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ANALYSIS THE EFFECT OF FREE CASH FLOW AND AGENCY COSTS ON OPERATIONAL PERFORMANCE AND FIRM VALUE IN THE AGRICULTURAL SECTOR ON THE INDONESIAN STOCK EXCHANGE

¹Siska Fitria, ²Yanuar Dananjaya, ³Victor Soeindra

¹Student, ²Lecturer of University, ³ Lecturer of University

¹ Master of Management Study,

¹Pelita Harapan University, Surabaya, Indonesia

Abstract: This study has been undertaken to investigate The Effect Of Free Cash Flow And Agency Costs On Operational Performance And Firm Value In The Agricultural Sector On The Indonesian Stock Exchange. Cash flow is the increase or decrease in the amount of money a business, organization, or individual has. Cash flow shows cash inflow and outflow in detail. The resulting Free Cash Flow often creates a disparity of interests between managers and investors. Managers want Free Cash Flow to be used for profitable investment plans to increase the remuneration received, while for investors Free Cash Flow is new funds that can be distributed as dividends. Therefore, problems will arise within the company which are usually referred to as agency problems. Conflicts of interest between the two parties will greatly influence the decisions taken by the company in Operating Performance. In managing their companies, managers more often put their own interests first, not the interests of the owners. This gives rise to initiatives for shareholders to design various governance tools in order to monitor managers and create confidence that the company will be managed according to the interests of investors (owners). Costs incurred due to the emergence of potential conflicts of interest are called agency costs. Agency Costs due to additional consumption and neglectful behavior and increases in Free Cash Flow resulting from internal operational efficiency, can result in better company performance. Free Cash Flow can provide companies with investment opportunities that will generate more value for the company which will increase Firm Value.

Index Terms - Component, formatting, style, styling, insert.

I. INTRODUCTION

In the current era of globalization, business units are in intense competition with each other. Companies must be able to manage their business units very well, efficiently, and optionally. Like a competition, companies continue to compete to stay ahead and get consumers. In a company there are investors and management. Investors are people or bodies who provide funds or capital to an entity or individual with the hope of receiving a return, namely investment profits. A manager is a person responsible for directing efforts to help an organization achieve its goals.

According to Afridian Wirahadi Ahmad Yossi Septriani (2019), in carrying out their managerial duties, managers have personal goals that compete with the principal's goals, namely maximizing shareholder wealth. Managers impose costs on the company that reduce profits and dividend payments. Disputes that arise due to the separation of ownership and control of a business are called agency disputes.

Free Cash Flow is a measure of the amount of cash generated after taking into account investment costs such as buildings or equipment. This available money can be used for expansion, dividends, debt repayment or other purposes. The resulting Free Cash Flow often creates a disparity in interests between managers and investors. According to Crutchley and Hansen (1989), management in companies will tend to allocate free cash flow to inefficient resources, negative NPV investments, less profitable for excessive consumption and investment behavior. On the other hand, the use of Free Cash Flow is considered appropriate for use in the interests of owners if the Free Cash Flow is allocated by the company to profitable projects with positive investments in NPV or distributed to shareholders in the form of dividends.

Therefore, problems will arise within the company which are usually referred to as agency problems. Conflicts of interest between the two parties will greatly influence the decisions taken by the company in carrying out its operational activities. In managing their companies, managers more often put their own interests first, not the interests of the owners. This gives rise to initiatives for shareholders to design various governance tools in order to monitor managers and create confidence that the company will be managed according to the interests of investors (owners). Costs caused by the emergence of potential conflicts of interest are called agency

costs. Ideally, if a company has Free Cash Flow, the company has the freedom to determine the use of these funds (investment, expansion, etc.). However, if Free Cash Flow is excessive, it can indicate inefficiency and waste of resources, resulting in a tendency to create Agency Costs for the company. According to Jensen and Meckling (1976), Agency Costs are divided into three, namely (1) monitoring costs or monitoring costs for management actions, (2) bonding costs or costs for tying the manager's interests to the interests of the owner, (3) residual loss or losses received shareholders for non-optimal management decisions.

The differentiating factor between this research and previous research is the sample object used, namely 35 companies in the agricultural sector on the Indonesian Stock Exchange. This was done to see whether the theory previously put forward in Taiwan was relevant to current conditions in Indonesia. Indonesia, as a very large agricultural country, of course also has large economic opportunities in the agricultural sector. The agricultural sector has a very important role in developing the economy. This sector is also a key sector for many industries, because many agricultural products are also needed by other sectors. These conditions certainly open up opportunities for investors to invest their capital in the stock exchange or capital market. Therefore, the possibility in relation to free cash flow and agency costs will of course produce something that can be used as important information for investors.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Free Cash Flow

According to Badar Murifal (2020), free cash flow (FCF) is a tool for measuring growth, financial performance and company health. More free cash flow generated for the company, the better it will be. Because Free Cash Flow can be used to expand the business, develop new products, pay dividends, pay down debt, or pursue other business opportunities that may be necessary for business expansion, only if the business has sufficient natural cash flow. Free cash flow, or FCF, is calculated as operating cash flow minus capital expenditures. Non-cash costs, such as depreciation costs and amortization costs, are not included in the calculation. The value of non-cash expenses can be seen from elements that do not directly affect changes in the cash value of the profit and loss statement, such as the value of depreciation, amortization, impairment, and profit/loss from investments. As explained above, the simplest way to calculate FCF is to use the following formula:

Free Cash Flow = Operating Cash Flow - Capital Expenditures

A company with positive free cash flow has enough cash to pay its bills each month, plus some extra. Businesses with increasing or high free cash flow numbers are usually doing well and may be looking to expand. Investors are attracted to companies with a lot of free cash flow. Companies that have excess Free Cash Flow can use it to invest which can generate returns for investors.

However, low free cash flow means there isn't much money left after paying all expenses. This can make investors uninterested, because the prospects for income and the use of Free Cash Flow for investing are getting smaller.

Agency Cost

According to Triani Pujiastuti (2007), agency theory states that what is called the principal is the shareholder and what is meant by agent is the professional/management/(CEO), who is trusted by the principal to manage the company. In running a business, the owner usually hands over/delegates it to another party, namely the manager, which causes an agency relationship to emerge. Jensen and Meckling (1976) argue that companies that separate management functions from ownership functions are vulnerable to agency conflicts. To ensure that managers work in the interests of shareholders, shareholders must pay a certain amount of money to monitor the manager's activities, so that managers can work in accordance with the wishes of shareholders. This monitoring is intended as a control mechanism to reconcile related interests. All costs incurred are called agency fees. (Brigham, 1997). According to George Yungchih Wang (2010), there are seven proxy variables for agency costs, namely, total asset turnover, ratio of operating expenses to sales, ratio of administrative expenses to sales, ratio of advertising and R&D expenses to sales, volatility of net operating income, and volatility of profits clean.

Operating Performance

According to Sobandi and Kosasih (2010), firm performance can be defined as the adequacy of the process and evaluation of the company's internal operational performance in terms of costs, customer service and product delivery, customer service, quality, flexibility, and service quality. processing goods or services. Simultaneously, according to Handoko (2010), performance is the performance of management activities related to selecting, designing, updating, operating and monitoring production systems. In order to improve operational performance, operational management is needed. The role of Operations Manager must be able to carry out operational management while involved in operational activities. The aim of operations management is to properly regulate the use of available resources and production factors in the form of raw materials, labor, machines and equipment, so that the production process runs more efficiently and effectively. Operations management is very important regarding achieving company goals, namely. profit and business continuity, meaning that processing input into output naturally plays a very important role in realizing company profits, one of which is through business growth which has an impact on increasing the company's operational performance.

Firm Value

Management works to increase the level of value of the company by maximizing the present value of all expected future profits for shareholders. According to Harventy (2016), company value is very important for investors because it is used as a market indicator to assess the company as a whole. Market Capitalization is used to calculate the value of a public company based on its total shares. The higher the Market Capitalization, the higher the market assesses the value of this company

H1: Free Cash Flow has a positive effect on Agency Cost

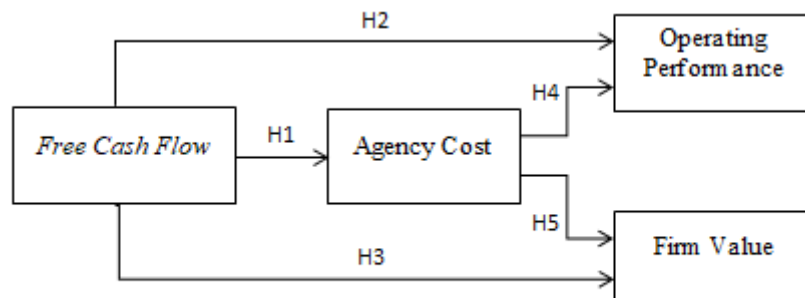
H2: Free Cash Flow has a negative effect on Operating Performance

H3: Free Cash Flow has a negative effect on Firm Value.

H4: Agency Cost has a negative effect on Operating Performance

H5: Agency Cost has a negative effect on Firm Value

A research model is a series of charts intended to prove the truth of a hypothesis. In this research, the research model is described as follows:



Gambar 2.1 Model Penelitian
Sumber: George Yungchih Wang (2010)

III. RESEARCH METHODS AND RESULTS

This research uses data collection with a quantitative approach. The population in this research is all company shares listed on the Indonesia Stock Exchange as of May 24 2022. The sample selection for this research was determined using a non-probability sample design with a purposive sampling method. Data collection was carried out using data collection techniques because it is secondary data. The data used in this research was taken from the 2019 Factbook, a list of agricultural sectors listed on the Indonesia Stock Exchange (BEI) during the period 2014 to 2021, www.idnfinancials.com, www.investing.com, and company websites to obtain financial report data. The dependent variables used in this research are Operating Performance and Firm Value. The independent variable used in this research is Free Cash Flow.

There are 3 multiple linear regressions in this research, namely:

1. $ROA_{(t)} = \alpha + \beta_1 FCF_{(t-1)} + \beta_2 OpeR_{(t)} + \varepsilon$
2. $MC_{(t)} = \alpha + \beta_1 FCF_{(t-1)} + \beta_2 OpeR_{(t)} + \varepsilon$
3. $OpeR_{(t)} = \alpha + \beta_1 FCF_{(t-1)} + \varepsilon$

Description:

OpeR = Operating Expense Ratio

FCF = Free Cash Flow

ROA = Return on Asset

MC = Market Capitalization

α = constant

ε = error

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.021	.661		.032	.000
	FCF	-.002	.003	-.078	-.648	.000
	OPR	.728	.737	.120	.988	.326

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.150	.488		.308	.000
	FCF	-.002	.002	-.099	-.987	.000
	OPR	.575	.531	.109	1.082	.281

a. Dependent Variable: MARCAP

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.073	.005		15.522	.000
	FCF	.004	.000	.021	.228	.000

a. Dependent Variable: OPR

H1: Free Cash Flow has a significant positive effect on Agency Cost

This research fully supports the research results of Isti Fadiah (2007), where the results show that Free Cash Flow has a positive effect on Agency Costs and the effect is significant. This finding indicates that companies that have high Free Cash Flow tend to distribute large dividends to reduce Agency Costs.

H2: Free Cash Flow has a significant negative effect on Operating Performance

This research is different from the results of George Yungchih Wang's research where the FCF variable was found to be significantly, positively related to ROA, indicating there is no evidence for the free cash flow hypothesis and the results of this study

also do not support it. Among the six agency cost proxy variables, total asset turnover, operating cost ratio, and administrative cost ratio are statistically significant on operational performance, while only the previous two variables are consistent with agency theory expectations. So, if higher agency costs would harm operational performance, the operating cost ratio would be a better measure of agency costs.

H3: Free Cash Flow has a significant negative effect on Firm Value.

This research is the same as the results of George Yungchih Wang's research where this study found a lack of evidence to support the free cash flow hypothesis, which means that free cash flow can provide companies with investment opportunities that will generate more value for the company. Therefore, free cash flow has a positive impact on Firm Value.

H4: Agency Cost has a positive and insignificant effect on Operating Performance.

This research is different from the results of George Yungchih Wang's research, where the agency cost proxy variable was proven to have an inconsistent effect on operational performance, agency costs which were measured using the Operating Expense ratio had a negative effect because the more operating expenses incurred, the less the company's profitability. Because the proxy used to measure operating performance in this research is ROA (Return on Assets).

H5: Agency Cost has a positive and insignificant effect on Firm Value

This research is different from the results of George Yungchih Wang's research, where the agency cost proxy variable was proven to have an inconsistent effect on company performance. Thus it is difficult to determine whether there is a direct relationship between agency costs and company performance.

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