THE EFFECT OF INSTITUTIONAL OWNERSHIP, MANAGERIAL OWNERSHIP, FAMILY OWNERSHIP, AND INDEPENDENT COMMISSIONERS ON COST OF DEBT

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Abstract: This study aims to provide understanding and knowledge to the public, especially investors and creditors regarding the effect of institutional ownership, managerial ownership, family ownership, and independent commissioners on cost of debt and can be used as a reference for further researchers as well as a reference for stakeholders (investors, creditors, and the government.) in making decisions that are relevant and reliable. The method used is quantitative research with secondary data taken from annual company reports with data collection techniques using purposive sampling. The data analysis used is multiple linear regressions. The populations in this study are all manufacturing companies listed on the Indonesia Stock Exchange during 2017-2019. The number of research samples as many as 54 data. The results of this study indicate that: (1) Institutional ownership has no significant effect on the Cost of Debt. (2) Managerial Ownership has no significant effect on the Cost of Debt. (3) Family ownership has no significant effect on the Cost of Debt. (4) Independent Commissioner has significant effect on the Cost of Debt.

Keywords: ownership structure, independent commissioner, cod

INTRODUCTION

The company has several alternatives in funding, where one of the sources of funding obtained by a company comes from creditors. Funds obtained from creditors constitute a debt to the company so that the company must pay back the money that has been given by the creditors along with additional interest. This repayment of money on a loan is known as the cost of debt. Cost of debt (cost of debt) can be defined as the rate of return expected by creditors when funding a company (Fabozzi, 2007). The cost of debt also includes the interest rate that the company must pay when making a loan. Therefore, the company's ability to manage debt costs is very necessary. When a company cannot manage debt costs, the company will experience a financial crisis and bankruptcy caused by accumulated debt and the inability to repay the loan (Meiriasari, 2017).

In Indonesia, one example of a company that was declared bankrupt because it was unable to pay its debt was PT Dwi Aneka Jaya KemasindoTbk. This cardboard and paper packaging company officially went bankrupt on November 22, 2017 after the panel of judges granted Bank Mandiri's request to cancel the peace. Where the company is unable to pay its debt of Rp. 1.1 trillion. Another case is PT Citra Maharlika Nusantara Corpora Tbk (Cipaganti) which was declared bankrupt on April 22, 2017 because its peace proposal was rejected by creditors and could not pay off its debt of Rp. 245 billion. In addition, PT Modern International Tbk through its subsidiary, PT Modern Sevel Indonesia (7-Eleven) also decided to close its business as of June 30, 2017 due to large operating costs, where operational costs were obtained from debt (source: www.merdeka.com).

Based on the above case, the problem occurs when management is unable to pay its obligations, resulting in a transfer of ownership of the assets from shareholders to creditors. In a debt contract, there is agency problem between shareholders, management and creditors. Management has an obligation to pay the interest and principal to creditors who have claims on the company's assets. However, management is also contracted by shareholders to provide returns to shareholders. To minimize the agency problem, a mechanism is needed that can increase the confidence of third parties. Creditors who are providers of funds have a need to ensure that the funds lent will be used properly and efficiently by the debtor. This can be caused by the existence of information asymmetry, namely creditors have limitations in knowing information and company performance (Ross et al., 2008).

Institutional ownership is a mechanism to reduce conflict between management and shareholders. The company will carry out strict supervision of the performance and management of a company management if the number of

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institutional ownership outside the company is significant. Effective monitoring of institutional investors can reduce the opportunistic behavior of management to reduce agency costs and debt costs. Research conducted by Meiriasari (2017) found that institutional ownership can reduce the cost of debt borne by companies. This is because institutional investors are believed to have a better ability to monitor management's actions, thus encouraging management to improve company performance. This is because institutional parties have a greater incentive to exercise tighter oversight of company management and policies. Effective monitoring by institutional parties can also reduce the opportunistic behavior of management, causing the company risk to be smaller and the return desired by creditors to be lower. In other words, the greater the level of share ownership by the institution, the more effective the control mechanism on management performance will be, of course this has an impact on the cost of debt borne by the company.

Managerial ownership is the embodiment of the principles of good corporate governance. Management must manage the company transparently so that there is no conflict of interest with shareholders. Yunita (2012) states that the existence of managerial ownership in a company makes managers more careful in making decisions related to debt policies. Managers reduce the amount of debt to minimize the risks that may occur that have an impact on creditors' decisions in determining the rate of return. The smaller the risk the company has, will make creditors have a higher level of confidence so that it affects the rate of return to be determined. The urge to trigger company performance makes management try to make it happen so that the risk of the company is getting smaller in the eyes of creditors so that in the end the creditors will only ask for a small return.

The ownership structure in Indonesia has different characteristics from companies in other countries. Most companies in Indonesia have a tendency to be concentrated so that founders can also sit on the board of directors or commissioners. Companies that are led by the next generation or descendants of company founders have lower performance than family companies that are still led by the founders. Harahap and Wardhani (2012) in Swissia and Purba (2018) state that companies with high family ownership have a lower level of agency conflict with companies with low family ownership. Rebecca and Siregar (2011) found that a large proportion of family ownership in a company can increase the cost of debt. Share ownership in large numbers shows the level of control you have over the company is also getting bigger. This control increases shareholder incentives to increase personal gain so that creditors will anticipate this risk with a higher cost of debt.

Independent commissioners in the company's organizational structure whose members are board of commissioners from outside the company will function to balance the decision-making process, especially to protect minority shareholders and other related parties. The existence of an independent commissioner allows the company to provide financial reports that have more integrity so that creditors can see the company's performance and ultimately affect the cost of debt or the rate of return set by the creditor. An independent commissioner is in the best position to carry out the monitoring function in order to create a good governance company. The role of the board of commissioners is also expected to improve earnings quality by limiting the level of earnings management through the monitoring function of financial reporting so as to minimize the risk of fraud in financial reports (Nurdiniah and Munandar, 2020). Septian and Panggabean's research (2017) states that the presence of an independent board of commissioners in the organizational structure allows companies to provide financial reports that have more integrity so that creditors can see the company's performance which in turn can affect the cost of debt.

LITERATURE REVIEW

Agency Theory

Jensen and Meckling (1976) define agency relationships as a contract between the principal and the agent to delegate authority in decision making. The investor (principal) delegates the decision making about the company to the manager (agent). However, managers do not always act in the favor of shareholders. The main objective of agency theory is to explain how the parties in a contractual relationship can design a contract which aims to minimize costs as a result of information asymmetry and uncertainty conditions.

Agency theory seeks to answer agency problems that occur because the parties working together have different goals. Agency theory is emphasized to overcome two problems that can occur in agency relationships (Eisenhard, 1989). The first is the agency problem that arises when the desires or goals of the principal and agent conflict with

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each other and it is difficult for the principal to verify whether the agent has done something right. Second, it is a problem of sharing in taking risks that arise where the principal and agent have different attitudes towards risk. The essence of the agency relationship is that in the agency relationship there is a separation between ownership (the principal), namely the shareholders and the control (the agent), namely the manager who manages the company.

One of the methods used to limit the opportunistic behavior of management and to avoid the effects of agency problems is by implementing corporate governance (Watts, 2003). As agents, managers are morally responsible for optimizing the profits of the owners (principal). In this case, the implementation of corporate governance is expected to give trust to management as an agent in managing the principal's wealth as the owner of capital. In other words, corporate governance is used as a tool to ensure that directors and managers will act in the best interests of stakeholders in general and shareholders in particular.

RESEARCH METHOD

Definition and Operationalization of Variables

Dependent variable

Cost of debt is the rate of return expected by creditors when making funding in a company or the interest rate that must be paid by the company when making loans. Cost of debt is calculated from the amount of interest expense paid by the company in a period of one year divided by the average amount of loans that generate this interest. The calculation of cost of debt (COD) is formulated as follows:

COD = Interest expense / Average interest rate loan

Independent Variable

Institutional Ownership

Institutional ownership is ownership of company shares owned by institutional investors, such as investment companies, banks, insurance companies, foreign institutions, trust funds and other institutions. The indicator used to measure institutional ownership is the percentage of the number of shares owned by the institution of the total shares outstanding.

Managerial Ownership

Managerial ownership is the number of shares owned by management of the total number of shares of the company being managed. The indicator used to measure managerial ownership is the percentage of the total shares owned by the management (directors and commissioners) of the total shares outstanding.

Family Ownership

Family ownership is individual ownership and ownership of closed companies (above 5%), which are not ownership of BUMN and BUMD, public companies or financial institutions. In conducting a sensitivity analysis, family ownership is measured using a dummy variable, namely 1 for companies with 20% or more family ownership and 0 for companies with less than 20% family ownership. The use of this measure refers to PSAK 15 (revised 2009) which states that if an investor directly or indirectly owns 20% or more of the voting rights of an investee, the investor is considered to have significant influence. This analysis is conducted to determine whether or not there is a significant influence (not only the percentage of ownership) of family ownership that affects the cost of company debt.

Independent Commissioner

An independent commissioner is a member of the board of commissioners who is not affiliated with management, other members of the board of commissioners and controlling shareholder, and is free from

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business or other relationships that may affect his ability to act independently or act solely for the benefit of the company. The indicator used to measure independent commissioners is the percentage of the number of independent commissioners from all members of the board of commissioners.

Population and Samples Research

The populations in this study are all manufacturing companies listed on the IDX during 2017-2019. The sample in this study was determined using purposive sampling method, namely sampling based on the criteria of companies listed on the IDX during the observation period and their financial statements are presented in rupiah currency.

Analysis Method

This research uses multiple linear regression analysis, the analysis used to test the effect of two or more independent variables on the dependent variable with a ratio measuring scale in a linear equation. The equation model to test the hypothesis in this research is as follows:

$$COD = \beta_0 + \beta 1\ KI + \beta 2\ KM + \beta 3\ KK + \beta 4 DKI + \varepsilon$$

Information:
COD = Cost of debt
KI = Institutional Ownership
KM = Managerial Ownership
KK = Family Ownership
DKI = Independent Commissioner
$\beta 0$ = constant
$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$ = Regression coefficient
ε = Error term

RESULT AND DISCUSSION

RESULT

Descriptive Test

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Institutional Ownership (X1)	54	,1043	,8901	,613657	,2105892
Managerial Ownership (X2)	54	,0003	,2240	,049189	,0549657
Family Ownership (X3)	54	0	1	,65	,482
Independent Commissioner (X4)	54	,2500	,6667	,402144	,0980064
Cost of Debt (Y)	54	,012412	,213604	,08928144	,052267282
Valid N (listwise)	54				

Sources: SPSS 22

Based on the results of descriptive statistics testing in table 1, with the total data of 54 obtained information as follows:

The Institutional Ownership variable has an average value of 61.37%. This shows that on average, manufacturing companies listed on the IDX in 2017-2019 are mostly owned by institutional investors (such as banks and financial institutions). The lowest Institutional Ownership value is 10.43% owned by PT Astra International Tbk and the highest value is 89.01% owned by PT Trisula International Tbk, with a standard deviation of 21.06%.

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Managerial Ownership Variable has an average value of 4.92%. This shows that on average most of the manufacturing companies listed on the IDX in 2017-2019 are owned by other investors (other than management). The lowest Managerial Ownership value is 0.03% owned by PT Mulia Industrindo Tbk and the highest value is 22.4% owned by PT Garuda Metalindo Tbk, with a standard deviation of 5.5%.

The family ownership variable has an average value of 65%. This shows that on average, manufacturing companies listed on the IDX in 2017-2019 are mostly owned by the family, which means that these investors have a significant influence on the investi company.

The Independent Commissioner variable has an average value of 40.21%. This shows that on average the proportion of independent commissioners in manufacturing companies listed on the IDX in 2017-2019 has met the existing rules in the composition of independent commissioners by at least 30%, but this number is still very small. The lowest score for Independent Commissioners is 25% owned by PT Kedawung Setia Industrial Tbk and the highest value is 66.67% owned by PT Kabelindo Murni Tbk, with a standard deviation of 9.8%.

The Cost of Debt variable has an average value of 8.93%, meaning that the average cost of debt for manufacturing companies listed on the IDX in 2017-2019 is still very low so that company funds can be used for other investments. The lowest Cost of Debt value is 1.24% owned by PT Kabelindo Murni Tbk and the highest value is 21.36% owned by PT Pelangi Indah Canindo Tbk, with a standard deviation of 5.23%.

Classical Assumption Test

Normality test

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,04652766
Most Extreme Differences	Absolute	,083
	Positive	,083
	Negative	-,070
Test Statistic		,083
Asymp. Sig. (2-tailed)		,200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
Sources: SPSS 22

Based on table 2 it can be seen that the value of Asymp. Sig (2-tailed) of 0.200 or greater than 0.05, it can be concluded that the data in this research are normally distributed which means the regression model meets the normality assumption.

Multicollinearity Test

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Table 3. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Institutional Ownership (X1)	,698	1,432
	Managerial Ownership (X2)	,992	1,008
	Family Ownership (X3)	,735	1,361
	Independent Commissioner (X4)	,938	1,066

a. Dependent Variable: Cost of Debt
Sources: SPSS 22

Based on table 3 there are no independent variables that have a tolerance value of less than 0.10 and a VIF value greater than 10. So, it can be concluded that in this research there was no multicollinearity between the independent variables.

Autocorrelation Test

Table 4. Autocorrelation Test

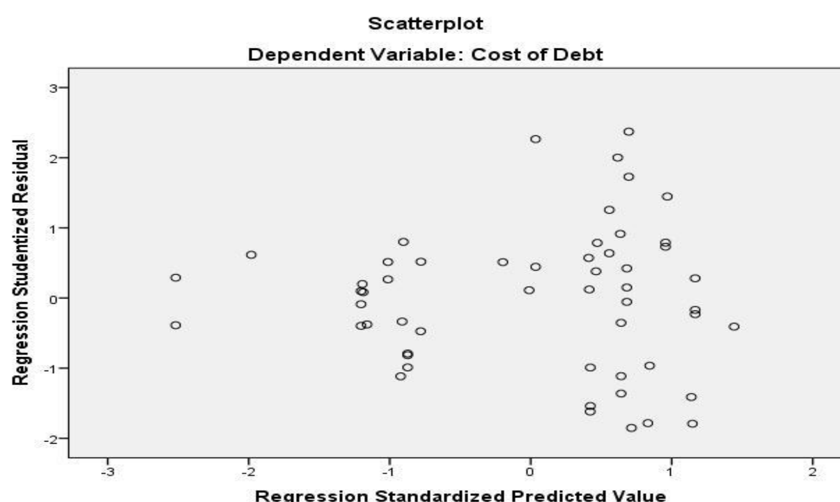
Model	R	R Square	Durbin-Watson
1	,456[a]	,208	1,203

a. Predictors: (Constant), Independent Commissioner (X4), Managerial Ownership (X2), Family Ownership (X3), Institutional Ownership (X1)
b. Dependent Variable: Cost of Debt
Sources: SPSS 22

From table 4, a DW value of 1.203 is obtained, where the value is between -2 to +2, it can be concluded that in this research there was no autocorrelation.

Heteroscedasticity Test

Figure 1.Heteroscedasticity Test



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From the scatter plot graph, it can be seen that the points spread randomly and are spread both above and below the zero on the Y axis. It can be concluded that in this research heteroscedasticity does not occur, so that the regression model is feasible to use.

Determination Coefficient Test

Table 5. Determination Coefficient Test

Model	R	R Square	Adjusted R Square
1	,456[a]	,208	,143

a. Predictors: (Constant), Independent Commissioner (X4), Managerial Ownership (X2), Family Ownership (X3), Institutional Ownership (X1)
b. Dependent Variable: Cost of Debt
Sources: SPSS 22

From table 5 it can be seen that the coefficient of determination or R Square is 0.208 meaning that the influence of Institutional Ownership, Managerial Ownership, Family Ownership, and Independent Commissioner on Cost of Debt is 20.8%. While 79.2% are explained or influenced by other variables not included in this research model.

Hypothesis Test

F Test

Table 6. F Test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,030	4	,008	3,209	,020[b]
	Residual	,115	49	,002		
	Total	,145	53			

a. Dependent Variable: Cost of Debt
b. Predictors: (Constant), Independent Commissioner (X4), Managerial Ownership (X2), Family Ownership (X3), Institutional Ownership (X1)
Sources: SPSS 22

From the regression testing in table 6, an F count of 3.209 was obtained and a significance value of 0.020 was smaller than 0.05. This can be interpreted that Institutional Ownership, Managerial Ownership, Family Ownership, and Independent Commissioner together have a significant effect on Cost of Debt. So that the model in this research is feasible to use.

T Test

Table 7. T Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,190	,038		5,018	,000
	Institutional Ownership (X1)	-,016	,038	-,065	-,424	,674
	Managerial Ownership (X2)	,069	,121	,073	,572	,570
	Family Ownership (X3)	-,002	,016	-,022	-,151	,881

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Independent Commissioner (X4)	-,231	,070	-,433	-3,296	,002

a. Dependent Variable: Cost of Debt
Sources: SPSS 22

Based on the calculation above, obtained:
1. Institutional ownership has no significant effect on Cost of Debt.
2. Managerial ownership has no significant effect on Cost of Debt.
3. Family ownership has nosignificant effect on Cost of Debt.
4. Independent commissioner has significant effect on Cost of Debt.

Multiple Linear Regression Analysis

Table 8. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,190	,038		5,018	,000
	Institutional Ownership (X1)	-,016	,038	-,065	-,424	,674
	Managerial Ownership (X2)	,069	,121	,073	,572	,570
	Family Ownership (X3)	-,002	,016	-,022	-,151	,881
	Independent Commissioner (X4)	-,231	,070	-,433	-3,296	,002

a. Dependent Variable: Cost of Debt
Sources: SPSS 22

Based on the table of the results of multiple linear regression tests, the regression equation is obtained as follows:
COD = 0,190- 0,016 KI + 0,069 KM- 0,002 KK- 0,231DKI + ε

DISCUSSION

1. The Effect of Institutional Ownership on the Cost of Debt

Based on the results of the t test, Institutional Ownership has a regression coefficient of -0.016 with a significance of 0.674 (or greater than 5%), it can be concluded that Institutional Ownership has no significant effect on Cost of Debt. The results of this study support the research of Septian and Panggabean (2017), Sherly and Fitria (2019) and Dirman (2020). This is due to the fact that the majority of public companies in Indonesia are still family-owned companies, so that institutional monitoring does not tend to influence creditors' decisions in determining the company's cost of debt. The existence of institutional ownership in a company is considered to be able to provide monitoring action against the management. However, if this is not accompanied by serious actions in implementing the principles of good corporate governance, the large number of institutional ownership does not guarantee a reduction in corporate risk. According to Sherly and Fitria (2019), the higher the level of institutional ownership, the more it does not affect the cost of debt arising from the use of debt by companies. Institutional ownership is not capable of being a monitoring mechanism for company managers so that institutional ownership has not been able to solve agency problems that arise between managers and company owners.

2. The Effect of Managerial Ownership on the Cost of Debt

Based on the results of the t test, Managerial Ownership has a regression coefficient of 0.069 with a significance of 0.570 (or greater than 5%), it can be concluded that Managerial Ownership has no significant effect on the Cost of Debt. The results of this study support the research of Erniawati, et al. (2019), Azizah and Nurcahyani (2020) and Dirman (2020). This is because the existence of managerial ownership in company share ownership should provide encouragement for management to improve its performance. However, the proportion of managerial

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ownership that tends to be small causes management to feel reluctant to work as much as possible. According to Dirman (2020), the higher or lower the managerial ownership does not affect the cost of debt. Managerial ownership does not have control in determining debt policy because many are controlled by the majority owner.

3. The Effect of Family Ownership on the Cost of Debt

Based on the results of the t test, Family Ownership has a regression coefficient of -0.002 with a significance of 0.881 (or greater than 5%), it can be concluded that Family Ownership has no significant effect on the Cost of Debt. The results of this study support the research of Meiriasari (2017) and Sepian and Panggabean (2017). This is because agency problems between managers and shareholders can be reduced in companies with family ownership, even though there are agency problems between majority shareholders and minority shareholders. In other words, the agency problem between majority shareholders and minority shareholders that generally occurs in companies with family ownership provides a greater risk to investors than creditors so that it tends to influence the decisions of shareholders or potential investors and does not really influence the decisions of creditors. According to Meiriasari (2017) the size of the proportion of family ownership does not represent a particular risk. This is because companies with family ownership can reduce agency problems between managers and shareholders. When a company is managed by a CEO who still has family relations with the company owner's family, conflicts between shareholders, managers and creditors can be minimized. In addition, creditors tend not to pay attention to the proportion of family ownership in determining the cost of debt to be borne by the company.

4. The Effect of Independent Commissioners on the Cost of Debt

Based on the results of the t test, the Independent Commissioner has a regression coefficient of -0.231 with a significance of 0.002 (or less than 5%), it can be concluded that the Independent Commissioner has a significant effect on the Cost of Debt. The results of this study support the research of Septian and Panggabean (2017) and Andriani, et al. (2020). This is because the existence of an independent board of commissioners in the organizational structure causes the company to provide financial reports that have more integrity so that creditors can see the company's performance, which ultimately affects the cost of debt or the rate of return set by creditors. In addition, in monitoring measures, independent commissioners may consider the effectiveness of the supervision of the board of commissioners and the audit committee as a guarantee for the integrity of value in the financial statements.

CONCLUSIONS

1) Institutional Ownership has no significant effect on the Cost of Debt. This can occur because the higher the level of institutional ownership, it does not affect the cost of debt arising from the use of debt by the company. In addition, the majority of public companies in Indonesia are family-owned companies, so institutional monitoring does not tend to influence creditors' decisions in determining the company's cost of debt.

2) Managerial Ownership has no significant effect on the Cost of Debt. This can occur because the higher or lower the managerial ownership does not affect the cost of debt. Managerial ownership does not have control in determining debt policy because many are controlled by the majority owner.

3) Family Ownership has no significant effect on the Cost of Debt. This can occur because the size of the proportion of family ownership does not represent a certain risk and creditors tend not to pay attention to the proportion of family ownership in determining the cost of debt to be borne by the company.

4) Independent Commissioner has a significant effect on the Cost of Debt. This can happen because the existence of an independent board of commissioners in the organizational structure causes the company to provide financial reports that have more integrity so that creditors can see the company's performance, which ultimately affects the cost of debt or the rate of return set by creditors. In addition, in monitoring measures, independent commissioners may consider the effectiveness of the supervision of the board of commissioners and the audit committee as a guarantee for the integrity of value in the financial statements.

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SUGGESTIONS

For further researchers, because the results of research on institutional ownership, managerial ownership, and family ownership show no influence on the cost of debt on the samples that have been carried out, it is advisable to re-test because they are not in accordance with the prevailing theory and can increase the number of research samples.

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