, in measuring managerial ownership, the proportion of shares owned by the board of director is used, which will be divided by the outstanding shares. Then, measurements can also be made on the percentage of share ownership of the executive directors. And based on the findings in this study, it is shown that there is a positive relationship between managerial ownership and firm value. But on the contrary, the company value and ownership actually decreased (Anderson dan Reeb (2004); McConnell et al.2008). It shows that a low level of managerial ownership has an incentive alignment but at a high level it has a risk aversion. Studies conducted

by Demsetz dan Lehn (1985); Wida dan Suartana (2014) show that managerial ownership has no effects on firm value. Meanwhile, a study conducted by Suastini., et al. (2016) found that managerial ownership has a significant negative influence on firm value. Wellalage dan Locke (2014) assert that higher managerial ownership (≥70%) and the lowest percentage of managerial ownership (0%) can be negatively related to firm value. Measures of managerial ownership diverse as revealed by Cui dan Mak (2002) that the most widely used proxies are total ownership of director and management (Servaes & Mc Connell, 1990) and total ownership of director and families (Morck, 1988; Keasey & Short, 1999). The managerial ownership by the CEO is the least used proxy (Agrawal dan Knoeber, 1996). Various measures of managerial ownership are considered in this study, and managerial ownership of the number of outstanding shareholders is the focus of this study.

The supervisory function of audit committee on the internal control is crucial in achieving targeted corporate performance (Chan dan Li, 2008; Agyemang-Mintah & Schadewitz, 2018). Agyemang-Mintah & Schadewitz (2018) revealed that through a market approach, the company's performance is done; Zraiq and Fadzil (2018) show that the audit committee has a positive effect on firm value, it is measured through the audit committee that has functions as a proxy. Furthermore, this study found that audit committee had an insignificant effect on firm value, with the number of audit committee members as its proxy (Al-Matar et al. 2014; Al Sahafi., et al. 2015). Hsu & Petchsakulwong (2010) Hsu and Petchsakulwong (2010) used the natural logarithm from the number of audit committees in this study while Al-Matari et al. (2012) used the total number of directors on the audit committee as a proxy. The studies show that audit committee have a negative effect on firm value. Wei (2007); Scrimgeour (2010) proves that the audit committee has a positive effect on ROA. Where if you have an audit committee, then the dummy variable with a score of 1 is measured, and if you don't have an audit committee it means 0. And the results show that the positive influence is shown by the audit committee on return on assets. Al-Mamun et al. (2014); Allam (2018); Zraiq dan Fadzil (2018) despite using different proxies, namely the number of members on the audit committee. These findings differ from Ghabayen (2012); Al-Sahafi., et al. (2015); Salehi et al. (2018) that the audit committee has no influence on ROA.

Several studies have revealed the relationship between audit committees on agency costs. For example, Krisnauli dan Hadiprajitno (2014) use a proxy derived from the number of audit committee members. Furthermore, Hastori et al. (2015) explored the number of member from the audit committee to the total number of non-independent commissioners. Allam (2018) gave a dummy score of 1 if the nomination committee consists of at least three members with a majority of independent member, with each different proxy for agency costs, namely (1) total assets divided by total sales, (2) total administrative and general expense on total sales, and (3) free cash flow and asset turnover. In this finding, it is revealed that the negative influence occurs on the audit committee on agency costs. Schäuble (2018)explains that there is no significant effect on the audit comittee on agency costs. Congruently, Hastori et al. (2015) state that agency costs are positively influenced by the audit committee.

In order to make management more effective when using capital, leverage is needed as external monitoring (Grossman and Hart, 1982; Stulz, 1990). Thus, it can control agency problems. Florackis and Ozkan (2008); Zhang & Li (2008) used leverage ratio measures with total debt to total assets. Khan et al. (2012); Nozari (2016) measures the effect of total debt and long-term debt on free cash flow, this acts is as a proxy for agency costs. and it is concluded that there is a negative effect on leverage on agency costs. A study conducted by Alfadhl dan Alabdullah (2013) disclosed that leverage has no effect on agency cost. Tzeng & Cheng (2011); Sudiyatno et al. (2012); Wellalage & Locke (2014) state that leverage has a positive effect on firm value. On the contrary, Osazuwa and Che-Ahmad (2016); Cheryta et al. (2018) prove that leverage has no effect on firm value. They used various proxies of firm value from a market perspective including the value of EPS, PBV, and Tobins'q. Ineffective use of leverage can have a negative impact on market performance (Chen et al.(2003); Gumus & Mandac (2010)); Chen & Chen (2011); and Fosu et al.(2016). Leverage has a significant positive impact on ROA (Wellalage and Locke (2014); Salehi et al. (2018). On the other hand, Cui dan Mak (2002); Wei (2007); Scrimgeour (2010); Chen dan Chen (2011); Lachheb dan Slim (2017) find that leverage has a negative influence on ROA.

Barnhart dan Rosenstein (1998) stated that supervision through the role of board size is expected to contribute.Conyon dan Peck (1998) states that there is a negative relationship between board size and firm performance. Kamardin (2014) shows a positive relationship between board size, but this ROA is not significant. Al-Sahafi et al. (2015) prove that board size is significantly positively

related to ROA. In contrast, Ghabayen (2012) states that board size has no effect on ROA. Mak and Li (2001) found Tobin's q to be associated with small board size. Kamardin (2014); Al-Sahafi et al. (2015) reveal that board size is significantly and positively associated with Tobin's. Florackis dan Ozkan (2008) prove that board size is negatively correlated with asset turnover, meaning that there is an increase in agency costs.

Many conflicts of interest followed by big agency costs caused a decrease in firm value as revealed by Wang (2010) who grouped agency costs into a proxy for total asset turnover (AssT) measured by net sales to total assets, the ratio of operating costs to sales (OpeR), administrative expense with sales (AdmR), the ratio of advertising costs and RdanD to sales (ARDR), the volatillity of net operating income (NOI), and the volatility of net income which describes the multiplication of standard deviation (STD) with the results of the comparison of net income to sales. The statistically significant effect occurred on agency variables, AssT, OpeR, AdmR, and ARDR on firm value, while the other two variables were not significant. It indicates that there has been a significant decline in market performance (Fadah,2013). Similar findings are delivered by Lachheb dan Slim (2017) using asset turnover, the ratio of administrative costs to sales, the ratio of advertising costs and R and D, the ratio of operating costs and sales (opexp ratio) as a proxy for agency costs. Overall agency costs have a negative effect on ROA. Indirect measurement in measuring corporate performance from an agency perspective in the form of asset utilization ratio was described by Davidson & Singh (2003); Ozkan & Florackis (2008); Stuerke & Jelinek (2009); Khan et al. (2012); Allam (2018). While Singh and Davidson (2003) describe a direct measure of agency costs in the form of the ratio of sales and administrative costs for sales; Ozkan & Florackis (2008); Stuerke & Jelinek (2009), and the result of monitoring the company's performance will issue a ratio of operating costs to sales (Ang et al. 2000), which serves as a proxy for agency costs. Furthermore, another study examines direct measurements derived from the interaction of free cash flow with QFCF (Allam, 2018), and external and internal audit fees and remuneration of non-executive directors. (Mustapha dan Ahmad, 2011).

Several empirical findings are used as the basis for researchers to generate updates. One of which is Klapper dan Love (2004) who found a negative relationship between the proportion of fixed assets (tangible) on sales and governance. On the other hand, ownership of intangible assets has a higher Tobin's q. The use of high tangible fixed assets in a company (Klapper and Love, 2004) this effect can weaken every element of corporate governance. Core et al. (1999) describe that companies with weaker governance lead to greater agency conflict. Lang et al. (1991); Wright et al.(2009) show that agency costs are significant in weak governance. The findings show the gap in the use of tangible fixed assets indirectly due to agency costs, this exists when governance is weak and also the quality of governance is low, which results from the owner's investment in fixed assets.

Good corporate governance occurs when investment in intangible assets is increased. Khanchel (2007) explains that companies with many intangible assets have stronger governance. Himmelberg et al. (1999) said that companies with large proportions of intangible assets are more optimal in implementing stricter governance mechanisms as a form of a positive signal to investors thereby preventing asset abuse in the future. All previous findings show that there are differences in treatment between tangible fixed assets and intangible assets in dealing with conflicts of interest that cause agency costs. Minimizing agency costs can be done by increasing intangible assets that encourage good corporate governance. Zulkafli and Samad (2007) masalah reveal that agency problems are negatively affected by good governance practices. Gompers et al. (2003) Gomper et al. (2003) found that weak governance of a company will result in relatively lower profits. Referring to the descriptions, this study used tangible fixed assets on sales (TFAOS) as an update in describing agency costs. In this study, TFAOS is a proxy for agency costs.

2. Literature Review

2.1. Corporate Governance and Performance

restrictions on management's opportunistic behavior can be done with corporate governance, besides that this can also be done to avoid problems that occur in the agency (Watts, 2003). Furthermore, it is also explained about agency theory which will discuss the problems that occur to shareholders, where are services on their behalf can be relied on by managers in providing services. (Jensen and Meckling, 1976). The agent's authority can act for personal interests and at the expense of the interests of shareholders. There are differences in the principal's goals and the

agent acts as the entry point for the concept of good corporate management. Zingales (1997) defines the corporate governance consists of ownership allocation, capital structure, management incentive scheme, corporate takeover, board of directors, pressure from institutional investors, product market competition, labor market competition, and organizational structure, where each component is mutually influential. Swan & Garvey (1994) asserted that "Governance determines how the top (executive) decision-maker manages the agreed contracts". Vishny & Shleifer (1997) define corporate governance as a way for financial suppliers to companies to convince themselves of a return on their investment.

A more disciplined corporate governance gives a signal of better corporate performance. Thus, the maximum return is in the form of returns to stakeholders. Shareholders use corporate governance mechanisms as a tool to maximize corporate performance from the perspective of agency, accounting, and market. Companies that are weak in monitoring usually use risk management preferences through corporate governance mechanisms (Lel, 2012). Himmelberg et al. (1999); Jensen & Meckling (1976) say that the principal-agent problem is not the same in different companies, different industries, and different cultures. McColgan (2001); Khan (2011) view that agency problems can be reduced with effective corporate governance mechanisms. Thus, one thing that is important in corporate governance, this can be to reduce agency costs and ownership problems in the company.

Crutchley & Hansen (1989); Jensen et al. (1992) describe that companies increase managerial ownership to align managerial positions with shareholders so that they act according to the goals of shareholders. Dempsey dan Laber (1992) stated that agency problems are heavily influenced by insider ownership. Agency costs between managers and shareholders also get worsen when managers have low levels of share ownership rendah (Gul and Zhao, 2001). Morck (1988) says that when managers hold too much control in the company, external shareholders will find it difficult to control the manager's activities. Traditional theory states that there is a linear relationship between managerial equity ownership and agency costs (Ang et al. 2000; Davidson & Singh, 2003).

Voicing, reviewing, and monitoring the independence and objectivity of the external auditor are the audit committee roles, while ensuring timely releases is another. The next task is related to accounting information, it must be ensured that is not biased when it is given by managers to shareholders, besides that the audit committee must also assist in avoiding financial fraud and also assist in improving company performance. (Elgar, 2006; Chong, 2015). Pearce and Zahra (1992) state that the ideal number of audit committees, it is influential in the use of experience and expertise of audits, so the shareholder satisfaction can be fulfilled. The audit committee is needed in the management of a good corporate. Suaryana (2005) stated that the audit committee is tasked with assisting the board of commissioners when monitoring the financial reporting process carried out by management. In addition, increasing the credibility of financial reports is the next goal.

The audit committee provides added value to the implementation of corporate governance mechanisms by minimizing the manipulation of information. Pohan (2008) said that if the number of audit committees of a company violates the regulations issued by the IDX of a minimum of three people, the management actions in minimizing profits for tax purposes will be increased.

The reduction in the agency cost of equity can be accomplished by adding debt to the capital structure, which reduces the use of stock. And the obligation of company is to pay back the loan along with interest on a regular basis. So, it causes a manager to work optimally in order to repay the capital that comes from debt, by increasing profits, so the debt obligations are fulfilled. The consequences of increasing debt cause the company to face agency costs of debt and the risk of bankruptcy (Crutchley and Hansen, 1989). The use of too much debt will create defense problems (Grossman and Hart, 1982). The leverage factor as a component of external monitoring efforts is emphasized by Kusuma dan Susanto (2004) that the use of debt can reduce agency problems associated with reduced free cash flow so that the available cash flow will be reduced and management's ability to make excessive purchases will decrease. Jensen dan Meckling (1976) relate agency costs to debt in the capital structure.

The performance of business units in accounting studies has been evaluated and measured by various criteria. Then these criteria can be grouped into market-based criteria and accounting data-based criteria. The market price of its shares is a reflection of the criteria for lining up the market (Fama, 1978). In the studies conducted by Balasubramanian & Lee (2008); Al-ahdal et al. (2020), Tobin's q is used as a proxy for measuring firm value. Fama (1978) revealed that the firm

value is reflected in the stock price. Tobin's q has the advantage of profit margin, ROA, or other financial indicators based on historical accounting performance because it reflects market expectations so that it is relatively free from manipulation of management. Scrimgeour (2010) asserts that although Tobin's q is used as a market representation to know the firm value, it is influenced by various unstable factors such as investor psychology and market forecasts. Company performance from an accounting point of view can be measured by return on assets. The level of company profitability can be measured from several aspects, one of which is the return on assets (Brigham dan Houston, 2006). ROA provides an adequate measurement of the overall effectiveness of the company because ROA takes into account the use of assets and profitability in sales. A better measure of the probability of a company being given by ROA, it is because the effectiveness of management in assets to generate income is shown by ROA.

2.2. Hypotheses

Ang et al. (2000) in an effort to test the effectiveness of management in sales of discovery opportunities and the ratio of costs to sales, the asset utilization measure is used. and it is found that the two measures of agency costs have an inverse ratio of owner-manager equity. Alfadhl dan Alabdullah (2013) about cost ratio and asset utilization ratio, found a significant negative impact of the insider ownership towards agency cost. Allam (2018) gave the differences in measuring agency cost through the asset utilization ratio and free cash flow interaction with the growth opportunities that the manajerial ownership finding has a negative and insignificant impact towards agency cost. Khan et al. (2012) found that insider ownership does not have an impact towards agency cost. Davidson & Singh (2003) exemined the relationship between the managerial equity ownership with the asset utillization for sales and general and administrative costs (SG and A) towards the sale. The increasing insider ownership finding significantly increase the asset utilization, but generally it does not obstruct the outcome in amount. Florackis dan Ozkan (2008) menemukan found that in a certain level, the shareholding will cease to align the management interest with the shareholder since the manager will gain more profits from the direct consumption of perquisite rather than from their corporation profit.

Jensen et al. (1992) argued that the boards whose short regulation bureaucracy can operate more effective in the management supervising so that the operation can be expanded to the audit committee. Beasley dan Salterio (2001) stated that the more the audit committee size increases, the more the firms have probability to be operated by the outside directors of the audit committee beyond the minimum mandated requirements so that the effectiveness of the audit committee can increase. Audit committee has a negative impact towards agency cost (Allam, 2018; Hastori et al., 2015). The lack of audit committee impact in handling agency cost is revealed in the Schäuble (2018). The negative impact of leverage towards agency cost is proposed by Florackis dan Ozkan (2008); Khan et al. (2012); Zhang dan Li (2008); Nozari (2016). Meanwhile, Alfadhl dan Alabdullah (2013) said that leverage does not affect towards agency cost.

Theoretically, the performance and the number of boards in general do not have a final relationship (Khabiya et al. 2014). Agency theory explained that a large board can increase managerial cost and hence it adverselly affects the firm proftability (Yawson, 2006). A large board can increase the board costs, such as remuneration, bonuses, travel, and any other benefits (Vafeas, 1999), which next can lead into the increasing of agency cost and lower firm value (Jensen dan Meckling, 1976).

Small board is found to be less powerful and effective compared to a large board based on the research conducted by Pearce dan Zahra (1992); Singh dan Davidson (2003). Florackis and Ozkan (2008); Beiner et al. (2004); Eisenberg., et al. (1998) revealed that the number of board has a negative correlation about asset turnover. Xie et al. (2003) found that a largeger board is associated with less profit management activity.

The relationship between insider ownership and firm performance empirically plays a role in people ownership in order to reduce agency problem, and it uses asset returns as its proxy, conducted by Cui dan Mak (2002); Wahba (2013); Wellalage dan Locke (2014); Kamardin (2014) found that insider ownership gives a positive impact towards ROA. Mandac dan Gumus (2010); Allam (2018) said that insider ownership does not always give a good impact as proven by their research that insider ownership gives a negative impact towards ROA. More effective oversight and an increase in the number of meetings can occur when the audit committee is larger (Raghunandan et al. 2001). Williams & Menon (1994) believe that one of the indicators of an effective committee comes from the composition of audit committee members. The research

conducted by Wei (2007); Scrimgeour (2010); Al-Mamun et al. (2014); Allam (2018); Zraiq dan Fadzil (2018) showed that audit committee gives a positive impact towards firm performance proxied by return on asset. The agency theory proponent perspective, such as Hillman dan Dalziel (2003) mention that the supervisory process will disappear and the company's performance will decrease, when the audit committee is larger. Ghabayen (2012) strengthened the research finding that audit committee does not contribute towards the ROA financial performance. Cui and Mak (2002); Wei (2007); Chen and Chen (2011). Lachheb and Slim (2017) said that the use of money has not been able to give a good result because corporate's leverage gives a negative impact towards firm performance (ROA). Wellalage and Locke (2014); Salehi et al. (2018) revealed that leverage gives significant and positive impact towards return on asset.

Goodstein et al. (1994) stated when the director board is large, the financial performance can be improved as the important resources can be guaranteed more easily, such as financial contracts and business. Yawson (2006) said that a larger board can attract more qualified members and increase every board's decision. Jiraporn et al. (2009) revealed that the existence of a larger board can help in creating an effective board sub-committee so that it can increase the firm performance. Yermack (1996) found the increasing of profits for asset (ROA) and Al-Mamun et al. (2014), about the small board, found a different result that there is no relation between the numbers of board and accounting profit. Kamardin (2014) argued the number of boards is positive, yet insignificant related to ROA. Al-Sahafi et al. (2015) conducted the number of boards significantly positive related to ROA. Ghabayen (2012) explained the number of boards does not affect the firm performance (ROA). Salehi et al. (2018) found that the increasing of board members number, it can have a positive impact on ROA, but this effect is not significant. Herliana (2016); Lachheb and Slim (2017) revealed that agency cost gives a negative impact towards ROA. Lachheb dan Slim (2017) explained that agency cost (operational and sales cost ratio) affects positively insignificant towards ROA.

High shareholding manager tends to behave that give a benefit to corporate. On the other hand, low shareholding tends to behave that harms the corporate for personal gain. Chen et al. (2003); Fahlenbrach & Stulz (2009); Ruan et al. (2011); Wellalage and Locke (2014); Kamardin (2014) revealed insider ownership affects positively towards firm's value. On contrary, Mandac and Gumus (2010); Wellalage and Locke (2014); Suastini et al. (2016) found insider ownership affects negatively insignificant towards the firm's value. Last, Wida and Suartana (2014); Mandac and Gumus (2010) said that there is no influence between insider ownership and the firm's value.

Agency theory postulates management-shareholder conflict often leads to resistance with shareholders when what top management decides is only to satisfy them, it is especially when the quite opportunistic on management. (Meckling & Jensen, (1976). Protection of shareholder interests tends to be lacking when the top management is running without effective control procedures. (Fama dan Jensen, 1983). Conflict resolution requires an effective and efficient audit committee (Klein, 2002) and besides that it is useful in achieving sustainable positive performance (Rahmat dan Iskandar, 2009). Audit committee has the ideal numbers of enabling members to use the experience and skill to satisfy the shareholder's interest (Zahra & Pearce, 1992). Yasser et al. (2011), Agyemang-Mintah and Schadewitz (2018), Zraiq and Fadzil (2018) found the number of audit committee affects positively towards the firm's value. Audit committee affects negatively towards the firm's value as reveled by Scrimgeour (2010); Hsu and Petchsakulwong (2010); Dar et al. (2011); Al-Matari et al. (2012). Al-Matar et al. (2014), Al-Sahafi et al. (2015), Salehi et al. (2018) explained the influence of audit committee is insignificant towards the firm's value. The leverage affects positively towards the firm's value as in the research of Bae et al. (1994); Cheng and Tzeng (2011); Wellalage and Locke (2014). The leverage does not affect the firm's value as in the research conducted by Osazuwa and Che-Ahmad (2016); Cheryta et al. (2018). Chen et al. (2003); Mandac and Gumus (2010); Chen and Chen (2011) contributed to give their argumentation about leverage that affects negatively towards the firm's value. Kamardin (2014); AlSahafi et al. (2015) stated that the number of board is significant and positive towards tobin's q. The small board is predicted to increase firm's value (Meckling & Jensen, 1976). Bae et al. (1994); Wright et al. (2009) ;Wang (2010); Fadah (2013) revealed the negative impact of agency cost towards the firm's values as a reflection of firm value. There is a positive impact of agency cost even though it is insignificant towards the firm value (Khidmat dan Rehman, 2014). Chen & Chen (2011); Rosikah et al. (2018); Lestari and Armayah (2016); Wardani and Hermuningsih (2011); Sucuahi and Cambarihan (2016); Chen et al. (2003) revealed the significant and positive impact of return on asset towards the firm value. Return on asset does not affect significantly towards the

firm value (Thaib dan Dewantoro, 2017). Herawati (2013) stated that the firm value is affected by Return on Asset (ROA) significantly with a negative relation

H1: Insider ownership affects agency cost
H2: Audit committee affects agency cost
H3: Leverage affects agency cost
H4: The number of boards affects agency cost
H5: Insider ownership affects return on asset
H6: Audit committee affects return on asset
H7: Leverage affects return on asset
H8: The number of boards affects return on asset
H9: Insider ownership affects the firm value
H10: Audit committee affects the firm value
H11: Leverage affect the firm value
H12: The number of boards affects the firm value
H13: Agency cost affects return on asset
H14: Agency cost affects the firm value
H15: Return on asset affects the firm value

3. Methodology

Explanatory research is adopted as the research design in analyzing the ability of exogenous variable to explain the endogenous variable. Agency Cost (AC), Return on Asset (ROA), and Firm Value (FV) as the endogenous variable used to describe the firm performance, while the exogenous variable consists of Insider Ownership (IO), Audit Committee (ACom), Leverage (Lev), and one part of corporate governance is the Number of Management (NB). A purposive sampling approach is used to process data from companies that fulfilled the criteria, and There are 10 companies listed on the Indonesia Stock Exchange during the period 2012 - 2020 have fulfilled the requirements, and 90 observational data were obtained. Furthermore, the Partial Least Square Structural Equation Model is used to test the hypothesis in this study.

4. Results and Discussion

The PLS model can be used to evaluate the predictive relevance of Q2, which will measure how well the observed values generated from the model are, in addition to seeing the estimated parameters. Predictive relevance is owned by the model, this is because the value of Q2 is greater than 0, otherwise if the value of Q2 is less than 0 means this model has no predictive relevance. As the stone-geisser test (Q2) and the goodness of fit index test (GoF) are shown in table 1. Furthermore, the results of Q2 on each model endogenous variable have a value of Q2 > 0, this means that the predictive relationship is owned by this model. Goodness of fit (GoF) is applied to validate the model in a whole with the value criteria of GoF by using normed fit index which ranges 0 to 1.

Table 1: Test of stone-geisser and goodness of fit

Variable	Q^2	NFI
Agency cost	0,101 (larger than 0)	1,000 (high)
Return on asset	0,095 (larger than 0)	1,000 (high)
Firm value	0,183 (larger than 0)	1,000 (high)

The value of normed fit index (NFI) has a role as a measure of the model suitability with the comparative basic towards base line or null model. Null model generally reflects a model which states that every variable contained in the estimated model is not related each other. The value of NFI for the third variable is 1, 000 which means a whole model in the research has a 100% good level.

Table 2: Hypothesis Test Results

Variable Relation	Original Sample (O)	T Statistic (|O/STDEV|)	P Values
IO->AC	0.098	0.954	0.340
ACom->AC	-0.015	0.141	0.888

Lev->AC	-0.275	4.554	0.000*
NB ->AC	0.312	2.444	0.015**
IO-> ROA	-0.023	0.394	0.694
ACom ->ROA	0.070	0.756	0.450
Lev ->ROA	-0.440	3.872	0.000*
NB ->ROA	0.033	0.245	0.806
AC-> ROA	-0.401	4.108	0.000*
IO -> FV	-0.107	0.944	0.345
ACom -> FV	0.189	1.661	0.097***
Lev -> FV	-0.215	2.054	0.040**
NB -> FV	0.145	0.838	0.403
AC -> FV	-0.287	2.999	0.003*
ROA ->FV	0.464	4.276	0.000*

*significant at a=1%, **significant at a 5%, ***significant at a 10%

Agency cost will increase in line with the increasing of insider ownsership, although it has not been happened yet significantly as the confirmed result. The investment impact in tangible fixed asset is revealed by Klapper dan Love (2004). They stated that the corporate with the tangible fixed asset is higher in quality and lower in governance, which means the agent is very opened to make decisions that harm principal and cause a high agency cost. The amount of investment in tangible fixed asset gives values to the owner to directly supervise to agent in governing every tangible fixed asset. The implementation of corporate governance will be greatly disrupted when the owner is seen in the supervision of tangible fixed assets, because it is seen as a form of weakness in every corporate governance mechanism. Zulkafli dan Samad (2007) asserted that the good practice of corporate governance affects negatively towards the problem of agency. On the other hand, Klapper dan Love (2004) argued that there is a negative correlation between the tangible fixed asset proportion for governance sale. Florackis and Ozkan (2008); Mustapha and Ahmad (2011); Alfadhl and Alabdullah (2013); and Schäuble (2018) stated that there is influences of insider ownership towards agency cost. Allam (2018); Khan et al. (2012) confirmed that agency cost is not affected significantly by the insider ownership.

Based on these findings, it appears that the effect does not occur on the audit committee on agency costs, this is in line with Allam (2018); Schäuble (2018). The audit committee negatively affects to agency cost, as explained by Hastori et al. (2015). The presence of audit committee influence has not been significant towards agency cost It describes the existence of audit committee encourages the increasing of investment on the tangible fixed asset so that it causes the influence is insignificant. Leverage measured by debt to equity has a significant influence to agency cost. The finding confirmed that the involvement of fund sourced from a creditor encourages agent to reduce the investment of the tangible fixed asset and increases intangible asset so that the detected agency cost from the both negative relation is minimized, which support the research of Zhang and Li (2008); Nozari (2016). Leverage has a positive impact towards agency cost, as revealed by Ozkan & Florackis (2008); Khan et al. (2012); Nazir et al. (2012). Alfadhl and Alabdullah (2013) said that leverage does not affect the agency cost. This finding also reveals that number of boards affects positively and significantly towards agency cost, which supports the research of Florackis and Ozkan (2008); Beiner et al. (2004); Eisenberg et al. (1998). Meanwhile, Pearce and Zahra (1992); Singh and Davidson (2003) concluded that agency cost is affected negatively. The bigger the tangible fixed asset of a corporate, the lower the quality of corporate governance. The decline is defined as an impact of the tendency of a director as corporate manager who wants to increase the investment of the tangible fixed asset. The low quality of corporate governance can occur as a form of the director involvement as the corporate owner through the managerial shareholding whose same motivation with the others to increase the value of the tangible fixed asset. The decision made by the director injures every component implemented in corporate governance. The governance weakness considered as an impact of the increasing of tangible fixed asset by the director board increases agency cost significantly, Klapper and Love (2004) confirmed this matter.

Next, this finding proves that the firm performance with return on asset proxy is not affected significantly by the insider ownership. Mandac and Gumus (2010); Allam (2018) supported this

finding that the insider ownership does not always give a good impact towards ROA. Cui and Mak (2002); Wahba (2013); Wellalage and Locke (2014); Kamardin (2014) revealed that return on asset becomes positive by being affected by the insider ownership. Audit committee does not affect return on asset significantly, which means the composition of audit committee right now has not been able to bring the corporate achieves maximal profit. Ghabayen (2012); Salehi et al. (2018) strengthened the finding, stating that ROA is not affected by the audit committee. Wei (2007); Scrimgeour (2010); Al-Mamun et al. (2014); Allam (2018); Zraiq and Fadzil (2018) confirmed that the firm performance with ROA proxy increases positively and is affected by audit committee. Return on asset becomes significant with a negative way affected by leverage. The explanation of Ghabayen (2012); Kamardin (2014); Salehi et al. (2018) supports the finding of this study, that the number of boards does not have a significant relationship to ROA. Al-Sahafi et al. (2015) claimed the number of boards significantly positive with ROA. Agency cost affects significantly with a negative way towards return on asset, strengthening the finding of Herliana (2016); Lachheb and Slim (2017) from the relationship perspective though it is insignificant.

The perspective of agency theory recommended one of the steps that needs to do, especially in minimizing agency cost through the increasing of the insider ownership. The share ownership by managers can reduce agency problems, it is because the shares owned by managers, they are considered to increase the value of the company. It is because, this stock serves are as an incentive. Wida and Suartana (2014); Mandac and Gumus (2010) support the findings of research which states that there is no effect of people's ownership on firm value. Furthermore, there is a negative relationship between inside ownership and firm value. It is linear with research from Mandac and Gumus (2010); Wellalage and Locke (2014) stated that the firm value is not affected by insider ownership significantly and positively. It does not support the research conducted by Chen et al. (2003); Fahlenbrach and Stulz (2009); Ruan et al. (2011); Wellalage and Locke (2014); Kamardin (2014). Dar et al. (2011); Al-Matar et al. (2014); Al-Sahafi et al. (2015); Salehi et al. (2018) supported the finding that the firm value is not affected by the audit committee significantly. It is not in line with the findings of Scrimgeour (2010) argument; Hsu and Petchsakulwong (2010); Dar et al. (2011); Al Matari et al. (2012) that the audit committee has a negative impact towards the firm value. The review of the two relationship supports the finding of Yasser et al. (2011), Agyemang-Mintah and Schadewitz (2018); Zraiq and Fadzil (2018) even though the significant differences happen.

Leverage affects negatively and significantly towards the firm value, which supports the finding of Chen et al. (2003); Gumus & Mandac (2010); Chen and Chen (2011); Fosu et al. (2016). On the other hand, Ross (1977); Bathala et al. (1994); Jensen and Meckling (1976); Park and Jang (2013) mention the positive influence were shown by leverage on firm value. Cheryta et al. (2018); Zuhroh (2019) argues that leverage does not affect the value of firm. And it is also the number of boards, it has no significant effect on firm value. It is because with more than 10 boards, it caused the company's low performance (Lipton and Lorsch, 1992). Mak and Li (2001) explained that the firm value has a relation with the small board. It is linear with Kamardin (2014); Al-Sahafi et al. (2015). Conyon & Peck (1998) revealed that there is a negative relationships between the number of boards and firm value.

Significant effect is shown by the negative relationship of agency costs to firm value. Bae et al. (1994); Wright et al. (2009); Wang (2010); Fadah (2013); Khidmat and Rehman (2014) revealed the firm value is affected negatively by agency cost. The claim supports this finding. The corporate ability resulted the profit increasing generally is followed by the stock prices increasing. The increasing of stock prices reflects the good firm value for investor. The corporate is able to create the profit, hence it gives an impact in increasing stock prices, which means return on asset affects significantly and positively towards the firm value. The argumentation of Rosikah et al. (2018); Warandi and Hermuningsih (2011); Chen and Chen (2011); Hermuningsih (2013); Chen et al. (2003); Sari and Abunandti (2014); Rasyid et al. (2015); Sedana & Wijaya (2015); Armayah & Lestari (2016); Mustanda & Pramana (2016) strengthened the finding when ROA increases, the market responds positively so that the firm value is considered to increase.

5. Conclusion

This research finds that leverage and the number of boards affects the firm performance from the agency perspective significantly, but not for the insider ownership and audit committee. Return on asset is affected significantly by leverage and agency cost. While the insider ownership, the

audit committee, and the number of boards have an influence, but it is not with firm value. The insider ownership and the board size don't have effect on it. However, there is a different finding that the audit committee, leverage, agency cost, and return on asset affects the firm value significantly.

This finding is expected to contribute to all parties in State-Owned Enterprise corporates for applying every element of corporate governance towards the firm performance including agency approach, accounting, and market. The governance of tangible fixed asset is proven as a factor of the occurrence of agency that leads into agency cost. At the end, the agency concept led by Jensen and Meckling (1976) can be improved by the presence of the tangible fixed asset as the newest proxy of agency cost in measuring interest conflicts.

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