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Agency Theory in Measuring Company Performance From the Perspective of Sharia Issuers

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Abstract. *direct significance testing of institutional and managerial ownership effects and independent board of commissioners on company performance. through a quantitative approach with a population of 70 JII70 companies in 2021-2023 , data is determined based on purposive sampling. As many as 144 data were processed, analyzed by regression. Institutional ownership and independent board of commissioners proved to be significant in the same direction in growing company performance. but managerial ownership did not have an impact or was contrary to agency theory. adding other determinants of company performance from both micro and macro perspectives .*

Keywords: *institutional ownership, managerial ownership, independent board of commissioners, companyperformance.*

1. BACKGROUND

Nowadays, people are smart in managing their funds, starting from saving, investing *in tangibility* and *intangibility. assets.* One of the most popular choices today is developing funds through *intangible investments. assets,* one of which is through the Capital Market, which offers various instruments, including shares. Considering that the majority of the population of Indonesia and even the world are Muslims, it is an opportunity for the Capital Market to issue shares that adhere to Islamic sharia principles issued on the basis of Law No. 19 of 2008 concerning State Sharia Securities . Given the basis used, the shares offered become more attractive to the public, because they are assumed to have a safer risk level compared to other groups of shares (Togatorop & Bahari, 2022). One of the benchmarks is by looking at stock price fluctuations through the stock index, with *a trend* that tends to increase, meaning market demand is in good condition. Furthermore, as an indicator, it can also be seen from its market capitalization , namely measuring company performance (Astutik, et al., 2024).

The problem is that prospective investors are faced with many choices of stocks available in the Sharia Capital Market (JII70, IHSG, ISSI and JII), so information on these two indicators is needed as a consideration for determining investment choices (Puteri, 2023). In this regard, previous researchers have conducted secondary data processing, it appears

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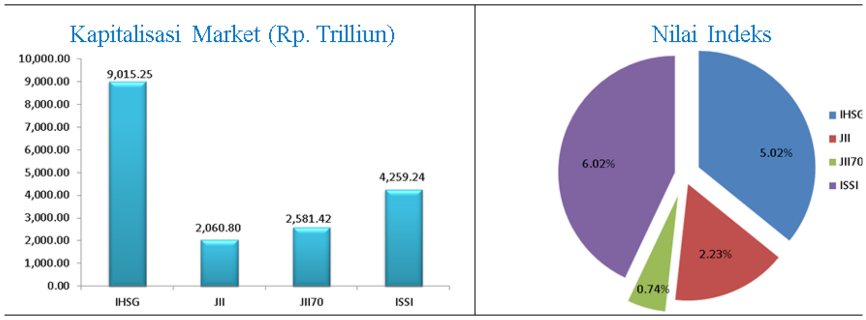
that of the four groups of stocks in the Sharia Capital Market, JII70 stocks have the second lowest stock index, with the lowest market capitalization. This means that the stocks in JII70 have a low average *demand and company performance, as shown in Figure 1 below (Astutik, et al., 2024):*



Source: Astutik, et al. (2024).

Figure 1: Market Capitalization and Stock Index of Sharia Capital Market

The description above thus requires a method to improve the company's financial performance , especially for issuers included in JII70 (Astutik , et al., 2022) . The approach expressed in *agency theory* that through the institutional ownership structure it is possible foster stronger oversight , to carry out evaluations of *agent* performance (Erica & Lukman, 2023 ; Alabdullah et al., 2022), so that company performance will be achieved significantly (Puteri , 2023 ; Swastya et al. , 2023) . In addition, managerial ownership according to *agency theory* also effective to achieve significant company performance. This is because the management, which acts as an agent and owner, has the right to vote in decision making , so it will make maximum efforts to achieve performance. company (Yusmulianto et al. , 2023; Tristanto et al. , 2023) . *Agency theory* also revealed that the supervision of the independent board of commissioners can also be used as a method to improve company performance (Suaidah et al., 2023; Hamdi and Munandar, 2023; Nurjanah, 2022; Ferriswara et al., 2022) .

On the other hand, several previous empirical studies have provided results that indicate a conflict with *agency theory* . This is because agency relationships will not always produce decisions that focus on the welfare of the principals , but there can also be opportunistic *agent* behavior to prioritize personal interests (Handayani et al., 2022). Institutional ownership actually has no impact on company performance (Swastya et al. , 2023; Arjang & Rahman et al. , 2023; Nisrina et al. , 2022) . The gap also occurs for managerial ownership (Tristanto et al. , 2023; Hamdi & Munandar , 2023) . It turns out that an independent board of commissioners can also always be used as a strategy to improve company performance (Puteri, 2023; Maryati and Anggraini, 2023; Yusmulianto et al. , 2023; Ferriswara et al., 2022) .

above problems then make it interesting to re-test on different issuer groups, focusing on JII70 shares. The specific objective of this study is certainly to see the proof of the determinants of JII70 company performance with institutional and managerial ownership and an independent board of commissioners. Furthermore, in general, it is certainly expected to strengthen scientific findings as a basis for theoretical studies on agency gaps.

2. THEORETICAL STUDY

A. Agency Theory

This theory is based on the idea that in managing a company there is a separation between the rights and obligations of the owner and the manager. This mindset was first developed by Jensen & Meckling (1976) , which was further intended to prevent *asymmetry information ,* one way is for managers to act and make decisions according to the owner's wishes (Handayani et al., 2022) . Avoiding *asymmetry information* Thus, the proportion of information conveyed to the public is the same as that received by shareholders *(* Khongmalai) & Distanont, 2017), ultimately the level of fraud decreases (Lukviarman , 2016). This *agency theory* is also closely related to improving company performance, with various matters including ownership structure and supervision through the existence of an independent board of commissioners (Shubita , 2023; Almashhadani & Almashhadani, 2022 ; Khairunnisa et al., 2022).

B. Ownership Structure

Ownership structure is closely related to corporate governance, because it can build a view related to agency between ownership categories (Shubita , 2023) . Handayani & Evana (2022) stated that optimal management will foster transparency and accountability in financial reporting (Handayani & Evana, 2022). The ownership that is built consists of: (1). Institutional ownership , indirectly carries out optimal supervision, so that manager behavior will be more careful (Khairunnisa et al., 2022; The Almighty & Almashhadani, 2022) *,* management working capital and all assets become effective and efficient, ultimately increasing financial performance (Alabdullah , 2022) . (2). The managerial ownership structure is also recognized as a way to optimize company performance. Given this proportion, managers act as shareholders, therefore management is carried out very carefully in achieving optimal profits (Ferriswara et al., 2022; The Almighty & Almashhadani, 2022).

C. Independent Board of Commissioners

board of commissioners is a party outside the company and thus has strong independence in carrying out supervision as well as in providing guidance to managers (Erica & Lukman, 2023 ; Ferriswara et al., 2022;). Ultimately, personal conflicts of interest can be avoided, financial performance is balanced and even increases (Ferriswara et al., 2022; Ardelia & Lubis, 2023). The existence of this party thus indicates that supervision is running effectively , so that fraudulent financial reporting can be avoided (Ardelia & Lubis, 2023; Suaidah et al., 2023) . This is because, with high automatic supervision, the financial reports presented have high accountability (Ardelia and Lubis, 2023) so that performance increases (Arjang & Rahman et al., 2023) . Furthermore, the company can guarantee to all *shareholders* and *stakeholders* that they are free from various violations committed by managers (Swastya et al ., 2023).

D. Company performance

One of the company's performance achievements is reflected in the profit achievement for each period, which is the main priority for the entire company (Puteri, 2023; Maryati & Anggraini, 2023). This is because investors will use profitability achievements to make company projections in the future (Khairunnisa et al ., 2022 ; Astutik & Galuh, 2023). Profitability is thus a reflection of efficiency in achieving the company's main goals (Tristanto et al., 2023 ; Ahmed et al., 2020) . This achievement is of course closely related to internal and external factors . (Tristanto et al., 2023). This will improve overall performance, because it will attract investors to invest. This is part of the activity for investors in investing capital in order to obtain more value (Aditya , et al., 2024).

E. Theoretical Framework

In line with *agency theory* , institutional ownership structure will minimize *information asymmetry* and arbitrary actions by managers, ultimately indirectly increasing supervision that can improve company performance (Puteri , 2023 ; Pratiwi & Chariri , 2021). Likewise, share ownership by managers supports optimal management, so that efficiency is built in achieving profits (Yusmulianto et al . , 2023; Tristanto et al. , 2023) . The independent board of commissioners also has a strong contribution in supervising the company's overall operations (Ardelia & Lubis, 2023), so that performance increases over time (Suaidah et al. , 2023 ; Hamdi & Munandar , 2023; Nurjanah , 2022; Ferriswara et al. , 2022) . Furthermore, the hypothesis and theoretical framework can be stated as follows:

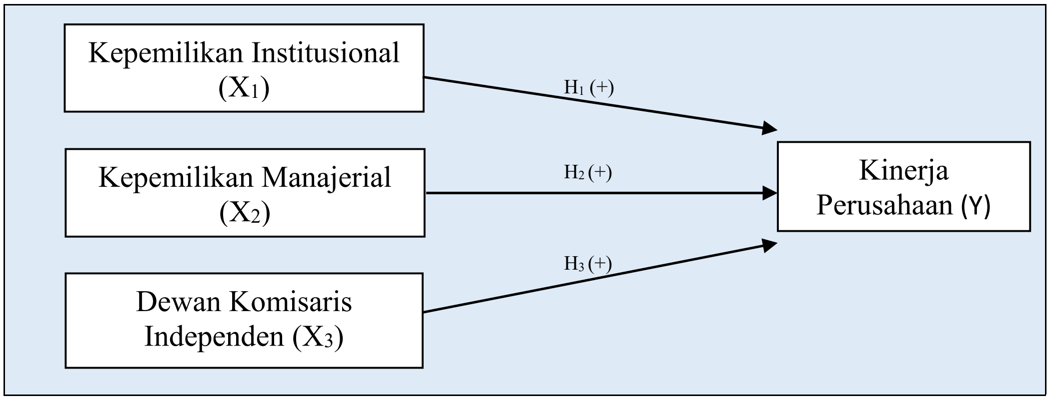


Figure 2: Theoretical Framework

3. RESEARCH METHODS

The study refers to quantitative design, to test the hypothesis (Arnab, 2017), where the main data is secondary data from financial reports from www.bei.com . The population is based on all JII70 shares *listed* on the IDX, as many as 70. Disclosure of research results is carried out in a *sampling* with *purposive sampling technique* period 2021-2023 , then the number of samples is determined as follows :

Table 1: Determination of Sample Size

Company Criteria	Amount
Population (companies)	70
Experiencing *suspension* .	(9)
The number of independent commissioners is <3 people.	(5)
Incomplete data .	(10)
Book a loss.	(8)
According to Criteria (Company)	38
Period (Year)	3
Number of Samples (Data)	**114**

Source: processed secondary data (2024) .

Furthermore, the operationalization of the variables studied appears as in the following table:

Table 2: Operationalization of Variables

Variables	Code	Operationalization
Institutional ownership (X_1)	KI	$KI = \frac{\sum \text{Saham Institusional}}{\sum \text{Saham Beredar}}$
Managerial Ownership (X_2)	KM	$KM = \frac{\sum \text{Saham Manajeria}}{\sum \text{Saham Beredar}}$
Independent Board of Commissioners (X_3)	DKI	$DKI = \frac{\sum \text{Dewan Komisaris Independen}}{\sum \text{Dewan Komisaris}}$
Company performance (Y)	KP	$ROA = \frac{\text{Keuntungan Bersih}}{\text{Total Aset}}$

The analysis using the multiple linear regression approach begins with a classical assumption test, followed by a model test, hypothesis test (*t test*) , referring to the following model equation:

$$Y = \alpha + \beta_{1.KI} + \beta_{2.KM} + \beta_{3.DKI} + \varepsilon$$

4. RESULTS AND DISCUSSION

A. Research Variable Analysis

Table 3 shows that institutional ownership of JII70 shares during the 2021-2023 period has *a range* from the lowest to the highest of 76.8%, so there is a very high gap, with an average of 36.2%. The managerial ownership gap is only 20.9% with an average of 11.3%. The difference also occurs for the independent board of commissioners (31.4%) which has an average of 20.1% of the board in the company. The company's performance in all of these issuers is not far apart (only 41.6%) with *an average of* 38.4%.

Table 3: Research Variable Statistics

Variables	Min	Max	Range	Mean	Std. Dev
KI (X_1)	0.084	0.852	0.768	0.362	0.102
KM (X_2)	0.015	0.224	0.209	0.113	0.224
DKI (X_3)	0.022	0.336	0.314	0.201	0.132
KP(Y)	0.216	0.632	0.416	0.384	0.127
Valid N (listwise)	114				

Source: processed secondary data (2024).

B. Classical Assumption Test

It is stated in Table 4 that the model built is free from classical assumption problems. It is proven that Zskewness <2.0 thus the residuals in the model are normally distributed . Furthermore, it appears that the coefficient Du<Dw<4-Du means it is free from autocorrelation. Significance> 0.05 so that there is no heteroscedasticity and VIF <10 so there is no multicollinearity interference .

Table 4: Classical Assumption Test

Test	Variables	*Cut Off*	Results
Normality	RES1	Zskewness < 2.0	1,206 < 2.0
Autocorrelation	$X_1, X_2, X_3 \rightarrow Y$	Du < Dw < 4-Du	1,749 < 1,921 < 2,251
Heteroscedasticity	$X_1 \rightarrow ABS_{RES1}$ $X_2 \rightarrow ABS_{RES1}$ $X_3 \rightarrow ABS_{RES1}$	Sig. > 0.05	0.123 > 0.05 0.224 > 0.05 0.152 > 0.05
Multicollinearity	$X_1 \rightarrow Y$ $X_2 \rightarrow Y$ $X_3 \rightarrow Y$	VIF < 10.00	2,154 < 10.00 1,693 < 10.00 1,875 < 10.00
$Du1_{n=144\ k=4}$ = 1.749. 4-Du = 2.251.			
Source: processed secondary data (2024) .			

C. *Regression Test* Results

Table 5 shows the results of multiple linear regression data processing, which are then used to see model equations, model tests and hypothesis tests:

Table 5: Results of the *Moderated Regression Analysis (MRA) Test*

Test	α	β	t	Sig.	Results	F	Sig	*Adj. R^2*
KI → KP	0.437	0.542	2,763	0,000	Accepted	3,891	0,000	0.485
KM → KP		0.126	1,027	0.061	Rejected			
DKI → KP		0.471	2,237	0,000	Accepted			
t table $_{n=144,\ k=4}$ = 1.982.				F table $_{n=144,\ k=4}$ = 2.688.				
Source: processed secondary data (2024)								

D. Model Equation Analysis

The model equation as based on Table 5 appears as follows:

$Y = 0.437 + 0.542_{KI} + 0.126_{KM} + 0.471_{DKI}$

The constant of 0.437 thus indicates that an increase in institutional and managerial ownership, as well as a large proportion of independent commissioners, supports the increase in company performance in achieving profits of 43.7%. Institutional ownership appears to have the highest positive slope (0.542), meaning it contributes highly to the growth of company profits by 54.2%. Furthermore, managerial ownership is only able to contribute 12.6% in increasing company performance in obtaining profits. Independent commissioners provide the 2nd support in increasing profit performance by 47.1% in issuers listed in JII70.

E. Model Test

Based on Table 5, the F model test shows that $F_h > F_t$ (3.891 > 2.688) with a significance of 0.000, meaning that the model built is good. This means that institutional and managerial ownership and an independent board of commissioners are significantly able to explain the performance of JII70 company in achieving profitability. The magnitude of this ability is 48.5% so that the performance of this company is more determined by other factors outside this model.

F. Hypothesis Testing

It is stated in Table 5 that H_1 is accepted, statistically the calculated t is > t table (2.763 > 1.982) with a significance of 0.000, meaning that institutional ownership has an effect. positive and significant to the performance in achieving profit. In contrast to H_2, it is proven to be rejected as seen from the calculated t < t table (1.027 < 1.982) reinforced with a significance of 0.061, thus managerial ownership with a proportion that is not able to guarantee to improve company performance. The next test on H_3 is also accepted where the calculated t > t table (2.237 > 1.982) significance of 0.000 means that in the JII70 issuer, it means that if the independent board of commissioners is proportional to the total number of commissioners in the company, the company's performance will increase significantly.

G. Discussion

a) The Influence of Institutional Ownership on Company Performance

institutional ownership can significantly improve company performance in achieving net profits on all assets used (Allen & Ro, 2023) . In line with *agency theory* , in order to achieve the company's financial performance, it must be achieved through optimal governance, one of which is the existence of institutional shareholders. A study by Swastya et al. (2023) also provides the same conclusion, based on *agency theory* . It is stated that institutional investors have better abilities than individual investor groups in managing profitability. The reason is that institutional investors are more reliable and have better experience in carrying out investment portfolios so that the probability of receiving various distorted financial information is lower. At the same time, as stated by Almashhadani & Almashhadani (2022) that these investors are more reliable in using profit information to make predictions in the future.

Puteri 's (2023) test also revealed that high institutional ownership can improve company performance in achieving high profits. Based on the concept of *agency theory,* institutional investors with a high proportion affect the strength of supervision, so that operations become more effective in terms of *agency costs.* becomes lower, then efficiency occurs and ultimately net profit increases . Khairunnisa et al. (2022) and Hamdi & Munandar (2023) in his study also revealed that the way managers work is monitored well, so that fraud *is* reduced. This was also revealed in Khongmalai's research. & Distanont (2017) , the existence of institutional investors can be used as a means to minimize agency conflicts (Swastya et al., 2023) , so that managers will act in line with the wishes of the owners. Similar to the statement from Khairunnisa et al. (2022), that managers do not dare to act arbitrarily. Ferriswara et al. (2022) also stated that these investors also have a strong ability to convey various criticisms and suggestions to management (Ferriswara et al., 2022).

b) The Influence of Managerial Ownership on Company Performance

Managerial ownership in this context does not seem to strengthen *agency theory* in relation to company performance in achieving profit. This is partly because the average managerial ownership in JII70 is low (11.3%). The argument is that with a low proportion of managerial ownership , the incentive to monitor the possibility of opportunistic matters will increase, this does not provide benefits to the expected performance (Tristanto et al., 2023). On the other hand, the conclusion of Arjang and Rahman et al. (2023) , which is that management's share ownership that is too high can result in expropriation problems where there is a process of utilizing control to optimize personal welfare by using other parties' assets (Ferriswara et al., 2022) .

Swastya et al.'s (2023) test provides the same conclusion, where managerial ownership that is too small makes management feel less benefit from their ownership related to decision making. This condition ultimately causes management to take actions that can provide personal benefits. (Suryandari and Susandya , 2023). As a result, *agency costs* increase and this has an impact on the company's low financial performance (Nisrina et al. , 2022).

c) Influence of the Independent Board of Commissioners On Company Performance

This empirical study is in line with *agency theory,* which states that the proportion of the existence of an independent board of commissioners that is in accordance with the scale of the company, then independent supervision will automatically increase (Ahmed et al ., 2020) . In this regard, in order for corporate governance to run optimally, one of them is by increasing the composition of the independent board of commissioners. The existence of an independent board of commissioners can be used as a balancer in decision making , because of the various inputs that have been provided (Suaidah et al. , 2023). The findings of this scientific study further strengthen *the agency theory* that an independent board of commissioners is a very crucial part of the company in an effort to improve profit achievement performance.

Testing by Ardelia and Lubis (2023) also revealed that in public companies, parties with special expertise are needed to protect the interests of *stakeholders.* This effort can be maximized through another, namely an independent board of commissioners, in improving company performance . Members of the independent board of commissioners come from external parties to the company , who are appointed based on the results of the GMS decision in acting independently and at the same time the company is not operationally involved (Hamdi and Munandar, 2023) . This board thus carries out its duties entirely purely for the benefit of the company, there is no tendency for personal interests or is not biased towards anyone. This action, in the end, supervision can be carried out objectively, which ultimately increases the company's performance, one of which is reflected in the increase in profit (Suaidah et al. , 2023 ; Nurjanah, 2022; Ferriswara et al., 2022) .

5. CONCLUSION AND SUGGESTIONS

Testing of institutional ownership and the existence of a board of commissioners is able to strengthen *agency theory.* This means that both determinants with proportional proportions can improve company performance, so it is also appropriate to be implemented on JII70 shares, while managerial ownership does not provide support. The limitation of this study is that the contribution of the three independent factors is relatively low (48.5%), so many other determinants are very feasible for testing. Based on this, it is recommended that subsequent researchers can add public ownership, audit committees, *leverage* and macro elements.

6. THANK-YOU NOTE

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