THE INFLUENCE OF MANAGEMENT AGENCY COST ON POTENTIAL FINANCIAL DISTRESS MODERATED BY INDEPENDENT COMMISSIONERS

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Abstract – *This study aims to see the effect of management agency costs on the potential for financial distress with an independent commissioner as a moderating variable. This study uses moderated regression analysis with a random effect model to test the research hypothesis on property and real estate companies listed on the Indonesia Stock Exchange in 2017-2022. The sample selection method used was purposive sampling so that a sample of 360 observations was obtained. The results of the study show that the higher the management agency cost will have an impact on potential financial distress, because it disrupts the company's financial stability which is intended for operational activities and reduces the profits that the company should receive. In addition, there are findings that independent commissioners are unable to moderate the effect of management agency cost on potential financial distress, because the size of the proportion of independent commissioners does not guarantee the effectiveness of oversight of company management. The existence of exploitation of company assets for management's personal interests can worsen the company's financial condition. Therefore, the effectiveness of supervision over the management of the company needs to be improved through internal control by independent commissioners who are competent and responsible for carrying out their roles.*

Keywords: management agency cost, financial distress

I. INTRODUCTION

The existence of deviant management actions aimed at maximizing personal welfare results in hampered company cash flow (Li et al., 2021). This has a negative impact on the company's financial health because the company's operational activities are disrupted due to reduced financing (Ramadhan & Firmansyah, 2022). The occurrence of the COVID-19 pandemic also worsened the company's financial condition (Crespí-Cladera et al., 2021). Several companies in various sectors were unable to pay their debts, some were even declared bankrupt (Aji et al., 2022).

Poor company economic conditions will have a negative impact on the company's business continuity (Gámez et al., 2020; Nguyen et al., 2021). If this situation continues, it can result in financial difficulties up to company bankruptcy (ElBannan, 2021). ElBannan (2021) says that hampered cash flow and inability to pay off debt indicate that the company is experiencing financial distress. Happening financial distress can also be seen based on the company's total operating income which has been unable to cover total costs over the last two years (Mangena et al., 2020).

The sector that has experienced a major impact due to COVID-19 is the property and real estate sector (Huang et al., 2022). Property and real estate sector reported a sales decline of 29.4% in 2020 (Indonesia Stock Exchange, 2020). This condition caused the rating agency Moody's Investor Service to declare a downgrade of PT Modernland Realty Tbk

credit worthiness rating from Caa1 to Ca, which means there is a risk of default in 2020 (Putra, 2020). In addition, there are companies that are officially declared bankrupt and threatened delisting in 2021, namely PT Cowell Development Tbk due to being unable to pay off its debts and unable to operate optimally (Bella, 2022).

Several previous studies have mostly linked financial distress with financial performance as measured using various ratios such as ratios of profitability, liability, solvency, activity, and growth (Amendola et al., 2015; Cahyani & Diantini, 2016; Chiaramonte & Casu, 2017; ElBannan, 2021; Hidayat & Meiranto, 2014; Ninh et al., 2018; Syuhada et al., 2020; Sayari & Mugan, 2017; Wulandari & Jaeni, 2021). This research uses management agency cost as a variable that is predicted to affect potential financial distress. In addition, the independent commissioner is used as a variable that moderates influence management agency cost on potential financial distress.

Potential occurrence of financial distress can be affected by the arbitrary expenditure of company assets by management which is referred to as management agency cost (Sayidah et al., 2020). Appearance management agency cost caused by a conflict of interest can lead to its occurrence of financial distress (Wang & Deng, 2014). This conflict of interest occurs because of the separation between ownership rights by shareholders and operating rights by management (Lin et al., 2019). Managers tend to take actions that can increase their personal benefits when managing a company (Rimawati & Darsono, 2017). This is in line with Bravo & Moreno (2021) which states that managers have the opportunity to take opportunistic actions in the form of excessive use of company assets for their personal gain. These deviant actions need to be considered because the use of excessive wealth does not guarantee good performance, but can interfere with the company's financial health (Sayidah et al., 2020; Lin et al., 2019).

Management agency cost is a form of management consumption of company wealth which can be detrimental to the company's financial condition (Lin et al., 2019). This is

because management agency costs which increase in a sustainable manner can reduce the profits received by the company (Wang & Deng, 2014). In addition, company assets that should be used for the benefit of operational activities are hampered (Aji et al., 2022). In line with Li et al. (2021) who said that the exploitative use of company assets for management's personal interests resulted in hampered cash flow used for operational activities. Funding intended for operational activities is reduced from the amount it should be, so that the company cannot operate optimally and the income received by the company has decreased (Wang & Deng, 2014).

Lin et al. (2019) said that the higher the level management agency cost has a negative impact on the company's financial condition, because there are official facility costs that are classified as luxurious and operational costs that are deliberately reported to be more for the manager's additional income. This condition disrupted the company's financial stability due to the high burden of the management agency cost high, so that the company's cash flow is hampered and reduces company profits (Aji et al., 2022). This means that the high level of management agency cost can increase the potential financial distress (Li et al., 2021). Therefore, research by Wang & Deng (2014) and Lin et al. (2019) shows that the exploitation of company assets by management causes the company's financial stability to be disrupted and leads to the occurrence of fraud financial distress. In line with the research of Fadhilah & Syafruddin (2013), Ihvan et al. (2022), Li et al. (2021) and Rimawati & Darsono (2017) which state that the potential for this to occur financial distress can be influenced by management agency cost with a positive relationship. The first hypothesis formulated is:

H_1: Management agency cost has a positive effect on potential financial distress

Independent commissioners in a company can minimize conflicts of interest between shareholders and management (Balachandran & Williams, 2018). Management often ignores the welfare of shareholders when carrying out their duties in managing the company (Miglani et al., 2015). However, the existence of an

independent commissioner who acts as an independent supervisor can monitor the management of the company so that no party is harmed so that the welfare of all parties can be fulfilled (Kamoto, 2017). The ability of an independent commissioner to align the interests of shareholders and management is carried out through monitoring the performance of company management (Mangena et al., 2020).

Independent commissioners have a major role in implementing corporate governance (Cahyani & Diantini, 2016; Li et al., 2021; Switzer & Wang, 2013). Supervision and monitoring carried out by independent commissioners on company management is effective in preventing acts of exploitation of company assets by management (Iwasaki, 2014; Namitha & Shijin, 2016). This is because the independent commissioners are not part of the company's management, so they can carry out objective monitoring of management's performance in managing the company (Rusci et al., 2021). Independent commissioners also provide criticism and advice to directors regarding company management, so as to minimize decision making or establishment of policies that favor certain parties (Baral & Patnaik, 2021).

Independent commissioners can prevent acts of exploitation of company assets by management through their function and role as supervisors in managing the company (Budhiyasa & Badera, 2022). Management whose performance is monitored by an independent party will feel monitored and afraid to take deviant actions that are detrimental to the company (Li et al., 2021). Therefore, the existence of independent commissioners can weaken the positive influence of management agency cost on potential financial distress (Li et al., 2021; Manzaneque et al., 2016). Research Miglani et al. (2015) also shows the results that the presence of an independent commissioner is able to minimize management agency costs so as to reduce the potential for financial distress. In line with the research of Budhiyasa & Badera (2022), Ramadhan & Firmansyah (2022), and Sekarwulan & Umar (2021) which state that the independent commissioner can act as a moderating variable

in testing financial distress. The second hypothesis formulated is:

H_2: Independent commissioners can weaken positive influence management agency cost to potential financial distress.

II. METHODS

This research uses explanatory research to carry out a potential analysis of financial distress which is influenced by management agency cost and moderated by independent commissioners.

Financial Distress

Financial distress is a situation when a company experiences financial problems where the company's financial condition declines for several years in a row which has the potential for bankruptcy (ElBannan, 2021). This is caused by the company's operational activities being hampered so that the operational profits obtained are unable to cover the costs incurred and the company's cash flow is also disrupted (Ramadhan & Firmansyah, 2022). Obligations that cannot be paid due to unstable financial conditions lead to bankruptcy which has a negative impact on the sustainability of the company (Li et al., 2021). This study uses the modified Altman model bankruptcy criteria in 1983 to measure financial distress which is based on the Z"-score (Altman et al., 2017). The Altman model has high accuracy in measuring level financial distress that occurred during a pandemic (Bella, 2022). The Z"-Score formula is written in the following equation:

$$Z'' = 6{,}56\,X_1 + 3{,}26X_2 + 6{,}72X_3 + 1{,}05X_4$$

Notes:

X_1: Working Capital/ Total Assets

X_2: Retained Earnings/ Total Assets

X_3: Earning Before Interest and Taxes/Total Assets

X_4: Book Value of Equity/ Book Value of Debt

Z"-score and level financial distress has the opposite meaning, that is, the higher of Z"-score, the lower the level of financial distress which means the company is improving financial condition. Conversely, the lower of Z"-score, the higher the level of financial distress which means the company is in a worsening financial condition (Wang & Deng, 2014).

Management Agency Cost

Management agency cost (MAC) is expenditure in the form of exploitative use of company assets to fulfill management's personal interests (Lin et al., 2019). These expenses are included in administration & general cost which consists of executive salary expenses, employee benefit costs, travel expenses, entertainment costs, conference costs, and other costs related to the company's operational activities (Wang & Deng, 2014). In this case, the management team spends administration & general cost for banquets, travel, entertainment, and other luxury official amenities. Wang & Deng (2014) said that administration & general cost is the cost that is closest to measuring company expenses that are used by management for personal welfare. To control expenditure on operational costs, the administration & general cost compared to the company's total operating income (Rimawati & Darsono, 2017). Therefore, management agency cost in this study it is measured using the ratio of administrative and general costs to operating income (Lin et al., 2019), which is written in the following formula:

$$MAC = \frac{Administration \& General\ Cost}{Operating\ Income}$$

Independent Commissioner

Independent commissioners (KI) are independent parties who are included in the management structure of the company and are tasked with carrying out the oversight function of company management (Li et al., 2021). Independent commissioners can carry out an effective oversight function, so as to balance the interests of shareholders and management

(Balachandran & Williams, 2018). The measurements of independent commissioners in this study are written in the following formula (Indarti et al., 2020):

$$KI = \frac{Jumlah\ Komisaris\ Independen}{Jumlah\ Dewan\ Komisaris}$$

Firm Size

In this research, firm size as a control variable with the aim of predicting financial distress not influenced by any other factor management agency cost. Firm size (FZ) is a measure of the size of the company as measured using the natural logarithm of total assets (Manan & Hasnawati, 2022). Companies that have a large size tend to have stronger financial fundamentals than small companies when facing financial difficulties (Bozkurt & Kaya, 2022). Therefore, large companies have a small risk of financial distress (Ninh et al., 2018). Measurement firm size in this study is written in the following formula (Manan & Hasnawati, 2022):

$$FZ = Ln\ (Total\ Asset)$$

Leverage

This research also uses leverage as a control variable. Leverage (LEV) shows the proportion of company debt in the long term (Fredrick, 2019). The higher the leverage value indicates that the risk of the company experiencing financial distress is also greater (Giovanni et al., 2020). In this research, leverage measured by the following formula (Fredrick, 2019):

$$LEV = \frac{Total\ Debt}{Total\ Equity}$$

The COVID-19 Pandemic

This study also uses the COVID-19 pandemic (PC) as a control variable. This is because this research focuses on the occurrence of potential financial distress caused by the COVID-19

pandemic. The research results of Aji et al. (2022), Huang et al. (2022), and Nguyen et al. (2021) stated that the existence of the COVID-19 pandemic resulted in financial difficulties up to bankruptcy. In this study, the COVID-19 pandemic was measured using a variable dummy, namely the period before COVID-19 was coded 0, while the period during COVID-19 was coded 1 (Bozkurt & Kaya, 2022).

The type of data used in this study is primary data obtained directly from the research object (Space, 2013). The data is sourced from the official IDX website namely www.idx.co.id and the company's official website. The research data was collected from audited financial statements of property and real estate sector companies in 2017-2022.

This study uses property and real estate sector companies as a research population with an observation period in 2017-2022. This is because companies in the property and real estate sector have experienced enormous losses due to the COVID-19 pandemic and have even gone bankrupt and are threatened with delisting (Aji et al., 2022; Bella, 2022; Huang et al., 2022). This is also shown by data from the Indonesia Stock Exchange (IDX) which stated that there was a decline in the property and real estate sector's stock price index the largest compared to other sectors, namely 21.23% in 2020 and 19.11% in 2021 (Indonesia Stock Exchange, 2020; Indonesia Stock Exchange, 2021). Bankruptcy can be predicted from previous years, so this study also uses the pre-pandemic period, namely 2017-2019 (Altman et al., 2017).

The research sample was selected using a purposive sampling method which is based on two criteria. First, property and real estate companies registered on the IDX during the year of observation, because the sector experienced huge losses and decreased financial health due to the COVID-19 pandemic (Huang et al., 2022). The second criterion is a company whose audited financial statements have been published, because the information presented in audited financial statements that have been audited by auditors is more credible and accurate (Li et al., 2021). Identification of the research sample is shown in Table 1 below.

Table 1. Population and Research Sample Criteria

Criteria	Before Pandemic			During Pandemic		
	2017	2018	2019	2020	2021	2022
1.Property and real estate companies which listed on the IDX during the observation year	48	56	66	78	80	85
2. Companies whose audited financial statements have not been published	(5)	(13)	(8)	(6)	(7)	(14)
Number of companies studied	43	43	58	72	73	71

The data analysis method used in this study is moderated regression analysis (MRA) in panels. However, prior to data analysis, it is necessary to test classical assumptions with the aim that the research results obtained are more relevant and avoid habits (Hair et al., 2010). The results of the normality test show that the research data after data transformation and checks have been carried out outlier has met the requirements of normality, namely value probability Jarque-Bera is 0.81 (p>0.05). Multicollinearity testing uses correlation Pairwise shows a correlation value <0.90, which means there is no multicollinearity problem. Next, testing the heteroscedasticity with Breusch-Pagan shows the probability value Chi-square of 0.06 (p> 0.05) means that it is free from heteroscedasticity problems. Based on the test results, it can be concluded that this research has met the classical assumption requirements, so that further testing can be carried out.

According to Winarno (2017), there are three types of panel data regression namely common effect model (CEM), fixed effect model (FEM), and random effect model (REM). Determining the type of panel data regression to be used is done by analyzing the model selection through the following tests (Zulfikar, 2018):

1. Chow test is a test that compares CEM and FEM. Determination of the selected model

is based on the probability value to test the following hypotheses:

H_o: The selected model is CEM

H_a: The selected model is FEM

2. Hausman test to compare FEM and REM. Determination of the selected model is based on the probability value to test the following hypotheses:

H_o: The selected model is REM

H_a: The selected model is FEM

3. Lagrange multiplier test to compare REM and CEM, as well as ensure that the FEM and REM models are inconsistent in previous tests. Determination of the selected model is also based on the p value to test the following hypotheses:

H_o: The selected model is CEM

H_a: The selected model is REM

The test criterion is if p>0.05 it is concluded that H_o accepted and H_a rejected. Conversely, if p<0.05 then H_o rejected and H_a accepted. The panel data regression method used is the best method based on the results of the model selection test.

Furthermore, the MRA test was carried out, which was a test of the interaction between the independent variables, the dependent variable, and the moderating variable (Gujarati & Porter, 2012). The following is the formula for the MRA equation in the panel using the control variables:

$$FD_{it} = \alpha + \beta_1 FZ_{it} + \beta_2 LEV_{it} + \beta_3 PC_{it} + e_{it} \dots\dots\dots\dots\dots\dots\dots\dots (1)$$

$$FD_{it} = \alpha + \beta_1 MAC_{it} + \beta_2 FZ_{it} + \beta_3 LEV_{it} + \beta_4 PC_{it} + e_{it} \dots\dots\dots\dots\dots\dots (2)$$

$$FD_{it} = \alpha + \beta_1 MAC_{it} + \beta_2 KI_{it} + \beta_3 MAC*KI_{it} + \beta_4 FZ_{it} + \beta_5 LEV_{it} + \beta_6 PC_{it} + e_{it} \dots\dots\dots\dots\dots\dots (3)$$

Notes:

α = Constant

$\beta_{1,2,3,4,5,6}$ = Regression Coefficient

FD = Financial Distress

MAC = Management Agency Cost
KI = Independent Commissioner
MAC*KI = Interaction Variable
FZ = Firm Size
LEV = Leverage
PC = COVID-19 Pandemic
e = *Error*
I = Individual
t = Period

Determining the type of moderator variable can be seen based on the results of equation 3. If the probability value of the MAC*KI coefficient is significant (p<0.05), it can be concluded that the independent commissioner in this study is able to moderate the effect management agency cost to potential financial distress (Ghozali, 2016). Furthermore, a t-test was carried out to determine the partial effect of the independent variables and control variables on the dependent variable. In addition, the F-test was carried out to test the feasibility of the model (goodness of fit) in this research. Decision making is said to be influential if the probability value is p<0.05 (Zulfikar., 2018).

III. RESULTS AND DISCUSSION

Descriptive statistics

Table 2 shows the descriptive statistics of the dependent variable, independent variable, moderating variable, and control variable.

Table 2. Descriptive statistics

Variables	Min	Max	Mean	Std. Dev.
FD	-0.438	15.330	4.961	2.868
MAC	0.006	0.977	0.217	0.118
KI	0.000	0.800	0.405	0.129
FZ	21.454	31.805	28.772	1.806
LEV	0.068	3.736	0.757	0.611

Table 2 shows the average value of financial distress is 4,961 (Z" > 2.6) meaning that the average property and real estate sector companies are safe zone. However, a company whose financial condition is secure may not necessarily avoid this from happening financial distress (Altman et al., 2017). Score minimum

financial distress is -0.438 (Table 4.1) occurred in 2020 which shows that during the pandemic the company was in a distress zone which is quite high (Altman et al., 2017).

Management agency cost has the highest value 0.977 or 97.7%. This figure shows that corporate wealth is used for management's personal interests is very high (Wang & Deng, 2014). If it looks at the value mean is 0.217 or 21.7% indicates that level management agency cost in the property and real estate sector companies is quite high because it is close to 25% (Wang & Deng, 2014). This has a negative impact on the company's financial health because it can lead to potential occurrences of financial distress (Lin et al., 2019).

The minimum score for independent commissioners is 0, meaning that there are companies that do not have independent commissioners in their corporate management structure. This is not in accordance with OJK regulation Number 57/POJK.04/2017 article 19 paragraph 2 which states that the minimum number of independent commissioners is 30% of the total number of commissioners. The mean value of 0.405 or 40.5% means that the average company in the property and real estate sector has met the requirements for the number of independent commissioners.

Firm size has an average value 28.772, meaning the size of the property and real estate companies are relatively large because it has total assets of more than 100 billion rupiah (Panjaitan & Muslih, 2019). Leverage as measured using debt to equity ratio has a mean value of 0.757, which means that the total liabilities of property and real estate companies are lower than their total equity, but do not rule out the risk of default (Dianova & Nahumury, 2019).

Correlation Pearson

Correlation analysis aims to determine the relationship between the dependent variable, independent variable, moderating variable, interaction variable, and control variable. Table 3 shows the results of the correlation between variables in this study.

Table 3 shows that the FZ and LEV variables have a significant negative correlation with the

FD variable using the Z" proxy. These results indicate a negative relationship direction with a very low level of closeness between firm size and Z", where leverage and Z" has a negative relationship with a strong degree of closeness. For example, variables firm size has a significant negative value and a correlation value of -0.136. This value shows a very low correlation between firm size and financial distress. When firm size increases, then Z" is the measurement proxy financial distress will decrease (Z" decreases indicate a high level of financial distress). Meanwhile, management agency cost, independent commissioners, interaction variables, and the COVID-19 pandemic had no correlation with financial distress. Management agency cost has a very strong positive significant correlation with the interaction variable. Independent commissioner has a significant positive correlation with the interaction variable where the level of closeness is moderate, but has a very low positive significant correlation with firm size, leverage, and the COVID-19 pandemic. The interaction variable also has a very low positive significant correlation with the COVID-19 pandemic. Meanwhile, firm size low positive significant correlation with leverage.

Var.	FD	MAC	KI	MAC_KI	FZ	LEV	PC
FD	1						
MAC	-0.063	1					
KI	-0.007	0.029	1				
MAC_KI	-0.020	0.827*	0.524*	1			
FZ	-0.136*	-0.068	0.143*	-0.006	1		
LEV	-0.779*	-0.048	0.195*	0.023	0.201*	1	
PC	-0.076	0.058	0.167*	0.125*	-0.058	0.062	1

Table 3. Correlation Pearson Results

*Significant correlation at p<0.05

Panel Model Selection

Table 4 shows the results of selecting the panel model to determine the best model used in this study.

Table 4. Panel Model Selection Results

Test Type	Probability Value	Selected Models
Chow Test	0.000	FEM

Hausman Test	0.476	REM
L-M Test	0.000	REM

Table 4 shows that REM is the model that was selected twice, namely the Hausman test and the L-M test. FEM was only selected once in the Chow test. Therefore, it can be concluded that REM is the best panel model to be used in this study.

Regression Analysis

Table 5 is the result of the regression analysis to test H_1 and H_2 which shows that variable management agency cost, independent commissioner, and the three control variables simultaneously affect potency financial distress. The R-square value in equation 3 is 0.602 indicating that the variables in this study are able to explain 60.2% of the potential

Var.	Equation 1		Equation 2		Equation 3	
	Coef.	p-value	Coef.	p-value	Coef.	p-value
Const.	5.776	0.000	6.280	0.000	5.385	0.000
MAC			-0.676	0.015	-1.758	0.039
KI					0.668	0.179
FZ	-0.217	0.397	-0.205	0.421	-0.284	0.259
LEV	-2.072	0.000	-2.078	0.000	-2.062	0.000
PC	-0.087	0.110	-0.074	0.173	-0.111	0.037
MAC*KI					2.110	0.199
F-Stat		108.944		84.657		62.763
P-Value		0.000		0.000		0.000
R^2		0.565		0.574		0.602

financial distress.

Table 5. Regression Analysis Results

Influence Management Agency Cost on Potential Financial Distress

Table 5 shows that the MAC in equation 2 has a p-value < 0.05 with coefficient a negative value, meaning the higher management agency cost resulting in lower Z" (a low Z" indicate high levels of financial distress). Thus, the higher management agency cost resulting in a higher probability of occurrence of financial distress. On the other hand, if management agency cost decreases then Z" will increase (a high Z" indicates a low level financial distress). This means that the lower management agency cost resulting in a lower

likelihood of occurrence of financial distress (Fitriyah et al., 2020). Based on the results of this test, the first hypothesis states that management agency cost has a positive effect on potential financial distress that cannot be denied.

The results of this study indicate that the level of a company's management agency cost high has potential financial distress which is getting higher. Management tends to try to improve their welfare when carrying out their role as company managers. This is done by management through the utilization of company assets which are charged to administrative and general costs. The imposition of costs for management's personal interests results in the company's financial stability being disrupted, so that the company's financial health will decrease (Wang & Deng, 2014). Therefore, property and real estate companies with rate management agency costs high have potential financial distress which is getting higher.

The results of this study support the research of Fadhilah & Syafruddin (2013), Li et al. (2021), and Rimawati & Darsono (2017) which states that management agency cost positive effect on the potential for occurrence financial distress. High value of management agency cost indicates that the company's wealth has been exploited by management for personal gain. This act of exploitation is carried out by management through the use of the company's operational costs but is not used for the benefit of the company (Ihvan et al., 2022). This is also indicated by the large administrative and general costs which account for $>45\%$ of the total costs for property and real estate companies (Audited Financial Report 2017-2022). The proportion of administrative and general expenses which is almost 50% of the total costs indicates that there is a large amount of management's personal expenditure which is charged in administrative and general expenses.

Separation of functions between shareholders (principals) and management (agents) raises management agency cost (Jensen & Meckling, 1976). When carrying out its functions in managing the company, management tends to take deviant actions that seem to act for the

welfare of the principal (Rimawati & Darsono, 2017). This deviant action is in the form of exploitation of company assets which are for management's personal interests (Lin et al., 2019). The more load associated with management agency cost thus resulting in the company's operational activities being disrupted due to reduced financing. In addition, the profit that should be received by the company will also be reduced so that it can create a potential occurrence of financial distress (Aji et al., 2022). Jensen & Meckling (1976) said that the wastage of company wealth will have an impact on the company's condition which becomes less efficient and increases the potential financial distress. Therefore, the results of this test support the agency theory, namely the higher the level of management agency cost, the higher the potential for financial distress that occurs in the company.

The Moderating Role of Independent Commissioners in the Effect of Management Agency Costs on Potential Financial Distress

The interaction variable namely MAC*KI in equation 3 has a p-value>0.05. This shows that the existence of an independent commissioner is not able to moderate the influence management agency cost on potential financial distress. The results of this test are not in line with agency theory which states that an independent commissioner can prevent acts of wealth exploitation by management through internal control with the aim of reducing the risk of occurrence of financial distress (Iwasaki, 2014). Based on the results of this test, the second hypothesis states that independent commissioners can weaken the positive influence management agency cost on potential financial distress is rejected.

The inability of independent commissioners to moderate the effect of management agency cost on financial distress can be caused by the relatively low level of independent commissioners in the sample companies. In this study, the average value of independent commissioners was 42.4%. This value has met the minimum number of independent commissioners according to OJK regulations, namely 30%, but it is still relatively low

because it is less than 50% (Masitoh & Hidayah, 2018). Unlike the study by Miglani et al. (2015) that the average independent commissioner is 52.3% and Ud-din et al. (2020) is 55.7%, thus showing the results that the independent commissioner is effective in minimizing management's opportunistic actions through its role as supervisor of company management run by management. Therefore, the results of this study indicate that independent commissioners with less than 50% of the composition of the board of commissioners are not effective in preventing management opportunistic actions.

Affiah & Muslih (2018) argues that the role of the independent commissioner in Indonesia is less effective where his presence in the composition of the board of commissioners is only a formality. This was also revealed by Gumanti & Prasetiawati (2011) that the existence of an independent commissioner is only to comply with the regulations set by the OJK. Therefore, the functions and duties of independent commissioners in monitoring management are not carried out properly (Nugroho & Rosidy, 2019). In addition, the structure of the board of commissioners in Indonesia does not provide clarity on the duties of the board of commissioners, making it difficult for independent commissioners to carry out their role as independent supervisors of company management (Sari, 2013). Therefore, the results of this study are in line with the research of Rusci et al. (2021) which gives the result that independent commissioners are unable to moderate influence management agency cost on potential financial distress.

Effect of Control Variables on Potential Financial Distress

The FZ variable in equation 1 has a p-value>0.05, which means firm size has no effect on potential financial distress. These findings indicate that the size of the company has no effect on the potential for this to occur financial distress. Firm size which is measured using total assets shows that the company with the level firm size those who are high have large total assets (Manan & Hasnawati, 2022). However, the size of total assets does not guarantee the company's strong financial

fundamentals if it is not matched by the effective use of assets (Zhafirah & Majidah, 2019). The ineffective use of assets results in weak company financial fundamentals because the company is unable to generate sufficient income compared to investing in its assets (Restianti & Agustina, 2018). In addition, companies that have large total assets but have poor company performance are unable to withstand financial difficulties (Restianti & Agustina, 2018).

Variable LEV in equation 1 has a p-value<0.05 which means leverage significant effect on potential financial distress. Coefficient LEV in equation 1 is negative indicating that the higher leverage results in a lower Z", which means the potential for occurrence of financial distress will get higher (a low Z" indicates a high level of financial distress). The results of these findings indicate that leverage has a positive effect on potential financial distress that happens to the company. The high proportion of corporate debt results in greater risks that must be borne by companies in the future with the possibility of difficulty paying the remaining loans and interest (Aji et al., 2022). Research by Rimawati & Darsono (2017) also shows that companies whose sources of financing use more debt will have difficulty paying off their debts because the amount of debt is greater than equity. Therefore, this will raise the potential for occurrence of financial distress (Inekwe et al., 2019).

The PC variable in equation 1 has a p-value>0.05 indicating that the COVID-19 pandemic has no effect on the potential financial distress. This can be caused because the company has good financial performance so that it has strong financial defense amidst insignificant economic changes (Wulandari & Jaeni, 2021). Good financial performance is able to stabilize the company's financial condition when there is an economic downturn due to the COVID-19 pandemic (Chetta & Khomsiyah, 2022). Based on the number of samples in this study, there are many companies that experienced financial distress before the onset of the COVID-19 pandemic. This indicates that occurred or did not occur financial distress depending on the company itself, not depending on economic conditions

that occur in the external environment (Putri & Merkusiwati, 2014).

IV. CONCLUSION

The research results show that management agency cost has a positive influence on financial distress. These findings indicate when the level management agency cost is higher, the potential financial distress is higher too. The results of this study did not find the moderating role of independent commissioners in the effect of management agency costs on potential financial distress. Based on these findings, it is expected to improve the company's internal control to prevent the company's opportunistic management actions so that the potential for financial distress can be minimized. The large proportion of independent commissioners on the board of commissioners does not guarantee the effectiveness of internal control over company management. Therefore, it is better if the qualifications in the selection of independent commissioners are examined and based on their quality and ability to fulfill their responsibilities as supervisors of an independent company.

The limitations in this study are the unavailability of information related to management agency costs presented in the company's financial statements, so that the size management agency cost used does not reflect directly the amount of costs borne by the company due to management exploitation. Another limitation in this study is the two control variables used (firm size and the COVID-19 pandemic) showed results that had no effect on potential financial distress.

Therefore, future research is expected to use other measurements such as incentive fees and management bonuses in measuring management agency cost. Future research is also expected to add research samples to other sectors, such as the manufacturing, transportation, tourism, financial, and other sectors to further examine the potential for financial distress in Indonesia as a whole so that the research results are more generalizable.

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