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# The Effect of Agency Conflicts on Dividend Policy and Profitability as Moderation Variables in the Idx-Listed Banking Business Sector

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***ABSTRACT:*** *The purpose of this research is to examine the Agency Conflict that affects Dividend Payments. The Agency Conflict is reflected in Institutional Ownership, Capital Structure based on Debt-to-Equity Ratio, and the Agency Cost evaluated through Expense Ratio. Dividend Payments arise when there is an internal agreement between the company's management and shareholders regarding the amount of dividend payment, which is assessed based on the Dividend Payout Ratio. All these factors are then tested for their influence on the distribution of dividend profits in the company and moderated by the Profitability variable, represented by the Profitability financial ratio from Equity. The research population consists of banking financial service sector companies listed on the Indonesia Stock Exchange. The sample selection is done using purposive sampling technique, with a total of 20 financial service sector companies over a period of 4 years. The data analysis method used in this research is moderated regression analysis (MRA) using STATA 17 software. The research findings indicate that the projected Agency Conflict through Capital Structure significantly influences Dividends. The Capital Structure, moderated by Profitability, also significantly affects dividend policy, with each having a significance level below 0.05.*

***KEY WORD**: Agency Cost; Dividen Policy; Return on Equity; Expense Ratio; Capital Structure; Institutional Ownership*

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## I. INTRODUCTION AND LITERATURE REVIEW

Indonesia's economy is still heavily dependent on the financial services sector. The Central Statistics Agency (BPS) reported that the proportion of commercial banks, rural banks, and intermediary services increased from 9.57 percent in 2015 to 9.82 percent in 2016. The banking sector dominates 60-70 percent of the financial services industry. Meanwhile, other subsectors of financial services, such as pawnshops, venture capital, and finance companies, grew significantly from 7.98 percent to 9.24 percent. A country's financial sector is often associated with the emergence of economic crises. Through the Financial Services Authority (OJK), the Indonesian government encourages various policies of the Ministry of Finance (Kemenkeu), Bank Indonesia (BI), and the Deposit Insurance Corporation (LPS) to accelerate national economic recovery. Financial institutions play an important role during crises and in the era of industrial competition.

The pandemic in 2019, where many companies tried their best to survive, various ways and approaches were carried out by managerial financial sector companies to maximize profits with available sources of funds or assets. Over time the value of the company shows uncertainty and symptoms of conflicts of interest come to the surface, accompanied by several agency problems, in financial terms referred to as agency costs. Based on research Allam (2018: 5) states that Agency costs are costs that arise due to differences in views between company managers and principals or shareholders who are not in line where managers want to increase profits with the smallest dividends while on the other hand shareholders want the maximum dividends.

Companies need to consider capital structures that are in accordance with their business activities. New businesses require capital, and even more capital is needed for growth. The funds needed can come from various sources and in various forms. Companies can use debt capital or equity to finance their assets," Singh (2019: 8). Agency costs that arise can be seen and measured in various ways, one of which is by looking at the flow of funds from year to year if the flow of funds is increasing significantly but the level of profitability is low and the value of stocks is falling and seen from the indicator of the value of the stock market.

Companies need to consider the capital structure that suits their business activities. New businesses require capital, even more capital is required for growth. The necessary funds can come from various sources and in various forms. Companies can use debt capital or equity to finance their assets," Singh (2019: 8). Agency costs that arise can be seen and measured in various ways, one of which is by looking at cash flow from year to year if cash flow increases significantly but the level of profitability is low and the value of shares that fall is seen from the stock market value indicator.

Agency problems come because of the separation between ownership and management in large companies, there is a conflict between shareholders as owners and managers as agents. Managers focus on high company growth (low dividends) but owners prefer high dividends. Because of these differences in views, there is an agency conflict or so-called agency conflict where the results of this conflict cause failures and setbacks in the company, agency conflicts are described by large cash flows but there is a decrease in profitability, this occurs as a result of the agency's (managerial) desire to increase salaries, the use of cash for investments that are not on target so as to reduce financial performance.

The statement from Jensen and Meckling (1976:68) which states that "agency problems occur when management gets more privileges in managing business institutions and incurs monitoring costs for shareholders (principals) known as agency costs" is the first time popularized the topic of this difference. This agency problem is not caused by different knowledge, but by different goals. Managers can implement policies that increase their own profits rather than serve the interests of shareholders.

According to previous studies, minority share ownership by principals in a business identity causes agency conflict problems. "The problem of agency can be overcome when managerial ownership holds part or the majority of shares, in other words, managerial ownership," according to research journal Afzarul Rahid (2015: 4). According to the findings of early research, managerial ownership can only reduce the agency costs of the company when the "Asset Utilization Ratio" is met, as mentioned by Rashid d (2015: 7). The company will continue to face challenges such as early agency conflicts, which will affect important aspects, such as the dividend policy that will be given to investors.

In Indonesia, nearly 95% of the financial services sector is owned by institutions, both state-owned and private, such as Insurance Companies, Pension Funds, Mutual Funds, and others owned by institutional entities. In this regard, the researcher intends to address some of the research gaps regarding ownership issues."

According to a study by Ishaya Luka Chechet and Abduljeleel Badmus Olayiwola in 2014 concerning the capital structure and profitability of manufacturing companies listed on the Nigerian stock index from 2000 to 2009 using the ddebt to dEquity ratio d(DER) as a proxy, the capital structure has a dne impact negative d on the profitability of the company . The implication is that having more debt in the capital structure is contrary to the agency theory which states that debt in the capital structure can be controlled and reduced agency costs. In the early cases, debts indirectly cause agency conflicts and affect the company's profits. According to research by Yegon, Sang, and Kurui in 2014 on nine service businesses in Kenya from 2008 to 2012, concentrated institutional ownership has a significant impact on increasing agency costs, which in turn affects the profitability of the company.

Institutional ownership in essence is institutional ownership where the initial institution has an interest as a shareholder in a company engaged in financial services such as banking, insurance and so on. In this case, the author tries to find the influence of conflict within the company, and the title is “The Influence of Conflict, Agency, and Institutional Ownership of the Company's Dividend Policy, and Profitability, as Moderation in the Financial, Business, and Financial Sector in Indonesia”.

**Agency Theory**

Conflict of Interest Theory produces what are known as Agency Costs, a term first proposed by Jensen and Meckling (1976:54). This theory explains agency relations and the problems arising from them. An agency relationship is a relationship between two parties, each playing a role, one as a shareholder (owner) and the other as a company management party. The management, as the second party, is appointed by the owner (shareholders) and is in charge of managing the company to achieve good profitability, performance and corporate value.

**Agency Relations Theory**

As early as 1776, Adam Smith focused attention on conflicts of interest between owners of joint stock companies and managers and directors. Smith's pessimism about the ability of company owners to provide adequate oversight of directors and managers led him to conclude that the problem of incentives within the company cannot be overcome, so that their survival depends on the monopoly status granted by the state. Although historically disputed, Smith predicts his death was formed by the organization of the company. The focus of the agency theory is to reduce the problems that arise when ownership and management are separated in business. The initial hypothesis supports the implementation of various administrative tools in the company to control the activities of experts in the organization (Panda and Leepsa, 2017: 6).

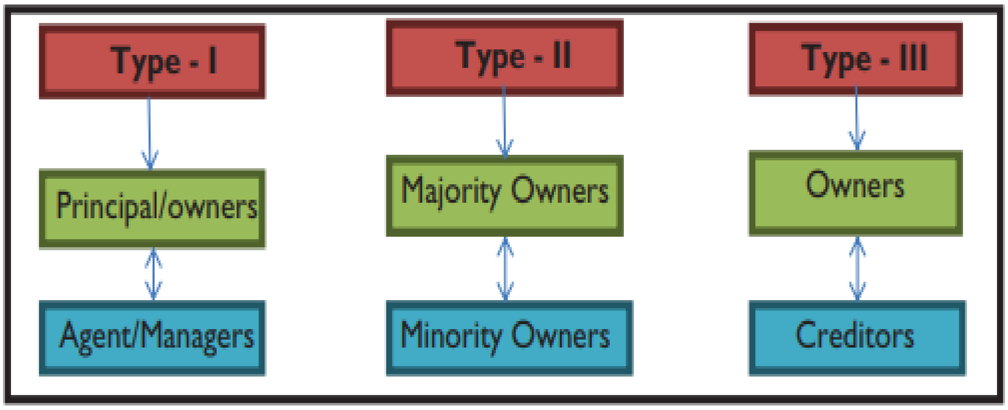
Agency theory is one of the most widely used theoretical perspectives in business and management research. The basic assumption of agency theory is that agents: a) are self-interested, b) are limited in their

reasoning, and c) differ from principals in their goals and risk preferences. Early theory implied that when one party (principal) hires the other party (agent) to act and make decisions based on its name, problems arise.
In the field of incomplete agency contract theory, the agency theory of d is very special. When someone is authorized to act on someone else's behalf, they are in an agency relationship: a type of contractual relationship that is special (implicit or explicit) where the ambassador, in the early sense between the shareholders, contracts the services of the agent (Lim and Falk, 2018: 2).

**Types of Agency Problems**

Owners and creditors experience the third type of organizational problems; Premature conflicts arise when owners make investment decisions that are more risky than the wishes of creditors. The following is a description of the types of organizational problems.

**Figure 1. Types of Agency Conflicts**




Source : Brahmadev Panda & N. M. Leepsa 2017

**a. Type 1 Principal-Agent**

Since the early founding of large corporations, Berled and Means (1932:3) have identified problems of agency and between owners and managers in organizations as a result of the separation of ownership and control. The owner assigns duties to the managers to manage the company with the assumption that the managers will act in the interests of the owners. However, managers are more interested in increasing their personal compensation.

According to Sen (1987:2) and Williamson (1985:2), the rationality of human behavior forms the basis of the argument that agents act self-interestedly. Early writers argued that human actions are rational and motivated to achieve their own goals. Actor-agent conflict arises when the principal's and agent's interests are not properly aligned and are not properly supervised because the ownership structure is dispersed.

**b. Type 2 Principal Minority- Agent**

The underlying assumption of this type of agency problem is the conflict of interest between the majority owner and the minority owner. Individuals or groups of individuals, usually institutional shareholders, who own a majority of shares in a company are called majority owners. On the other hand, minority owners are individuals who own a small portion of the company's shares, such as managerial ownership. Majority owners or block holders have higher voting rights and can make decisions for their own personal gain, which may interfere with the interests of minority shareholders (Fama and Jensen, 1983: 2). This type of early agency problem occurs in countries or companies where ownership is concentrated in the hands of a few individuals, which means that the majority owner has the ability to influence decisions more than the minority owner.

**c. Tipe 3 Principals and Creditors**

Disputes between owners and creditors arise because of the tasks carried out and the funding decisions taken by investors, as revealed by Damodaran (1997:9), "The investors try to invest in risky projects, where they can expect the desired results. higher." Creditors are affected by the risk of the project, which increases the financial costs and decreases the value of the debt. The owner will get a big profit if the project is running well, but creditors will not be too interested because they only get fixed interest.

Conversely, if the project fails, the creditor will be obliged to share a portion of the loss with the principal, namely the owner of the company.

### 1.2 Research Objectives

The hypothesis will be tested in early quantitative research with a moderated regression approach. The types of data used in the early research are secondary data, which were obtained from the Catalog in the Indonesian Capital Market (ICMD) of financial companies that were registered on the Indonesian Stock Exchange (IDX) during the period 2013-2019, which are available on the IDX official website www.idx.co .id. The Structural Equation Modeling (SEM) method was used to find out the factors influencing company profitability on three independent variables: Capital Structure, Agency Problems, and Institutional Ownership, with the Dividend Payout Ratio as a moderator variable.

### 1.3 Research Methodology and Data Analysis

In processing the data on the characteristics of these respondents, the authors used the help of IBM SPSS Version 26 software where the number of samples as research respondents was in companies engaged in the financial services sector in Indonesia. Based on the completed questionnaire, the demographics of the respondents can be identified based on 3 (three) characteristics. After the sampling technique was determined by the researcher, then determining the number of samples in this study, namely the data analysis method -multiple -moderation -Regression analysis (MRA).

### 1.4 Population and Sample

The population in this study consists of all companies operating in the financial services sector in the span of 2013-2019, with the sampling technique used is purposive sampling. The dpurposive sampling method implies the selection of samples based on specific characteristics that can meet the objectives and results of the research. When, because of the nature of research design, intent, and purpose of research, only a small number of subjects can function as primary data sources, then the purposive sampling method can prove to be defective. The following are the special characteristics of the samples selected by the researchers:

- Companies operating in the financial services sector in Indonesia,
- Companies that regularly and transparently report on their finances,
- Companies with complete financial reports spanning from year 2019 to 2022.

The researcher presents the entire population of the sampled companies in the sector of Financial Services that are listed on the Indonesian Stock Exchange (IDX). From the early population, the researchers took 15 samples using the Purposive Test method, where the samples were selected based on specific characteristics, including having regular annual financial reports, being a publicly traded company, and having a larger proportion of institutional ownership compared to other types of ownership.

**Table 1 Sample of Financial Services Sector Companies**

| No | Code | Name | Transaction Date |
|---|---|---|---|
| **1** | BBRI | Bank Rakyat Indonesia (Persero) | 10 Nov 2003 |
| **2** | BBNI | Bank Negara Indonesia (Persero) | 25 Nov 1996 |
| **3** | BBTN | Bank Tabungan Negara (Persero) | 17-Des-09 |
| **4** | BMRI | Bank Mandiri (Persero) Tbk. | 14-Jul-03 |
| **5** | BNGA | Bank CIMB Niaga Tbk. | 29 Nov 1989 |
| **6** | BNII | Bank Maybank Indonesia Tbk. | 21 Nov 1989 |
| **7** | BNLI | Bank Permata Tbk. | 15-Jan-90 |
| **8** | BTPN | Bank Tabungan Pensiunan Nasion | 12-Mar-08 |
| **9** | BNII | Bank Maybank Indonesia Tbk. | 21 Nov 1989 |
| **10** | NISP | Bank OCBC NISP Tbk. | 20-Okt-94 |
| **11** | BFIN | BFI Finance Indonesia Tbk. | 16-Mei-90 |
| **12** | BABP | Bank MNC Internasional Tbk. | 15-Jul-02 |
| **13** | LPGI | Lippo General Insurance Tbk. | 22-Jul-97 |
| **14** | BCIC | Bank JTrust Indonesia Tbk. | 25-Jun-97 |
| **15** | BGTG | Bank Artha Ganesha | 20 Nov 1990 |
| **16** | MAYA | Bank Mayapada | 11 Feb 1989 |
| **17** | MEGA | Bank Mega | 15-April-1969 |
| **18** | NOBU | Bank Nationanobu | 18 Mar 2008 |
| **19** | BDMN | Bank Danamon | 19 Jul 1956 |
| **20** | BJTM | Bank Pembangunan Daerah Jawa Timur | 17 Agutus 196 |

Source: data processed by researchers

This research involves in what is called Moderated Regression Analysis as a means of analysis. The relationship between the two sets or space of factors can be analyzed using d Multiple Moderation Regression Analysis (MRA). It becomes a multi-assessor statistic which is an extension of the usual linear regression, which can be used when we have more than one variable as a criterion. The various types of Moderated Regression models are listed in the table below. The moderator variable can be strengthened or weakened by the independent variable and then grouped based on the moderation regression model and its interaction with the predictor.

**Table 2 Moderation Regression Grouping**

| | **Relates to criteria and predictors** | **Not related to criteria and predictors** |
|---|---|---|
| Does not Interact with predictors | Intervening, Exogen, antecedent, prediktor | Moderator (homologizer) |
| Interact with predictors | Moderator<br>(Quasi Moderator) | Moderator<br>(Pure Moderator) |

Source: Imam Gozhali 2015

Based on Table 2 above, the first grouping is based on its relationship with the dependent variable, namely whether the moderator variable is related or not related to the dependent variable. Second, whether the moderator variable interacts with the (independent) predictor variable. Suppose we have a criterion variable (dependent) Y , a predictor variable (independent) X and a moderator variable Z. The following is a model from research using the MRA (Moderated Regression Analysis) Analysis Tool.

### 1.5 Findings and Interpretation

The following is an analysis of the data used to measure the agency conflict variables, capital structure, institutional ownership, profitability, and dividend policy in the banking and financial sectors in Indonesia, using the dividend payout ratio as the moderating variable. The information is processed using dSTATA d17 software.

Descriptive statistical tests were used to provide an overview of the entire population used in early research. The results of the descriptive statistical test of the characteristics of the distribution of the data of the research variables are as follows:

**Figure 3 Descriptive Statistical Test Results**

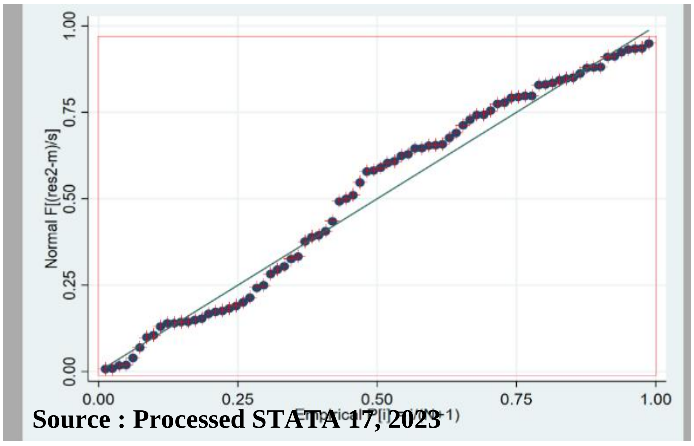
```
tabstat agency_cost der institutional roe dpr_num, statistics( min max mean sd )
```

| Stats | agency~t | der | instit~l | roe | dpr_num |
|---|---|---|---|---|---|
| Min | .69 | .01 | .42 | .017 | 1 |
| Max | 84.053 | 4.32 | .99 | 16.009 | 78 |
| Mean | 8.31335 | .79325 | .787625 | 1.4962 | 39.4 |
| SD | 14.0664 | .7784954 | .1588985 | 2.648399 | 22.71764 |

**Source : Processed STATA 17, 2023.**

To determine whether the residuals are normally distributed or not, a normality test is carried out. In the early abnormality test, in addition to using graphs, statistical analysis can also be used, as shown in Figure 4, below:

**Figure 4 Normality Test Results Using the Normal P-Plot Graph**




**Source : Processed STATA 17, 2023**

The multicollinearity test observes how each variable is related to the other variables. A d good regression d model should not have d interrelationships between d independent factors, as shown in Figure 5.

**Figure 5 Multicollinearity Test Results**

| Variable | VIF | 1/VIF |
|---|---|---|
| x3_m | 5.37 | 0.186079 |
| x2_m | 3.96 | 0.252478 |
| x1_m | 1.99 | 0.501600 |
| Mean VIF | 3.78 | |

As shown in Figure 5, the VIF (variance diflation factor) cut-off value and the average d for all variables are less than 10.00, which is 3.78. This shows that there is no multicollinearity in these variables.

To test the existence of autocorrelation, the Breusch-Godfrey test was used. Based on Figure 6 below, there is no autocorrelation if the value of dp is greater than 0.05. However, if the p value is less than 0.05, then there is autocorrelation.

**Figure 6 Autocorrelation Test Results Using the Bgodfrey Testt**

```
. estat bgodfrey

Breusch-Godfrey LM test for autocorrelation
```

| lags(p) | chi2 | df | Prob > chi2 |
|---|---|---|---|
| 1 | 0.718 | 1 | 0.3967 |

```
                          H0: no serial correlation

.
. estat dwatson

Durbin-Watson d-statistic(   4,    80) =  1.794696
```

Based on Figure 6, from the standard hypothesis test, it is known that the probability value of 0.3967 is greater than 0.05 (α), therefore the conclusion is to reject H0. Thus, we have to accept Ha, which implies that there is no autocorrelation in the residual data.

Moderated regression analysis (MRA) is a variant form of multiple linear regression in which an element of interaction (multiplication of two or more independent variables) is included in the regression equation. Using STATA, multiple linear regression models without moderating variables were tested before the involvement of "profitability" was tested. Multiple dlinear regression analysis was used to determine the effect of the independent variable or predictor (X) on the dependent variable or response (Y) according to the hypothesis that has been set. The results of the various linear regression tests carried out in STATA can be seen in Figure 7.

**Figure 7 Multiple Regression Testing**

```
. regress  ynorm x1norm x2norm x3norm

      Source |       SS           df       MS      Number of obs   =        80
-------------+----------------------------------   F(3, 76)        =      3.15
       Model |  37.2792628         3  12.4264209   Prob > F        =    0.0298
    Residual |  300.023866        76  3.94768245   R-squared       =    0.1105
-------------+----------------------------------   Adj R-squared   =    0.0754
       Total |  337.303129        79  4.26965986   Root MSE        =    1.9869

------------------------------------------------------------------------------
       ynorm | Coefficient  Std. err.      t    P>|t|     [95% conf. interval]
-------------+----------------------------------------------------------------
      x1norm |  -.1224107   .2173613    -0.56   0.575    -.5553233    .3105019
      x2norm |  -1.690301    .554558    -3.05   0.003    -2.794799   -.5858031
      x3norm |  -.1373176   1.708788    -0.08   0.936    -3.540664    3.266029
       _cons |   7.614262   2.112514     3.60   0.001     3.406825     11.8217
------------------------------------------------------------------------------
```

**Source : Processed STATA 17, 2023.**

Obtaining the equation of the multiple linear regression model without involving the influence variable, the researcher tested the effect of the regression model which involved the influence variable, namely profitability which is measured by return don't dequity, as shown in Figure 8.

**Figure 8 Moderated Regression Analysis (MRA) Testing**

```
. regress  ynorm  x1_m x2_m x3_m

      Source |       SS           df       MS      Number of obs   =        80
-------------+----------------------------------   F(3, 76)        =      3.17
       Model |   37.482484         3  12.4941613   Prob > F        =    0.0292
    Residual |  299.820645        76  3.94500849   R-squared       =    0.1111
-------------+----------------------------------   Adj R-squared   =    0.0760
       Total |  337.303129        79  4.26965986   Root MSE        =    1.9862

------------------------------------------------------------------------------
       ynorm | Coefficient  Std. err.      t    P>|t|     [95% conf. interval]
-------------+----------------------------------------------------------------
        x1_m |   .1560863   .1063347     1.47   0.146    -.0556976    .3678702
        x2_m |   .6519096   .2657306     2.45   0.016     .1226613    1.181158
        x3_m |  -.5461762   .3024771    -1.81   0.075    -1.148612    .0562592
       _cons |   6.048574   .2498552    24.21   0.000     5.550945    6.546204
------------------------------------------------------------------------------
```

**Source : Processed STATA 17, 2023.**

The degree to which the independent variable contributes to explaining the variation of the dependent variable is assessed using the coefficient of determination. The following is the result of testing the coefficient of determination d after the addition of the moderating variable, as shown in Figure 9.

**Figure 9 Test Simultaneous (Test F) After There is Variable Moderation**

| Source | SS | df | MS | | | |
|---|---|---|---|---|---|---|
| | | | | Number of obs | = | 80 |
| | | | | F(3, 76) | = | 3.17 |
| Model | 37.482484 | 3 | 12.4941613 | Prob > F | = | 0.0292 |
| Residual | 299.820645 | 76 | 3.94500849 | R-squared | = | 0.1111 |
| | | | | Adj R-squared | = | 0.0760 |
| Total | 337.303129 | 79 | 4.26965986 | Root MSE | = | 1.9862 |

**Source : Processed STATA 17, 2023.**

On figure 9 , there is 80 obsevations or sample which valid, F for (3,76), which show that test F own degrees freddom (DF) as big 3, which signify that amount variable. Which testes reduced one, that is 4-1=3 variablel 76 is amount observation reduced amount variable, that is 80 reduced 4, which produce 76. Then results test F is 0.00292, which more small form o.05. Matter this means we accept HI or HA, which means that all variable independent own influence significant on variable dependen in manner simultaneous. R-squared is 0.1111 or 11.11%, which very low, which means the rest as big 89.00% influenced by factors other in outside model regression.

### 1.6 Conclusion and Recommendation

In accordance with the discussion that has been described above, the conclusion is.

1. Agency conflicts have a negative effect and there is no significance to the dividend policy reflected in variable Y, namely the dividend payout ratio in the financial business sector in Indonesia.
2. Capital structure as measured by debt equity to ratio (DER) has a negative effect and there is a significant effect on the variable dividend policy which is reflected in the divident payout ratio (DPR) in the business sector and finance in Indonesia
3. Institutional ownership has a negative effect and there is no significance to the dividend policy which is reflected in the divident payout ratio which is moderated by profitability and projected return on equity ratio (ROE) in the financial business sector in Indonesia.
4. Profitability measured by return on equity is not moderated and there is no significant effect on Agency costs on the dependent variable, namely dividend policy with a proxy divident payout ratio in the financial business sector in Indonesia.
5. Profitability with a proxy return on equity (ROE) moderates and has a significant influence on the capital structure as measured by debt to equity ratio to dividend policy with proxy divident payout ratio in the financial business sector in Indonesia.
6. Profitability as measured by return on equity does not moderate insignificantly institutional ownership of dividend policy by proxy divident payout ratio in the financial business sector in Indonesia.

In accordance with the conclusions above, the suggestions recommended in this research are as follows.

**1. Management in the Financial Business Sector**

a. The results of early research show that agency conflicts have a negative effect and are not significant in dividend policy. This is considered for the management of the company not to incur costs that are not considered necessary in the operational part of the company, which can make the burden or the operational costs swell.

b. The results of early research show that capital structure has a negative effect and is significant for dividend policy. This is a consideration for the management of the company to use funding sources derived from debt effectively and deficiently and prudently

c. The results of early research show that institutional ownership has a negative effect and is not significant for dividend policy. This is a separate consideration for the management of the company to encourage investment in others, in rotating the capital owned especially in the banking sector.

d. Early research results show that profitability moderates insignificantly in agency costs against dividend policy with divident payout ratio proxy. This is a consideration for the company's management to increase profitability at ROE value in order to be able to pay agency costs.

e. The results of this study show that profitability as measured by return on equity moderates the effect significantly on capital structure as measured by debt to equity ratio. This is a consideration for the company's management to use sources of funds from external parties, especially debt, effectively and efficiently.

f. The results of the study showed that profitability measured by return on equity did not moderate and was not significant in institutional ownership against dividend policy with dividend dpayout dratio. This is considered for the management of the company to use ownership outside the institutional ownership related to investment in the company in the financial business sector.

**2. Next Research**

The deficiency in early research is that there is a lack of the number of samples so that for further research, it is expected to increase the number of samples in order to increase the variable moderation of profitability in knowing its role in influencing dagency dcost and institutional ownership. The weakness of early research is that the R Square value is low, so that subsequent research can be added or used other variables to find out more about the variables that can affect profitability as a variable of moderation.

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