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INDEPENDENT PARTIES IN MINIMIZING AGENCY PROBLEM IN INDONESIA: AN ALTERNATIVE MODEL

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Abstract

Despite various studies on good corporate governance (GCG), many GCG mechanisms do not seem to work effectively in Indonesian companies due to frequent conflicts between majority and minority shareholders. A more independent party needs to be offered to solve this unique agency problem. This study attempts to analyze how independent parties; foreign and domestic institutional ownership, and independent commissioners may provide solution to agency problem. Results of panel data regression show a positive and significant influence of foreign institutional ownership on dividends and stock prices, whereas domestic institutional ownership and independent commissioners do not significantly affect shareholder wealth. The study also proposes a new model to minimize the possibility of agency problems in Indonesian context through the establishment of foreign institutional ownership as an independent party.

Keywords: Good Corporate Governance; Domestic Institutional Ownership; Foreign Institutional Ownership; Independent Commissioner; Shareholder Value.

1. Introduction

Companies in Indonesia generally have a concentrated shareholding structure owned by certain parties, such as the company's founding family, certain group of companies, or government. This condition, sometimes causes agency conflict, particularly between majority and minority shareholders. Such conflict of similar reason has also been experienced by companies in other countries. For instance, observing about 101

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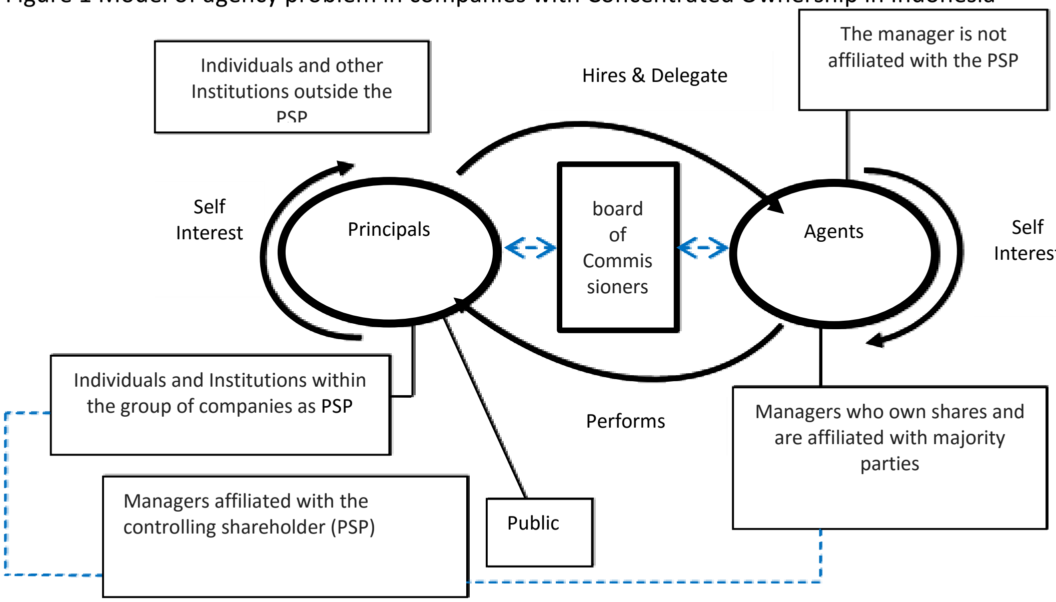
companies which have concentrated ownership structure like a pyramid, (Utthavi, 2015, pp. 213-219) found out that some of these companies also have conflict of shareholding agency. Other problems that can trigger agency conflicts include corporate organs such as shareholders, commissioners and directors who are affiliated parties. It seems that, based on the frequently conflict of shareholding agency in Indonesian context, there a significant difference between agency theory and agency conflict model, which is interesting to investigate. In most cases, agency conflict happens because of conflicting interests. Figure 1 shows that on the Principal section (left side), there are individuals, private and government institutions who become the controlling shareholder. With their voting rights in the General Meeting of Shareholders (GMS), these controllers may appoint the commissioners and directors who are more affiliated with them, so that the company policy tends to give benefit for the parties directly related to the majority shareholders. This condition causes agency conflict in the form of minority shareholders expropriation.

Figure 1 Model of agency problem in companies with Concentrated Ownership in Indonesia



Source: Puspita, Anggilia & Rinaldo, 2015

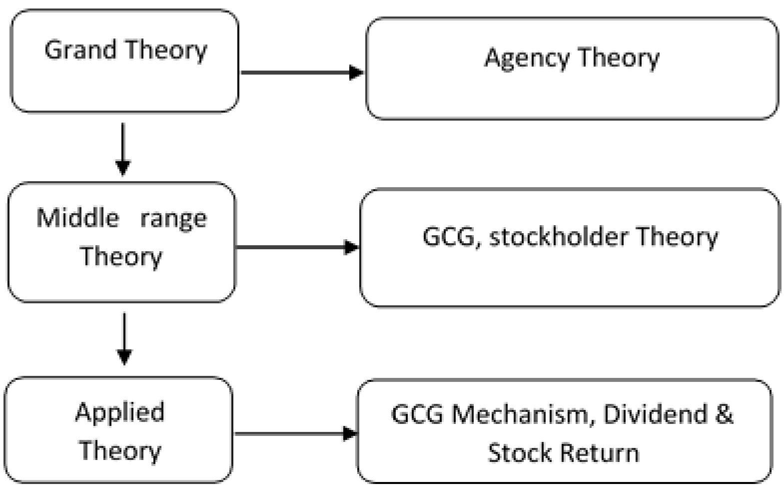
Developing and maintaining Good Corporate Governance (GCG) is easier said than done. This seek for GCG a developing country like Indonesia in which collusion and nepotism have become a common practice. For example, although the law of article 17 number 25 year 2009 on public service states that employees of public services are not allowed to have concurrent position as commissioners or managers of business organizations from the environment of government agencies, state-owned enterprises (BUMN), and regional-owned enterprises (BUMD), reality shows different fact. Evidence shows that many high officials of BUMN and BUMD are also active or former government officials, thus opening some possibilities for agency conflict. As such, to minimize and resolve conflict possibility, more independent parties such as domestic and foreign institutions, as well as independent commissioners, need to be included in the company structures. These three parties are expected to become effective GCG mechanisms in the company. In fact, whether or not GCG may have positive contribution to firm performance is still debatable. Several studies on this relationship have suggested inconsistent results. Two studies conducted by AL-Najjar (2015, 97) as well as Mangantar and Ali, (2015, pp. 166-176) showed that GCG mechanism does not have positive impact on firm performance in maximizing shareholder wealth. Meanwhile, other studies showed opposing result.

The ownership structure significantly affects the company's performance in maximizing shareholder value (Masry, 2016, pp. 5-15; Patrick, Paulinus & Nympha, 2015, pp. 482-493; Cornett, Marcus, Saunders & Tehranian, 2007, pp. 1771-1794). Based on this inconsistency and uncertainty, the study identifies the impact of good corporate governance on the company ability to maximize the shareholder wealth in Indonesian companies. This study purposefully takes, as samples, some Indonesia state-owned banks which tend to have excellent Good Corporate Governance (GCG) scores.

2. Theoretical framework and empirical study

This section explores relevant theories of Good Corporate Governance (GCG) and its impact on maximizing the wealth of shareholders. Agency theory takes as a grand theory, its explained about conflicts of interest, called agency problem. The existence of agency problems will certainly have an impact on efforts to maximize shareholder wealth, described in stockholder theory, to minimize the agency problems, it is necessary to apply the GCG concept through GCG mechanisms as a control tools, therefore the middle range theories used are shareholder theory and GCG, while applied theories used are the GCG mechanism, dividend and stock returns. Following is the mapping of these theories:

Figure 2 Mapping Theory



Source: Developed from several journals

2.1. Agency Theory

Basically, agency theory explains that there is a conflict of interest between shareholders and management. Panda & Leepsa (2017, pp. 74-95) describe the evolution of agency theory. They state that in the beginning, (Ross, 1973, pp. 134-139) explained, the trigger for agency problems was related to incentives, while Mitnick in (1984, pp. 1-67) considered the trigger of agency problems to be more a matter of institutional structure. Ross identifies principal-agent problems as a consequence of compensation decisions and argues that the problem is not only limited to the company but also applies to the community. Mitnick argues that institutions are built around the agency and grow to make peace with the agency.

Jensen and Meckling (1976, pp. 305-360) defined the company as a 'set of contracts between factors of production'. They illustrate that companies are a legal fiction, where several contractual relationships exist between people involved in the company. Agency relations is also a kind of contract between the principal and agent, where both parties work for their own self-interest which leads to agency conflict. In this context, principals carry out various monitoring activities to curb agency actions to control agency costs. In principal-agent contracts, the incentive structure, labor market, and information asymmetry play an important role, and these elements help build the theory of ownership structure. Jensen and Meckling (1976, pp. 305-360) describe companies as black boxes, which operate to maximize their value and profitability. The maximization of wealth can be achieved through proper coordination and teamwork between the parties involved in the company. However, the interests of the parties are different, conflicts of interest arise, and that happens because each party prioritizes their own interests. Fama (1980, pp. 288-307) advocates that companies can be disciplined by competition from other players, who monitor the performance of all teams and individuals. Based on Fama's statement, it can be concluded, to minimize agency problems, an independent party is required to be a control tool for management so that they work for the interests of the company and shareholders.

2.2. Good Corporate Governance and the Mechanism

Good Corporate Governance (GCG) has become an interesting topic among researchers. Many theories have been proposed to explore how GCG may contribute to the maximization of shareholders' wealth. These theories include agency, stewardship and stakeholder, and each has its own strength and weakness. First, agency theory explains that agency problem arises because the actions of manager (agency) do not aim at maximizing shareholder wealth (Jensen & Meckling, 1976, pp. 305-360). In other words, agency theory demands that not only do the managers of the company pay attention to the interests of shareholders, but should also pay attention to the interests of all parties associated with the company.

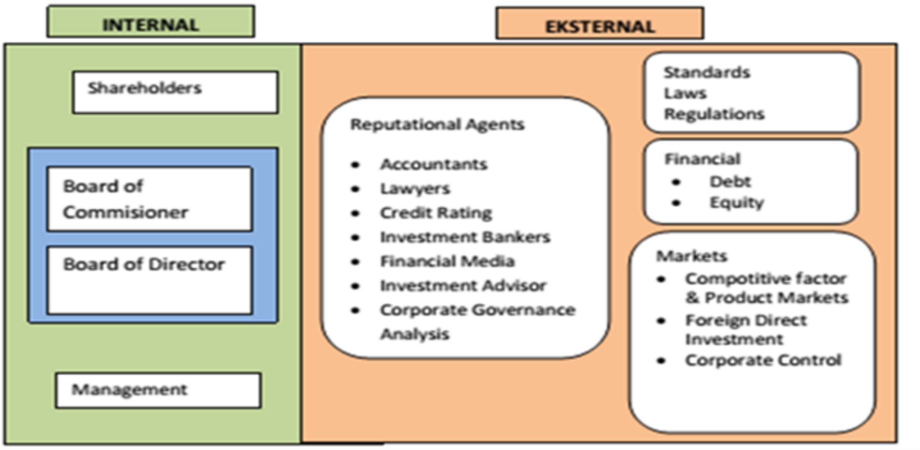
Second, stewardship theory focuses on stewards or high rank officers in a company like CEO who are responsible for maximizing the wealth of shareholders (Donaldson & Davis, 1989, 1991, 1994, pp. 49-64; Fox & Hamilton, 1994, pp. 69-81). For instance, Donalson and Davis (1991, pp. 49-64) argue that high officers are like stewards of an aircraft who have been given good facilities to maximize the firm performance to maximize the wealth of shareholders. With good facilities, stewards or CEOs have to perform their best to obtain the most maximum wealth (Donaldson & Davis, 1991, pp. 49-64). On the other hand, the third theory, stakeholder theory suggests that as an entity, company should not work on its own but manage to bring benefits to all stakeholders (shareholders, creditors, customers, suppliers, government, community members, analysts and other parties). Consequently, firm performance depends on supports given by all stakeholders (Ghozali & Chariri, 2007 in Muzzaki &Darsono, 2015, pp. 1-8). Of these three theories, owever, most scholars focus on agency theory which, as they believe, can provide solution to the agency conflict through Good Corporate Governance (GCG). It is believed that GCG can work to solve agency problem. Cadbury Committee, as cited in Daniri (2005, p. 37) argues that GCG is a principle that can direct and control the company to achieve a balance between strength and authority of the company in giving responsibility to the shareholders in particular, and stakeholders in general. Based on this, companies can apply GCG to maximize the wealth of shareholders and other stakeholders. As a concept, GCG provides a mechanism that serves as a control tool to limit management irregularities. Committee on the Financial Aspects of Corporate Governance (1992, pp. 137-154) describes the mechanism of GCG in Figure 3 below.

As Figure 3 shows, GCG mechanism consists of two parts; internal and external. Internal mechanism, on the left side, include shareholers, board of commissioner, board of director, and management. Meanwhile, external mechanism, on the right side, consists of reputational agents, standard law regulators, financial agency, and markets. Each of these aspects has its own sub-sections. Within this concept, external elements serve as controllers for the company whereas internal factors such as managers and directors should work as good and professional stewards who have the capability to create values for shareholders as the stakeholder theory has described.

Maximization of wealth is the main purpose of business. Gaining maximum profit is what business should focus. In this line, shareholder theory states that the only one responsibility of business is to use its resources to engage in activities in the rules of the game, in open and free competition, without deception or fraud. Sometimes, in maximization the wealth, business ignores rules and ethics. The idea of the shareholder theory is that businesses do not have any moral obligations or social responsibilities at all, but to maximize their own profit (Friedman, 2007, pp. 173-178). In general, shareholders get 2 (two) types of income; dividend and capital gains. The dividend is the profit distributed for shareholders, whereas capital gain is the income obtained from the gap of stock market price. Based on this definition, this research used cash dividend and stock market price as indicators of shareholder's wealth. The study assumes that increased dividend and stock market will lead to the wealth of shareholders.

2.3. Shareholder theory, dividend & stock returns

Figure 3 Good Corporate Governance Mechanism

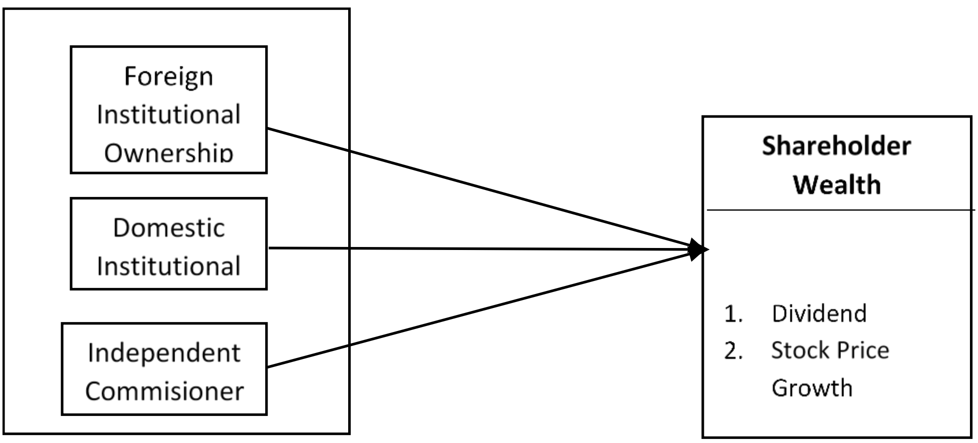


Source : Committee on the Financial Aspects of Corporate Governance, 1992

3. Research method

Based on the research paradigm and data type, which is panel data, the methodology used in this research is panel data regression, using Eviews 9 as a data processing tool. The advantages of panel data regression, the implication should not be the classical assumption testing in the panel data model (Verbeek, 2007, pp. 125-132). This study uses 3 (three) independent variables; foreign and domestic institutional ownership, and independent commissioner.

Figure 4 Research Paradigm



Source: Developed from several journals

Meanwhile, the dependent variable in this research is shareholder wealth, measured by stock market price and dividend. The data used is the annual report of BUMN banks listed in the Indonesia Stock Exchange period 2008-2016. Based on the abovementioned theoretical framework, GCG mechanism is believed to be able to increase and maximize the wealth of company shareholders measured by dividend and stock price as indicated by the figure 4 research paradigm.

As the figure shows, the study has three independent variables (on the left side) and one dependent variable (on the right side). On the basis of this variable, the study proposes the following hypothesis.

H1: There is a positive and significant effect of foreign institutional ownership on maximization shareholders wealth.

H2: There is a positive and significant effect of domestic institutional ownership on maximization shareholders wealth.

H3: There is a positive and significant effect of independent commissioner to maximization shareholder wealth.

4. Results

This section shows results of GCG mechanism on the maximization of shareholders' wealth followed by their discussions. As previously mentioned, Committee on the Financial Aspects of Corporate Governance (1992, pp. 137-154) mentions that GCG mechanism consists of 2 (two) types of mechanism; internal and external. Internal GCG mechanism includes Board of director, management, commissioners and shareholders. Based on Cadbury's category, the selected GCG mechanisms are foreign institutional ownership, domestic institutional ownership, and independent commissioners. These three mechanisms are chosen because they are most likely not affiliated with the majority shareholder. The following is a statistic test result of the GCG mechanism on shareholder value.

Table 1 Test result the effect of GCG mechanism on maximization shareholder wealth

No	Variable	Dividend		Stock Market Price	
		Coefficient	Prob	Coefficient	Prob
A	Institutional Foreign Ownership	135.2922	0.0154	291.8232	0.0003
B	Institutional Domestic Ownership	50.65737	0.4384	149.3223	0.0922
C	Independent Comisioner	-56.62296	0.2011	-41.14795	0.477

5. Discussion and Conclusion

Based on information in this table, it is concluded that only one independent variable has the most influential impact on the maximization of shareholders' wealth, that is, foreign institutional ownership. What follows is detail information for each variable.

5.1. Foreign Institutional Ownership

The existence of foreign institutional ownership is expected to overcome agency problems in Indonesia. Foreign institutions with a more independent position and not affiliated with majority shareholders are expected to perform their role as a GCG mechanism, that serve as control tool of the company in minimizing agency conflict. Based on the statistic test, the impact of foreign institutional ownership to dividends, the value of the coefficient is 135.2922 and the prob is 0.0154, while the statistical test of foreign institutional ownership on stock prices shows the coefficient value is 291.88232 with prob is 0.0003.

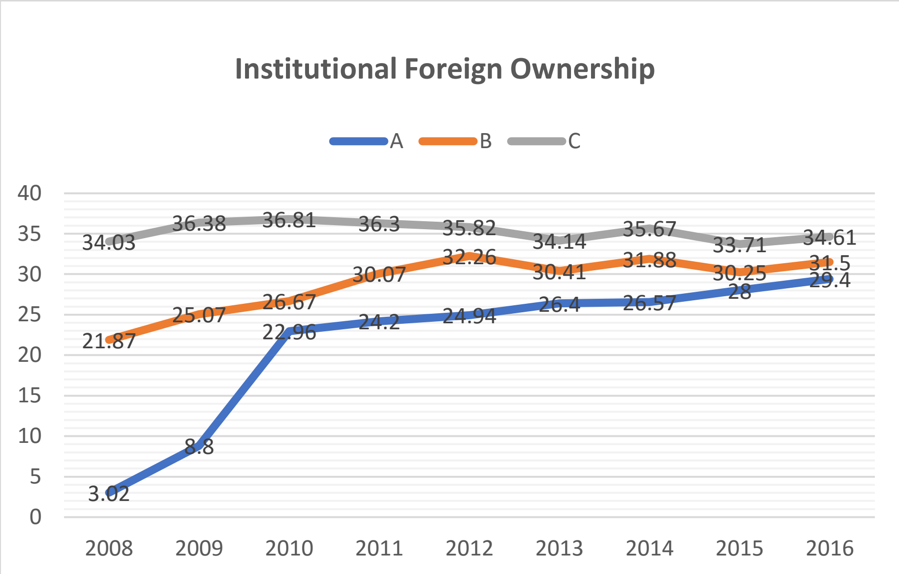
Thus it can be concluded that the existence of foreign ownership, in the structure of corporate ownership, has a positive and significant effect on the creation of shareholder wealth. The greater of foreign institutional shares percentage in the composition of company ownership, the greater the wealth created by the company. This result also shows the ability of the existence of foreign institutional ownership in suppressing agency problems, because foreign institutional ownership is able to create value for all shareholders. Based on existing data, the average of foreign ownership in state-owned banks is 28%, the highest foreign institutional ownership in bank C is 35.43%. And the lowest foreign institutional ownership was in bank A in 2008 which was 3.02%, identified in Bank A in 2008.

Figure 5 Foreign Institutional Ownership Data shows detail information on foreign institutional ownership of government banks during the period of 2008-2016. This data shows an increasing trend of foreign institutional ownership during this period. Starting 3.02% in 2008, the level of foreign institutional ownership in bank a increased gradually. The highest increase was identified in 2010, reaching 22.96% from 8.8% in 2009. Similarly, with a beginning of 21.87% in 2008, bank B also experienced a gradual increase of foreign institutional ownership. This bank also had a significant increase of foreign institutional ownership.

Furthermore, a similar increase of foreign ownership is also identified in bank C. With a start of 34.03% in 2008, the percentage of foreign ownership increased to 36.61% in 2016. So far, the percentage of foreign institutional ownership in government bank is significantly high. As Table 2 shows, the rate of foreign institutional ownership in these three government banks is high enough, with an average of 28%.

Although this ownership spreads evenly, it is important to note this trend, considering the status of the samples as government banks. What follows is the composition of foreign institutional ownership in these three government banks in the period 2016.

Figure 5 Foreign Institutional Ownership Data



Source: Annual Report of Government Banks, 2008-2016

Table 2 Ownership structure in state bank in 2016

No	Stockholder	Ownership Bank A	Ownership Bank B	Ownership Bank C
A	Government of Indonesia	60%	60%	56.75%
B	Domestic Institutional (Non Domestic Individual Investor)	8,9%	7,5%	7.68%
C	Foreign Institutional	29,4%	31,5%	34.61%
D	Individual (Foreign)	0%	0,004%	0.04%
E	Others	1,7%	0.94%	0.92%

Source: Reports of three years of government bank, 2008-2016

This large percentage of foreign institutional ownership provides a great opportunity for foreign institutional owners to influence the decision-making in the GMS, as they are surely very concerned about the value creation of the company. To maximize wealth creation, they will involve themselves in any decision-making process to yield policies that can benefit them. With this substantial percentage of ownership, these foreign institutions can serve as a strong controlling body for majority shareholders to avoid fraud. Similarly, majority shareholders will also manage to maintain the interest of foreign institutions, bearing in minds that withdrawal of foreign ownership may lead to discounted stock prices, causing company loss and hampering the process of maximizing the wealth of shareholders. If we look at the concept of the GCG mechanism from Committee on the Financial Aspects of Corporate Governance, (1992, pp. 137-154)which divides the GCG mechanism into an internal and external mechanism, where shareholders are part of the internal GCG mechanism, then foreign ownership can be grouped into the company's internal GCG mechanism. The results of this study also reinforce that in reality agency theory is more appropriate to be applied and becomes the basis for GCG implementation in Indonesia especially are in state companies.

Furthermore, the positive and significant influence of the foreign institutional on maximizing the wealth of shareholders also shows the effectiveness of foreign institutional ownership as GCG mechanism in controlling or minimizing agency conflict in the company (Daniri, 2005, p. 37). Referring to the research result, the company can increase foreign ownership percentage. However, since BUMN is a state-owned company that controls the livelihood of majority population, foreign ownership needs restriction to prevent the domination of foreign parties within the company shareholding structure. Foreign parties are more likely to put forward the business motive, thus encouraging high-interest rates, to get a bigger profit. To avoid foreign domination, state-owned banks need to strengthen their performance to generate sufficient cash flow to meet the needs of bank capital, thus, minimizing the presence of foreign capital. So far the conditions are relatively tolerable, because if we look at the composition, in the data of the 20 largest shareholders in the three banks, the dominance is still owned by the government, then the second largest shareholder in the three banks is BPJS employment which is also affiliated with the government. One alternative to avoid foreign domination is to strengthen performance to produce sufficient cash flow to meet bank capital needs so that the presence of foreign capital can be minimized, or encourage domestic investors, especially domestic institutions to invest in companies.

This study result also confirms that agency theory is more relevant to apply and become the basic for GCG. As Jensen and Meckling (1976, pp. 305-360) have argued, as management figures may have their own interests, they have to be controlled to ensure that they work for the benefits of all shareholders, not only their own. In this case, a foreign institutional ownership, which is more independent and non-affiliated to majority shareholders, may serve as a controlling body to check and balance the work of management leaders. As evidenced from previous studies (Utthavi 2015, pp. 213-219; Puspita & Rinaldo 2015, pp. 189-193), most Indonesian companies have concentrated and affiliated majority shareholders with other companies. This condition often triggers complicated agency conflict and need a foreign institutional agency as a mediator to solve the problem.

Moreover, international wide, this finding is also in line with what happens in companies overseas like in the United States. A study by Cornett et al. (2007, pp. 1771-1794) found that institutional investors are the majority owners of most large corporations in the US, who have been increasingly willing to use their ownership rights to pressure firmmanagers to act in the best interest of the shareholders. Supporting this evidence, (Scott, 2014, pp. 43-57) also claim that institutional ownership can minimize agency conflict in companies. Wuri (2018, pp. 161-174) also found that foreign investment variables have a long-term relation with the economic growth.

In a short-term, foreign investment variables also show significant influences. It is believed that as most controlling institutional shareholders have significant amount of shares, they will actively monitor the manager to ensure them making value (Wardhana; Tandelilin, 2015, pp. 389-406). With reference to these results, it is concluded that companies can increase the number of foreign institutional ownership as long as it is not concentrated and affiliated with the majority shareholders. The existence of this foreign institutional ownership even serves as an effective mediator or controlling body for the company management. However, the percentage of foreign institutional ownership needs special attention in the case of government-owned banks, the samples in this study, to maintain government authority to provide welfare for people and to reduce foreign domination. Business-oriented foreign investment may lead to increasing interest rates which significantly reduce public service.

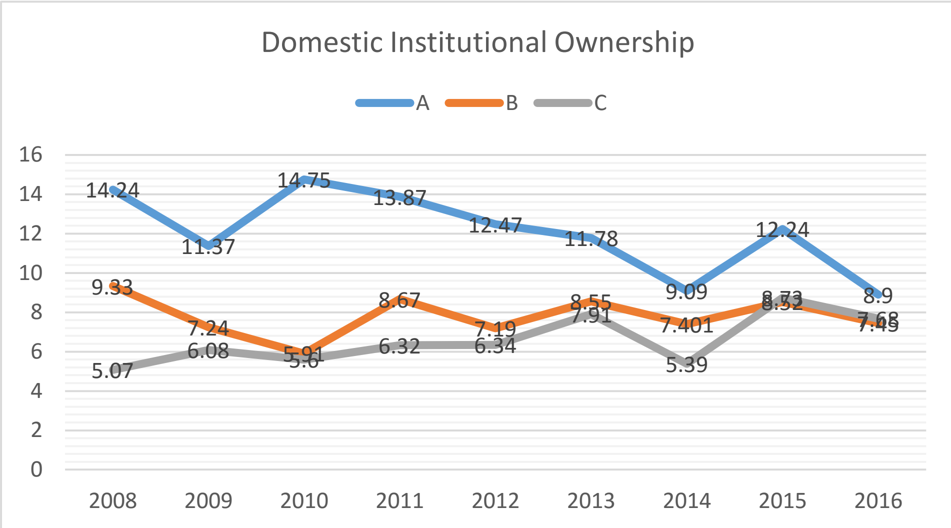
It is fortunate that so far the number of foreign investment in these government-owned banks is still at tolerable level because the Indonesian government is still the majority shareholder followed by a social security agency, which is also affiliated to the government. One way of avoiding foreign domination as majority shareholder is by strengthening firm performance to yield sufficient cash flow to meet the need for bank capital so that foreign ownership is still minimum. Another way is by encouraging domestic investors to inject their shares in these state-owned banks.

5.2. Domestic Institutional Ownership

Based on the statistical test of domestic ownership to dividend and share price, it seems that beta coefficient value is 50.65737 (Dividend) and 149.322 (stock price), and prob values are 0.4384 and 0.0922. These test results show a positive influence of domestic institutional ownership on stock market price but not significant to shareholder's wealth. This means that when government banks cannot increase the number of foreign institutional ownership, they should switch to domestic institutional ownership as an alternative solution. This domestic institutional ownership has been proven to have positive impact on the maximization of shareholders' wealth.

Furthermore, the influence of domestic institutional is insignificant possibly because the number of domestic institutional shareholdings is still small, compared to foreign ownership. The average percentage of domestic institutional ownership is only 12.95% so that the number of their votes in the GMS is also not strong in influencing company policy. This implies that regulators need to pay more attention to the domestic institutions that are not affiliated with the majority shareholders. In this case, regulators should find ways to improve the percentage of share owned by independent domestic institutions so they can play an effective role as GCG mechanism. Taking the form of expropriation of the minority shareholders, it acts as a control tool in minimizing the agency problems commonly happening in the Indonesian companies. What follows is the domestic institutional ownership in Indonesia during the period 2008-2016.

Figure 6 Domestic institutional ownership data



Source: Annual Report of Government Banks (2008-2016)

Nevertheless, some studies also show that institutional ownership does not influence firm performance. For example, the impact of institutional ownership on bank performance shows that it has only significant impact on ROE, not ROA(Rahman & Reja 2018, pp. 80-87), Meanwhile, the insignificant results of family and foreign ownerships suggest that both types of ownership structure do not have significant impacts on bank performance. This conclusion is derived from two studies conducted by Nuraina (2012, pp. 51-70) as well as Warapsari and Suaryana (2016, 2288-2315) who found insignificant impact of institutional ownership on firm values. Mostly identified from studies in some developing countries, including Indonesia, this finding hints that these institutions may be affiliated with majority shareholders. This phenomenon possibly happens because most Indonesian companies have pyramid ownership (Utthavi, 2015, pp. 213-219). As many studies conducted outside Indonesia have shown (Porta, Lopez-de-silanes, Shleifer & Vishny, 2000, pp. 3-27; Claessens et. al., 2000, pp. 81-112; Faccio & Lang, 2002, pp. 365-395) and in line with what Rinaldo (2012, pp. 1-18) explained that the phenomenon of various companies in Indonesia controlled by the same controlling shareholders is real, this occurs due to various mechanisms ownership in particular of pyramid ownership and cross-ownership is commonly found in developing countries including Indonesia.

Data on the three state banks show that the biggest shareholder after the government is the BPJS employment, which is affiliated with the government, this certainly opens the opportunity for the occurrence of expropriation of minority shareholders. Based on this, the study offers a solution to maximize the role of domestic institutional ownership by ensuring that this domestic ownership is not affiliated with majority shareholders. Moreover, percentage of ownership should increase so that shareholders can effectively control and substitute the ownership of foreign institutions, particularly at state-owned companies like BUMN and BUMD.

5.3. Independent Commissioner

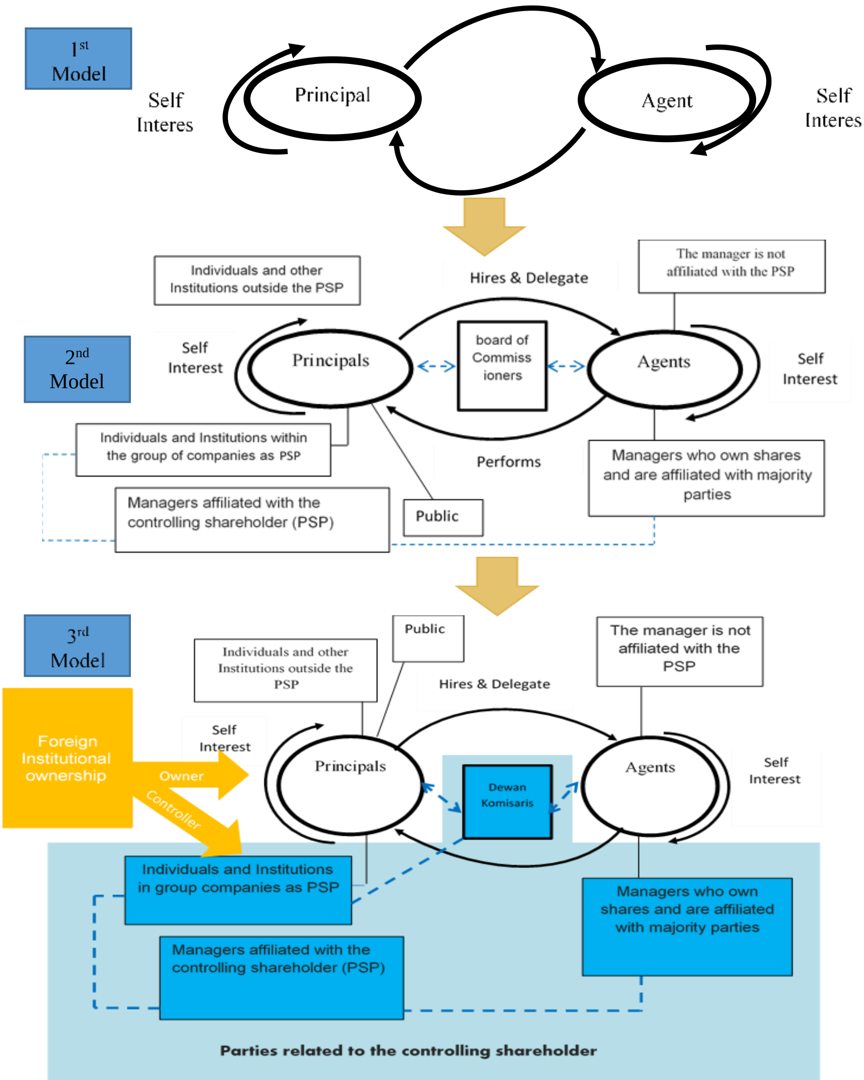
Based on the results of statistic test, the beta value is -56.62 (dividend) and -41.15 (Stock Price), with alpha value are 0.2 and 0.4. This means that an independent commissioner is incapable of being a control tool to minimize corporate agency conflict. The existence of an independent commissioner actually increases the agency conflict in the company. Such this condition occurs because the appointed party to be an independent commissioner is most likely an affiliated party with the majority shareholder in the company. In this case, the majority shareholder in the BUMN is the government bank. Furthermore, the rise of multiple positions of government who serve as commissioners in BUMN is another reason for the ineffective independent commissioner. CNN Indonesia on May 25, 2017, reported that there are 125 public officials concurrently commissioners in BUMN. The Vice Chairman of Commission IV deputy Inas Nasurullah Zubir said the multiple positions triggered a conflict of interest. This finding is supported by that in some previous studies. For example, Siahaan (2013, pp. 137-142) found that independent commissioners do not have positive impact on the maximization of shareholders' wealth. This implies that the role of this independent commissioners in many companies is not really optimum. Meanwhile, another study by (Hidayat & Utama, 2016, pp. 137-154) identified that the proportion of ex-government officers as board members does not give positive impact to firm performance. Based on the composition of commissionaires in three government banks, it reveals that some members of this position are ex-officers in some government institutions. The condition worsens when some of these commissionaires do not have relevant background in banking industry.

Under such conditions, it is necessary to make the rules that maximize the role of independent commissioners. These rules should now allow politicians, current and former government officials, family and fellow government officials to become independent commissioners in state enterprises. Independent commissioners must be competent and professionals, so that decision-making will be more independent and give more values to stakeholders.

The results of this study also reinforce the statement that the role of commissioners in many Indonesian companies is not effective, including the role of independent commissioners. This situation encourages the need for a new mechanism in the selection of independent commissioners, in order to obtain independent commissioners who are competent and not affiliated with the majority party, the need for government awareness in improving good governance is very necessary, especially in removing the culture of "division of office" for the benefit of the assisted, especially in government-owned companies.

Based on the results of the research and discussion above, we can describe the problem-solving and the evolution of agency agent model in Indonesia. In Figure 7. The 1st model made by Jensen & Meckling in 1976 described the agency problem model, in which the model described a conflict of interest between shareholders and management, shareholders have self -interests as well as management, and management does not act in the interests of shareholders, they are more concerned about their personal interests, this situation causes agency conflict. In The 2nd model made by Rinaldo & Puspita 2015 found that there were differences in the agency problem model in Indonesia, where several parties such as managers, institutions, and individuals are affiliated with majority shareholder, so they cannot effective to become GCG mechanism. The 3rd model is a new model of agency problems in Indonesia, where the model found independent commissioners and commissioners are also likely to have an affiliation with the majority party, besides that the model shows the effective tools that can minimize agency problems are truly independent parties and has great power in influencing policy, one of them is foreign institutional shareholders.

Figure 7 The evolution of agency agent model in Indonesia



Source: Developed from several journals

The results of the study found that the presence of foreign institutional ownership is able to positively and significantly influence the creation of shareholder wealth, which is the company's main goal. Foreign institutional ownership becomes a GCG mechanism that functions is a control tool for majority shareholders and parties associated with it. However, it should be noted that in fact, further research is needed to find out other GCG mechanisms that are capable of becoming a control tool for companies, because foreign ownership as explained, cannot be fully in the long run to be influential parties in companies, especially state companies (BUMN), because they have a profit-oriented motive, while BUMN as state-owned companies besides profit motives, also have social motives that protect the interests of the Indonesian people.

6. Conclusion

Based on the results research and discussion, it can be concluded that, of the three tested indicators of GCG mechanisms, only one mechanism indicator that can become a control tool for the company in creating value or wealth for shareholders, that is, foreign institutional ownership. The ownership of domestic institutional has positive but not significant influence, due to its small percentage of shares. Meanwhile, independent commissioners cannot serve as a GCG mechanism that can control agency issues in the company.

To maximize the function of an independent commissioner as a GCG mechanism, a rigorous selection of independent commissioners is required to ensure that independent commissioners are competent and not affiliated with majority shareholders. However, the problem solving found in this study still has to be tested on non-government and non-bank companies in order to ensure that agency problems in Indonesia can be minimized by the existence of foreign institutions ownership.

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