THE INFLUENCE OF INTERNAL AND EXTERNAL CORPORATE GOVERNANCE MECHANISMS TOWARDS AGENCY COST IN INDONESIA

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STATEMENT OF THESIS ORIGINALITY

The undersigned, I, Fanny Dinda Aditya, declare that the thesis with the title: **The Influence of Internal and External Corporate Governance Mechanisms Towards Agency Cost in Indonesia**, is the result of my writing. I truly state that this thesis is not all or part of someone's writings that I took by copying or imitating in the form of a sentences or symbols which shows the ideas or opinions or thoughts of other authors, that I admit as if it is my own writing, and / or there are no parts or the whole writing that I copied, or that I took from others writings without giving the original author's acknowledgment.

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ABSTRACT

This study aims to analyse the influence of internal and external corporate governance mechanisms towards agency cost in Indonesia by analysing the managerial ownership, board of commissioners, managerial compensation, auditor size, audit fees and agency cost.

The population in this study consist of all banking industry in Indonesia for the period 2017 to 2019. Sample determined with purposive sampling method. The data is obtained from Indonesia Stock Exchange (IDX). The analysis technique used in this research is multiple linear regression using SPSS Statistics 26.

The results of the analysis show that simultaneously, the five independent variables which include managerial ownership, board of commissioners, managerial compensation, auditor size, audit fees are significantly influence to agency cost. Partially, managerial compensation and auditor size have negative significant effect on agency cost, while managerial ownership, board of commissioners, and audit fees did not influence agency cost.

Keyword: Corporate Governance, Managerial Ownership, Board of Commissioners, Managerial Compensation, Auditor Size, Audit Fees, Agency Cost.

ABSTRAK

Penelitian ini bertujuan untuk menganilisis pengaruh internal dan external mekanisme tata kelola perusahaan terhadap biaya agensi di Indonesia dengan menganilisis kepemilikan manajerial, dewan komisaris, kompensasi manajerial, ukuran auditor, biaya audit dan biaya agensi.

Populasi yang digunakan dalam penelitian ini yakni seluruh bank di Indonesia pada periode 2017 hingga 2019. Pengambilan sample dilakukan dengan metode purposive sampling. Data yang digunakan diperoleh dari Bursa Efek Indonesia (BEI). Teknik analisis yang digunakan dalam penelitian ini adalah regresi liner berganda dengan menggunakan SPSS Statistics 26.

Hasil analisis menunjukkan bahwa secara simultan kelima variable independen yang meliputi kepemilikan manajerial, dewan komisaris, kompensasi manajerial, ukuran auditor, dan biaya audit berpengaruh signifikan terhadap biaya agensi. Secara parsial, kompensasi manajerial dan ukuran auditor berpengaruh positif secara signifikan terhadap biaya agensi, sedangkan kepemilikan manajerial, dewan komisaris, dan biaya audit tidak berpengaruh signifikan terhadap biaya agensi.

Kata kunci: Tata Kelola Perusahaan, Kepemilikan Manajerial, Dewan Komisaris, Kompensasi Manajerial, Ukuran Auditor, Biaya Audit, Biaya Agensi.

MOTTOS AND DEDICATION

Bismillahirrahmanirrahim

"Allah does not lay a responsibility on anyone beyond his capacity"

(QS Al Baqarah: 286)

"Do not lose hope, nor be sad.

You will surely be victorious if you are true believers"

(QS Ali 'Imran: 139)

"Once you choose hope, anything's possible"

(Christopher Reeve)

"There are all these moments you think you won't survive.

And then you survive"

(David Levithan)

- DEDICATION -

"This thesis is dedicated to myself
and my beloved family"

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The author realizes that in the writing process of this thesis is far from perfect yet still many mistakes due to limited knowledge and basically there is no perfect human. Every criticism, suggestions are welcomed so this thesis can be better. The author hopes that this thesis can be beneficial and provide additional information for various parties.

Semarang, 7th December 2020

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CHAPTER I

INTRODUCTION

1.1 Research Background

Agency relationship are arranged when the principal hire another person or organization which is agent performing a services in the name of principal and authorize the agent to make the best decision for the principal. In this situation, it is very important if both parties have the same goal to maximize the value of the company. However, there will be a conflict when both parties prioritize their own interests, there is a trust issue that the agent will not always act in the principal's interests (Michael C. Jensen, 1976).

Conflict will always happen in agency relationship, whereby both the principal and agent have different perspective and concerns on their risk and profit. The person that invest their capital and take risks for the benefits of economic returns, which are principals and agents who managed by industry to avoid risk and concerned about taking advantage of their individual profits (Panda & Leepsa, 2017). But, based on the contract, all of the agency decisions should be made for the sake of principal interests.

Agency cost is important and interested to be chosen as the topic of this research is because the agency cost could be happening in any sector of industries, thereby agency problem need to be prevented and agency cost should be controlled. The difference in interests carries potential conflict (agency problem) between the principal and the agent, which can create or triggers unnecessary costs that can be minimalized. If the agency problem happens, like the part of the company's proportion of ownership which made the managers tend to be involved in their individual interests and do not optimize industry value. After that, resulting in the agency cost. The different interest in managers and shareholders that can give rise to data asymmetry and lead to agency cost (Mazlina Mustapha & Ayoib Che Ahmad, 2011).

Agency cost appear as an outcome from segregation between control and ownership, if the person who owns the company is also manages the company, then these costs will be zero (Mazlina Mustapha & Ayoib Che Ahmad, 2011). Which including the cost of inspecting and selecting the appropriate agent, gathering information to improve performance appraisals, agent control, binding costs and losses due to agent inefficiency (Panda & Leepsa, 2017). The lessen the organizational structures, it will reduce the need of assurance and monitoring. Thereby, agency costs will be reduced (Mazlina Mustapha & Ayoib Che Ahmad, 2011).

One of the example that the company in Indonesia has agency cost and agency problem is PT. Hanson International Tbk. It is a property company that already stated bankrupt. In the inspection that conducted by Financial Services Authority (OJK), there is manipulation was found in the financial statements related to the sale of ready-to-build lots (kasiba) which make the company's revenue raised sharply. This scandal can happen because of lack of protection by shareholders and there is no transparency in financial reporting, which can occur an asymmetry information between the principal and the agent. So there is a party that can embezzle funds that have been invested by shareholders. This scandal is proving that there is agency problem where the principal and agent does not have the same interest and the agent is prioritized their self-interest so they did manipulation.

The corporate governance is a mechanism that regulates a management in the company to produce a long term sustainable economic value for both of the stakeholders & shareholders. It is a whole process, policies, rules that influence the control of a company. Through corporate governance, it can bring the agent and principle into the same interest (Schäuble, 2019).

Corporate governance is divided into two categories, which are internal and external. In internal, it is related to managerial opportunism, managerial incentives, and other internal problems in the company that are needed to be directed and solved through this corporate governance mechanism. So, the internal corporate governance is including managerial ownership, board of commissioners and managerial compensation. Then, in external, it is related to contractual relationship with external environment which may occur information asymmetries and self-serving behaviour of transaction parties problems (Filatotchev & Nakajima, 2010). So, the external factor of corporate governance are auditor size and audit fees. Also, the principles of corporate governance needed to be applicate, so it can contribute to improving company performance.

The presence of corporate governance is expected to be solved agency problem when there is a different ownership between agent and principal. Those differences may lead to agency problem between both parties. If the company has a good corporate governance, then it can be said that the company also applying corporate governance principles which are the accountability and transparency. In this situation, the corporate governance can be the main factors that liable when the crisis to worsen (Mazlina Mustapha & Ayoib Che Ahmad, 2011).

Corporate governance is one of the important factors which may drive the amount of agency cost either internal and external. In internal, managerial ownership can reduce the amount of agency cost. For example, the higher ownership of shares owned by management will make agency costs lower. Ownership of shares by management can help the unification of interests between shareholders and managers so as to reduce agency costs. So, when managerial ownership is low, the possibility of manager's opportunistic behaviour will increase. This is supported by Michael C. Jensen (1976) said in order to minimize the agency cost, is by increasing managerial ownership.

In external, through auditor size it can reduce agency cost. The larger the auditor size, it can gain public trust by having a good reputation and achievements. So, the company is expecting that will have higher audit quality because the auditor has characteristics that can be associated with quality, such as training and international recognition. So, the big four are able to be function more effectively than the non-big four (Schäuble, 2019).

One of the effort to control and minimize the amount of agency cost is by having a good corporate governance. Corporate governance is basically involved the issues of (who) should control the activities in the company and (why) must have control in company activities. Then, (who) are the shareholders due to the relationship between the shareholders and various interested parties to the company (Siallagan & Machfoedz, 2006)

Corporate governance is very important to the firm itself. Which may impact to all aspects of the organization, ranging from communication, strategic decision making and leadership. It can be intended as a network that has a relation to the board of directors and stakeholders. Corporate governance could made a marginal improvements in the economy and stimulate major institutional changes if needed (Andrei Shleifer & Vishny, 1997). So, if the corporate governance can't be managed well, then it may affect the firm value, shareholder's trust issues and increasing the agency cost.

The main benefit of good corporate governance is increase the firm value and attract investor (Andrei Shleifer & Vishny, 1997). A company that has a good and optimal corporate governance will have a good environment and quality of work. Also, good corporate governance can also affect the condition of the company's balance sheet. In the eyes of investors, this will bring an added value to the company. Because, investors will be more interested to invest in the companies that have a good quality, good working environment and a positive balance sheet.

The object of this study is using banking company, because there is relation between the banking sector and agency cost where the application of agency theory in banking sector is unique and different from other sector. In this sector, it is monitored and have strict and specific regulation made by Bank of Indonesia as central bank. For example, if the agent doing opportunistic behaviour and leading to information asymmetry, it will have caught up by Bank of Indonesia and there will no more customer that will trust the bank again. Also, not many researchers in Indonesia that choose baking sector as the object of their study.

Prior research by Tatiana Garanina and Elina Kaikova (2016) shows the relationship between corporate governance mechanisms and agency costs in the prior year. The findings have a positive influence on the size of board of commissioners, the size of the firm and leverage but has a negative influence on the amount of female members on board of commissioners. Then, W. Elkelish (2018) found that agency costs have a significant negative impact on corporate governance in across countries. However, C. Florackis (2008) found that corporate ownership, board structure and managerial compensation structure are significantly influence to the agency cost. In the other study conducted by H. Ibrahim and F. Samad (2011) found the result not statistically significant with higher amount in independent directors on the board. That would lead to higher agency cost for family ownership.

Based on the previous explanation it shows that there are still inconsistencies in the result of research regarding the above factors. Thus, researchers are interested in doing a research with the title **"The Influence of Internal and External Corporate Governance Mechanisms towards Agency Cost in Indonesia"**

1.2 Problem Formulation

Corporate governance is an important factor that must be noticed by the company. A corporate governance will influence a company in making every decision, where this company's decision will have an important effect on stakeholders. When a company have a conflict of interest between two parties (agent and principal) that called as agency problem, this problem could increase an agency cost. So, it can affect the company performance and stakeholder's level of trust in the company. Therefore, it is important to see the factors that influence the corporate governance towards agency cost. The factors that tested in this research are managerial ownership, board of commissioners, managerial compensation, auditor size and audit fees.

Based on the description above, the problem formulation in this study are:

1. Does managerial ownership have an influence on agency cost in Indonesia?
2. Does board of commissioners have an influence on agency cost in Indonesia?
3. Does managerial compensation have an influence on agency cost in Indonesia?
4. Does auditor size have an influence on agency cost in Indonesia?
5. Does audit fees have an influence on agency cost in Indonesia?

1.3 Research Objectives & Benefits

1.3.1 Research Objectives

Based on the problem formulation, the purpose of this research is to focus on how agency cost had influenced by internal and external corporate governance in Indonesia

1. Test the influence of managerial ownership on agency cost in Indonesia
2. Test the influence of board of commissioners on agency cost in Indonesia
3. Test the influence of managerial compensation on agency cost in Indonesia
4. Test the influence of auditor size on agency cost in Indonesia
5. Test the influence of audit fees on agency cost in Indonesia

1.3.2 Research Benefits

This research is expected to be useful for several parties that may need it. Results of this research is expected to have these following benefits:

1.3.2.1 Theoretical Benefits

1. This research provides information that can be used as an insight and adding knowledge about accounting, especially regarding corporate governance that are considered in determining agency cost in Indonesia.

2. This research provides contributions in the form of research references. Therefore, the future researchers are expected to be able to develop and sharpen the results this study

1.3.2.2 Practical benefits

1. Company

This research can be used as an information for the company in formulating company policy and decision making by management related to agency cost. The contributions from this study can also be made as a basis for a company to improve their corporate governance inside the company.

2. Financial Regulatory Institutions

Financial Services Authority (Otoritas Jasa Keuangan) and Indonesia Stock Exchange (IDX) can utilize this research as reference to polish regulations to provide a complete and systematic information, so that they are easily accessible and easily used by the public.

3. Future Researcher

Future researcher who study corporate governance and agency cost can make this research as reference so it will stimulate similar studies with the latest data.

1.4 Writing Structure

The systematic of this research is divided into five chapters, which are:

CHAPTER I INTRODUCTION

This chapter consists of the background problems, problem formulation, research objectives, research benefits and writing structure.

CHAPTER II LITERATURE REVIEW

This chapter discusses theories and the results of empirical studies which is relevant to be the basis of research. Then, it is described in research framework and hypothesis formulation

CHAPTER III RESEARCH METHODOLOGY

This chapter will contain an explanation of research variables to be taken, operational definitions of variables, the determination of population and samples, types and sources of data used in the study, data collection methods and analysis methods, and hypothesis testing

CHAPTER IV RESULTS AND ANALYSIS

This chapter consist of a description of the object of research, the process of determining data analysis and the results of statistical research test.

CHAPTER V CLOSING

This chapter contains conclusion of a research that has been done and explained from the previous discussion, limitations of the study, research suggestions for further research.

CHAPTER II

LITERATURE REVIEW

2.1 Underlying Theories

2.1.1 Agency Theory

The presence of agency problem is one of the old problems that stick out since the development of stock companies and can’t be ignored because every companies must have this problem (Panda & Leepsa, 2017). Agency theory was first stated by Jensen and Meckling (1976) said it is an agency relationship under one or more persons which is the principals engage other people (agents) to perform services on their behalf and involve in making the decisions.

In agency theory there is three human assumptions which are: personal interest, limited rationality, and risk aversion (Eisenhardt & Eisenhardt, 1989). Based on these human assumptions, a manager tends to have an opportunistic behaviour to achieve their own interest and risk preferences. The manager has more information within the company rather than shareholders or outside parties. This unbalance of information between the manager and shareholders are create information asymmetries.

Commonly, manager and shareholders tend to have a different goal. The decision made by a manager tend to impartiality with the interests of shareholders. These difference in interest will create agency conflict. In a company, agency conflict commonly happens because share ownership that manager has relatively small percentage. This situation makes manager tend to decide a decision that does not benefit the shareholders. Also, manager tend to make a project that benefit themselves such as luxury office supplies, tickets for traveling abroad and so on. These interest will make a conflict because shareholders want a greater and sooner return in their investment while the manager wants a compensation or incentives for their performance in the company.

There are several types of agency conflict according to Panda and Leepsa (2017). First, conflict between principal and agent, this happen when shareholders hope a manager will work for the benefit of the owner. But, the reality, managers are more interested in their own benefit. Second, conflict between principal and principal, this happen when majority shareholders have more power in voting so they can make decision for their own interest which can hold up the minor shareholders. Third, conflict between principal and creditor, this happen when shareholders try to invest in risky project with high return expectation. If the project successful, then the creditors will get fixed rate of interest and when the project is failed, creditors should be forced to be able accepting the loses.

The presence of agency conflict will create agency cost, are: (1) the monitoring expenditures by the principal, which means a cost for monitor the behaviour of the agents in managing the company and also includes budget limitations, compensation regulations, operating regulations, etc., (2) the bonding expenditures by the agent means cost incurred by the agent to ensure that the agent does not act detrimental to the principal, (3) the residual loss means a decrease in the level of utility principals and agents due to their presence in agency relationship (Michael C. Jensen, 1976).

Also, the other way in order to mitigate the agency conflict, corporate governance can be used as a way to convince and make the investors to trust, they will get the investment they have made. In this case, corporate governance is relating in how investors trust and believe that managers will generate profits and managers will not embezzle or develop in insignificant project that do not exist with funds or capital that investors have invested. It is also related to how investors control managers.

According to Ashbaugh et al. (2004) information asymmetry may arise because scattered shareholders cannot directly observe actions managers who have the potential to create moral hazard problem or do not see the real economic value of the company, which has the potential creating adverse problems selection. Moral hazard and adverse issues selection may incur agency cost, which rational investors will anticipate with price-protect, which will increase the cost of equity in the company. Through corporate governance, it is expected to guarantee that directors and managers will do their best for shareholder interest.

2.1.2 Corporate Governance

1. Corporate Governance Definition

According to Forum for Corporate Governance in Indonesia (FCGI), Corporate governance can be defined as a set of rules which govern a relationships between manager of the company, creditors, government, employees, shareholders and other external and internal stakeholders which relate to their rights and obligations, or in other words a system that control and rules the company (FCGI, 2002).

Corporate governance basically involves the issue of who (who) should control the corporate activities and why (why) must be controlled of the corporate activities. What is meant by who are the shareholders, while, “why” is due to the relationship between the shareholders and various interested parties to the company (Siallagan & Machfoedz, 2006).

The existence of corporate governance is when shareholders demand and the firm has mechanisms in place to monitor the management because the shareholders are had not the incentive to monitor management on his own. However, as a shareholder accumulates more shares, then his incentive for monitoring is increasing (Skaife et al., 2004). Also, a good corporate governance can regulate and control the company to create a value added. Because, through good corporate governance it can encourage the formation of transparent, transparent and professional in work patterns management. This implementation of GCG can attract investors either domestic and foreign. So, this is very important for companies that want to expand their business.

Corporate governance become important when it comes to do an economic recovery and stabilize the economic growth. It can be done by controlling and direct the company to make a harmony between the authority of the company so it will be accountable for shareholders. According to Tjandra and Suryathi (2017), the disclosure of corporate governance has been done to protect stakeholders and restore public trust. Transparency in information about implementing corporate governance is as important as financial information that published by a company.

In order to applicate a good corporate governance, this mechanism need to be monitoring all of the decision that has been taken. Because, a company that has a good corporate governance mechanism can reduce agency problems. Also, corporate governance mechanism is need to be a clear rule, procedure and a relationship between the party who took it. According to Shleifer and Vishny (1997), agency problem must be happened in a firm, it is a separation of management and finance or a separation of ownership and control. When a manager, raises funds from investors either use it for cash out the holdings in the firm or for productive expense.

When a conflict of separation in ownership and control cannot be avoided, it will lead to different purposes between managers and shareholders and may create that costs which need to be associated with different interests are minimal. One of ways to settle this conflict is through corporate governance mechanisms. This mechanisms may create a balance between managers and shareholders to reduce the agency problem and create a possibility that a managers will carry out suboptimal policies (Ofoeda, 2016).

2. Good Corporate Governance Principle

According to Tjandra et al (2017), Good Corporate Governance can be summarized into five principles, which are:

1. Transparency

The process of making a decision in clean, clear and open by providing information that relevant to the company. Then, provide information in transparent, timely exact, adequate, clear and accurate manner. So, stakeholders can easily access it according to their rights. This must be done in order to reduce the possibility of creative accounting, wrong tax recognition and other misused report. Also, company policies regarding the strategic manners must be written and communicated to the stakeholders. Information disclosed are financial condition, financial performance, ownership and management of the company.

2. Accountability

This is a principle which contains the authority that must be owned. The company should disclose in fair and transparent. Also, the company must guarantee in the implementation of applicable provisions, conduct environmental activities and social responsibility. This accountability contains in a clarity in the function within the organization and the implementation of its responsibilities. A company must be able to be manage in a healthy way and professional manner by considering the interests of stakeholder, by make sure all of these activities should be reported or known by the stakeholders.

3. Responsibility

In this principle, a company should make sure that company run the activities with applicable laws and regulations and has a healthy principle. A company is should be responsible because it is needed in order to ensure this is a long-term business continuity and has been recognize as a good image among citizen This principle may require a company to carry out all activities responsibly. So, company should be careful by avoiding all transaction costs that have a potential to harm third parties or other parties that has been agreed in terms that stated in laws, regulations, contracts and business operational guidelines of the company.

4. Independent

This principle requires a company to be objective and free from all pressures from anyone and free from conflict of interest in decision making. the company is managed professionally without conflict of interest and influence from any party.

5. Fairness

A company should pay attention to stakeholders based on the principle of equality and fairness because justice must be obtained by each party. Ensuring equal justice between each stakeholder in accordance with the agreements and applicable laws and regulations.

Another principle is stated by Organization for Economic Co-Operation and Development in 2004 (FCGI, 2002):

1. Ensuring The Basis for an Effective Corporate Governance Framework. Through corporate governance framework, it may encourage the market to be transparent and efficient, also consistent with rule of law and clearly defined the division of responsibilities among different related authorities.
2. The Rights of Shareholders and Key Ownership Functions. The shareholders' rights should be protected and facilitated trough corporate governance framework.
3. The Equitable Treatment of Shareholders. Make sure there is a fair treatment of all shareholders, including minority and foreign shareholders. Because, all shareholders have the opportunity.
4. The Role of Stakeholders in Corporate Governance. It is important to recognise the rights of stakeholders established by law and agreements, also encourage to have a good corporation in order to gain the sustainability of financially sound enterprises.
5. Disclosure and Transparency. Make sure all material information include financial situation, performance, ownership and governance of the company is in timely manner and the disclosure should be accurate.

3. Internal and External Corporate Governance

Corporate governance is something that directs and controls the company in order to achieve balance between strength and authority in the company that provides accountability to the shareholders and stakeholders. It is a systems that control activities in a company which consist of laws and rules (Yang et al., 2011). Corporate Governance divided into internal and external.

According to Walsh et al (1990), internal and external corporate governance are complement each other when direct the behaviour of the management. So, it can be said that internal and external corporate governance has a different response to a similar problem. These two mechanisms are designed to compromise, they must be studied simultaneously, not separately. Internal corporate governance mechanisms are ways of controlling a company by using internal structures and processes such as independent boards of commissioners, institutional ownership, and management ownership. While, external mechanisms are ways of influencing the company other than by using internal mechanisms, such as the quality of audit (Iskander & Chamlou, 2000). The variables that are used for internal corporate governance mechanism in this research are managerial ownership, board of commissioners, managerial compensation. Then, for external corporate governance are auditor size and audit fees.

4. Managerial Ownership

Managerial ownership is a shares of companies whose shares are part owned by the manager or the manager as well as shareholders (Chandra & P, 2013). When a company has managerial ownership, it will raise an interesting suspicious that the value of the company increased as a result of increased in managerial ownership. The amount of the proportion in the ownership by the manager will be effective in monitoring every activity in the company.

Through, managerial ownership, it can help the unification interests between shareholders and managers, the more increase the proportion of managerial share ownership, then the better the company's performance (Michael C. Jensen, 1976). Managerial share ownership in the company is seen to have an ability to align potential differences between management & shareholders' interest, so agency problems can be assumed lost if a manager is also as an owner (Andrei Shleifer & Vishny, 1997). However, when managerial share ownership unites the interest between manager and shareholder, manager should be careful in the decision making because it will impact directly the benefits and the effects of the decisions.

5. Board of Commissioners

It is the responsibility of the board of commissioners to serve the running of the company and provide direction to it. Whereas management is responsible for increasing the efficiency and competitiveness of the company, while the board of directors is responsible for management responsibility and it is the centre of the company's resilience and success (FCGI, 2002).

The monitoring function itself is carried out by the commissioner which taken from agency theory. From the agency theory's perspectives, the board of commissioners represents the major mechanisms in internal for controlling the management's opportunistic behaviour and can help fulfil the both interests of managers and shareholders (Michael C. Jensen, 1976). In the board of commissioner's job, it is expected to minimize agency problems between directors and shareholders. Therefore, the board of directors must be able to achieve the performance results are in accordance with the interests of the shareholders.

In carrying out Good Corporate Governance, the duties of board of commissioners are carried out through audit committee, compensation committee, risk management committee and other committees. The more committees in the governance structure of a company, the more members of the board of commissioners needed to fill the membership of the committees. However, if the size of the board of commissioners is too large, it will make the process of decision making more difficult, and long winded. So, it is important to pay attention to these limitations in determining the number of members in the board of commissioners composition (Muntoro, 2006).

6. Managerial Compensation

Managerial compensation is a systematic that giving a monetary value to employees because of their work performance. Compensation can be achieved by several performances like assisting in recruitment, job performance and job satisfaction. Through managerial compensation system it may boost the performance of the employees in significant and will create more engaged workforce that willing to give their hard work in the company and this system should be apply to all levels in the company (Patnaik & Padhi, 2012).

Managerial compensation is may become important for employees because the amount of compensation will reflect their work in among the employees, their families and communities. Because, compensation often called as an award that given to employees as remuneration for their hard work to contribute in the company.

The compensation system can be given as a motivation for a manager to take actions that relate to maximize the shareholder's wealth. In this system, it will minimize the presence of asymmetric information. Also, an increase in managerial compensation can reduce agency cost because with satisfied managers, it will less likely to do expropriate wealth and exert insufficient effort.

7. Auditor Size

Auditor size may impact the quality of audit, large audit firms are known to be able provide higher audit quality than non-specialized auditor. Because, in the industry specialized audit firms may enhance in audit expertise and they have monitoring functions that more effective that other auditors. Because, in the industry specialized audit firms may enhance in audit expertise and they have monitoring functions that more effective that other auditors. Through specialized audit firms, it can lower the agency cost other than use non-industry specialist auditor (Schäuble, 2019). However, this matter is still being debated. Because, this could impact on smaller audit firms and according to Angelo (1981), as long as professional standards and the qualifications are maintained, the audit quality can be guaranteed and it is unfair to differentiate between large firms and non-specialized auditor.

8. Audit Fees

Audit fees is income whose amount may varies because it depends on several factors in the audit assignment, such as financial of client, client company size, the big 4 auditors, industry expertise (Whisenant et al., 2003). It is a reward received by auditors from the Public Accounting Firm for the services they have been provided.

Audit fees is related to audit quality and auditor size. When the larger audit firms provide higher audit quality, then the audit fees is adjusted to the quality class to which they belong (De Angelo, 1981). Because, higher audit fees would be expected to result in an increased audit effort. Then, when the auditor negotiates with management regarding the amount of costs that must be paid by management for the work of audited report. There is a chance of probability actions that override professionalism which will reduce audit quality.

9. The Relationship between Corporate Governance and Agency Cost

In the principal-agency relationship, an agency problem happened when there is a different interest and information asymmetries between two parties. Due to this conflict, it can be handled by corporate governance. According to Kung'u and Munyua (2016), corporate governance is a mechanism that using a monitoring systems to monitor the relationship among shareholders, management, and other related parties to control capital cost and transaction cost. Also, clearing the conflict of interest and prevent the corporate misconduct. This conflict of interest will arise when the agent not act the way principal wanted, so it will result a discord in company.

Through corporate governance, it will see how a company's action to certain situations that need adaptions and solution in ways that influence core a characteristics and the behaviour of company with a presence of threats and opportunities (Filatotchev & Nakajima, 2010).

2.2 Previous Research

Table 2.1

Previous Research Summary

No	Researcher	Research Variable	Research Method	Sample	Result
1	Chrisostomos Florackis (2008)	Dependent variable: agency cost Independent variable: board of directors, ownership concentration, managerial ownership, debt financing	Cross sectional regression	UK listed firms	The interactions in several internal corporate governance mechanisms may arise agency conflict, short term debt and managerial ownership can help resolve agency issues
2	Philip J. McKnight and Charlie Weir (2009)	Dependent variable: agency cost Independent variable: nomination committee, board ownership, institutional ownership	Fixed-effects, instrumental variables, Tobit regression	UK non-financial firms incorporated in FTSE 350 Share Index Companies	All board structure and ownership variables are insignificant, the exogenous environment is crucial to interpret agency cost and corporate governance relationship.

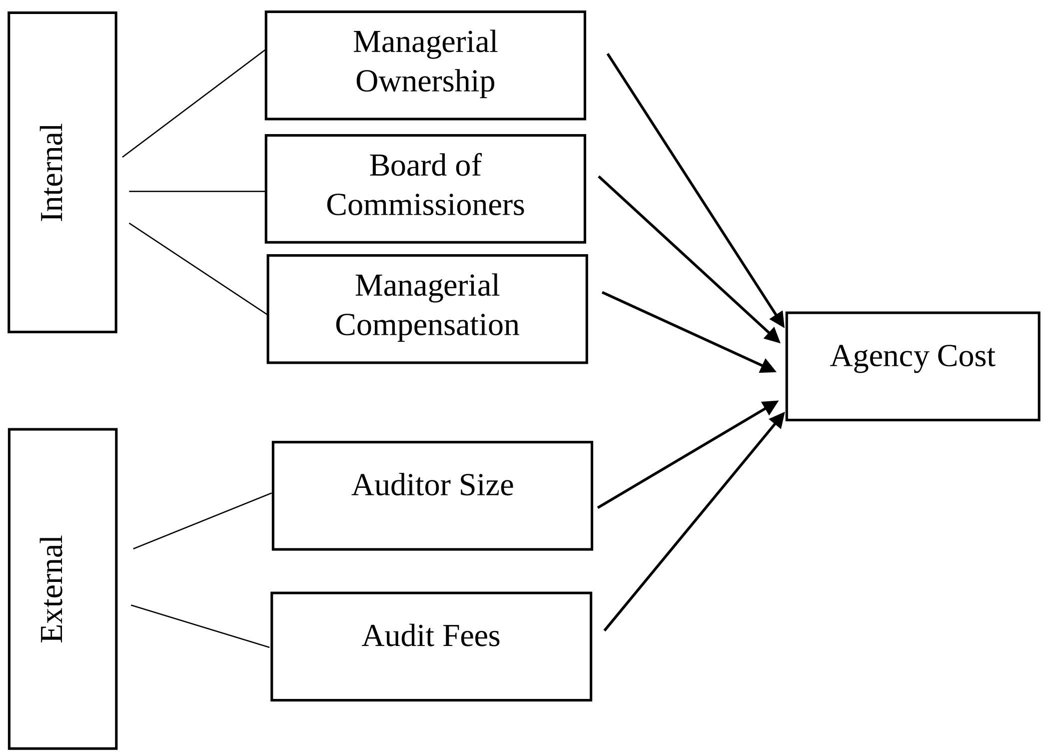
3	Darren Henry (2009)	Dependent variable: agency cost Independent variable: Board independence, CEO-chairperson duality, board size, board remuneration, options issued to executive directors	Strict exogeneity test	Listed companies on the Australian Securities Exchange	Corporate governance structures are not endogenously-determined by agency environment, ownership structures reduce agency cost, board size has significant effect on agency cost.
4	Tatiana Garanina and Elina Kaikova (2016)	Dependent variable: agency cost Independent variable: Board size, board composition, leverage, firm size, female members on board	Multivariate regression analysis	244 United States, 196 Russian, and 175 Norwegian joint stock companies for period 2004-2012	Company with smaller boards have lower agency costs, leverage has an impact in reduce the agency cost, women on board has no effect in reducing agency cost.
5	Jonas Schauble (2019)	Dependent variable: agency cost Independent variable: audit fees, auditor size, management ownership, audit committee,	Stochastic frontier analysis, regression analysis	German IFRS listed companies	Large audit firm has no effect on firm's agency cost, audit fees has no effect on agency cost, management ownership are effective mitigate agency cost

2.3 Research Framework

In systematically, the research framework of this study are described as follows:

Figure 2.1

Research Framework



2.4 Hypothesis Formulation

2.4.1 The Effect of Managerial Ownership on Agency Cost

Managerial ownership is the amount of shares owned by a managerial from the total of shares that managed by the company. According to Habib and Jiang (2012), the greater ownership that managers has then the performance by the managers will be better. Through, managerial ownership it will encourage the manager to improve company performance. The greater the proportion of managerial ownership, the manager tend to be strive harder in improving company performance.

Managerial ownership seem able to harmonize the interest between shareholders and management, so it can be assumed agency problems will disappear if a manager is also become an owner (Andrei Shleifer & Vishny, 1997). The greater the managerial ownership, the more productive the manager's actions in maximizing company's performance and resulting in high asset turnover. So, it can reduce the agency cost.

H1 : Managerial ownership has a negative effect on agency cost.

Negative effect means there is a relationship between managerial ownership variable and agency cost variable. The greater the proportion of managerial ownership, the lower the agency cost.

2.4.2 The Effect of Board of Commissioners on Agency Cost

According to Siallagan and Machfoedz (2006), the board of commissioners is responsible for the quality in the presented report. The board of commissioners can improve the quality of earnings by limiting the level of earnings management through monitoring the financial reporting. By monitoring, it can reduce the agency conflict when the agency conflict may create opportunistic management that will reduce the quality earnings.

The presence of the board of commissioners in the company is effective to monitor the manager in accordance with shareholder desires that indicate increasing sales with a marked high asset turnover ratio and will reduce agency cost.

H2: Board of commissioners has a negative effect on agency cost.

Negative effect means there is relationship between board of commissioner variable and agency cost variable. The higher the number of board of commissioners, it can lower the agency cost.

2.4.3 The Effect of Managerial Compensation on Agency Cost

Everything that is received by manager as return for their work. Basically, compensation will be able to attract and retain employees and improve company performance.

Compensation can be used to strengthen the relationships between principal and the agent. The management is responsible to optimize the company profit. This compensation not only motivate manager to work harder but to avoid manager to commit managerial fraud which can make company performance better and increase the asset turnover which lower the agency cost.

H3: Managerial compensation has a negative effect on agency cost

Negative effect means there is relationship between managerial compensation variable and agency cost variable. The higher the compensation that received by manager, the lower the agency cost.

2.4.4 The Effect of Auditor Size on Agency Cost

Auditor should give a credibility to financial statements and reduce the risk of information that the financial statements are biased, misleading, inaccurate, incomplete and contains material errors according audit standards.

When the presence of auditor is function effectively, then controlling the company will be better and agency conflicts can be minimized.

H4: Auditor size has a negative effect on agency cost

Negative effect means there is relationship between auditor size variable and agency cost variable. The more credibility that auditor has, it will reduce the risk and lower the agency cost

2.4.5 The Effect of Audit Fees on Agency Cost

Basically, a fee that company pays to the auditor as an exchange for performing an audit. With audit fee, it is expected the higher audit fees, it may increase the audit quality and audit effort.

Audit fees has some sort of relation with a possibility of arise in agency cost in the company with excess cash flow. Because with high excess cash flow and low growth prospects It will create a possibility that managers will engage in non-value maximizing activities. So, this situation may create a conflict where through excess cash flow and low growth prospects, it is expected to charge higher audit fees to increase the audit efforts and lessen the agency problem (Mishiel, 2015). It is proven in a previous research by Mustapha and Ahmad (2011) found audit fees has significantly influence agency cost and also a previous research by Arisinta (2013) found that the audit fee variable has significant effect on agency cost.

H5: Audit Fees has a negative effect on agency cost

Negative effect means there is relationship between audit fees variable and agency cost variable. The higher the audit fees, the lower the agency cost.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Variables and Operational Definitions of Variables

3.1.1 Agency Cost

It is a cost that arise due to differences in interest that bring conflict which may triggers a cost that should not incurred in company operations. Dependent variable in this research is measured by asset turnover. Asset turnover is a ratio that refer to the level of efficiency of the company in utilizing all of the asset to generate revenue. The higher the asset turnover ratio acquired by the bank, the more effective the utilization of the asset (Sawir, 2005:17, as cited in Pranata et al., 2014). The asset turnover ratio is depended on revenue and assets, both current assets and fixed assets (Pranata et al., 2014). Asset turnover ratio uses all bank assets to generate revenue which can indicate the level of efficiency (Suyono et al., 2019). The efficiency in the use of assets indicates the management performance. When the management (agent) performance doesn't meet the shareholder's interest (principal), it will create conflict which lead to agency cost.

According to Wang (2010), turnover has an inverse relationship with agency cost where low turnover indicates managers are not effective in managing assets for optimal investment, then it will be failed in maximizing shareholder profits so that agency cost will increase. A low asset turnover ratio may indicate poor investment decisions, insufficient efforts and an expense in unproductive products (Florackis, 2008). A company with high turnover ratio indicates the more least agency conflicts rather than a company with low turnover ratio, because low ratio could represent the managers are not utilizing the asset to the activities that raise cash flows but using the asset for unproductive purpose (Xu et al., 2017).

$$\text{Asset Turn Over} = \frac{Total\ Revenue}{Total\ Asset}$$

3.1.2 Managerial Ownership

Managerial ownership is the proportion of ordinary shares owned by management as measured by the percentage of management shares. The measurement are as follows:

$$\text{Managerial Ownership} = \frac{Number\ of\ Shares\ Owned\ by\ Management}{Total\ Capital\ Stock\ of\ The\ Company} \times 100\%$$

3.1.3 Board of Commissioners

The presence of Board of Commissioners is to supervise the activities of the company and monitor director’s policies which can be expected to minimize agency problems.

Board of Commissioners = The total of members in Board of Commissioners

3.1.4 Managerial Compensation

The presence of managerial compensation may motivate managers to work harder and maximize shareholder's wealth also may reduce agency cost. Managerial compensation variable is measured using dummy variables. If the company pays a compensation or bonuses to the managers, will be given a value of 1 and if the company doesn't pay compensation or bonuses to the managers, will be given a value of 0.

3.1.5 Auditor size

Auditor size is measured by the size of public accounting firm which divided into two groups, namely public accounting firm affiliated with big 4 and not affiliated with big 4. The public accounting firm that categorized as big four are PricewaterhouseCoopers (PwC), Ernst & Young (EY), Deloitte, and KPMG. Public accounting firm variable size is measured using dummy variables. If the company is audited by big 4. It will be given a value of 1. Whereas if the company is audited by non-big 4, then given a value of 0.

3.1.6 Audit fees

Audit fees is fees received by public accountants after conducting audit services which measured by the professional fees account that contained in financial report for companies listed on IDX. Furthermore, this variable is measured by using natural logarithms (Ln) from data on professional fees accounts. The purpose of using natural logarithms in this variable is intended to reduce excessive data fluctuations. Without natural logarithms, the variable value will be very large. By using natural logarithms, the value is simplified without changing the proportion of the original value.

3.2 Population and Research Samples

The population of this research is all of the banking companies listed on Indonesia Stock Exchange in 2017-2019. Companies that becomes the sample in this study was chosen based on certain criteria with purposive sampling method. The sample criteria are:

1. Banking companies that listed on the IDX during 2017-2019
2. Banking companies that publish their financial statements and annual reports 3 years in a row during 2017-2019 on IDX
3. Companies that issue their financial statements annual reports in rupiah
4. Having the data of managerial ownership, board of commissioners, managerial compensation, auditor size and audit fees.

3.3 Data Types and Sources

The data that used in this study are secondary data which taken from company's annual report on period of 2017-2019 in Indonesia Stock Exchange.

3.4 Method of Collecting Data

Data collection methods used in this study are:

1. Literature Study

The purpose of this literature study is to get concepts and foundation theory by studying various literatures, books, references and documents related to the object of discussion as material of analysis. Gather, choose, and understand with previous research that related to this research.

2. Documentation technique

   The documentation technique is a way to get the data for this research from books, regulations, reports that relevant to this research object.

3.5 Data Analysis Method

3.5.1 Descriptive Statistical Analysis

Descriptive statistical analysis provides general information about the data which will be tested in this study. The analytical tool that used in this research is mean, maximum value, minimum value and standard deviation.

3.5.2 Classic Assumption Test

The classic assumption test is used to determine whether the results of the regression analysis multiple freed from deviations from classical assumptions, including multicollinearity tests, autocorrelation tests, and heteroscedasticity test.

1. Normality test

   According to Ghozali (2018), the normality test is to find out the pattern of data distribution that used in the equation regression model. In this research, the normality test is using kolmogorov smirnov because the amount of sample in this research is more than 50. If the sig value is greater than 0.05, then the data are distributed normally.

2. Multicollinearity test

Multicollinearity test is used to test whether on the regression model found a correlation between independent variables. According to Ghozali (2018), ways that can be used to test whether there is a correlation between independent variables is to look at the tolerance value and its opponents and variance inflation factor (VIF). Both of these sizes indicates which independent variables is explained by the other variable. The value used to indicate multicollinearity is Tolerance value ≤ 0.10 or equal to VIF value ≥ 10.

3. Autocorrelation test

Autocorrelation test aims to determine whether a model multiple regression has a correlation between disruption in t period with error in the t-1 period (Ghozali, 2018). Autocorrelation may occur because a sequential observations all the time are related to one another.

4. Heteroscedasticity test

Heteroscedasticity test is used to see whether the regression model is happening on variance from one observation to another is constant, then the heteroscedasticity does not happen (variance inequality). Can be seen with the pattern of results graph between the predicted value of the dependent variable and the residual, if the patterns are not clear and spread the points above and below number 0 on the Y axis, then the heteroscedasticity does not happen (Ghozali, 2018).

3.5.3 Multiple Regression Analysis

Hypothesis testing in this study uses multiple regression. The multiple regression equation is as follows:

Agency costs = α + β1 MO + β BOC + β MC + β AS + β AF + ε

Explanation:

Agency cost = Index of company agency costs

α = Constant

β = The value of the regression coefficient for each variable

MO = Managerial ownership

BOC = Board of commissioner

MC = Managerial compensation

AS = Auditor size

AF = Audit fees

ε = Error

3.5.4 Coefficient of Determination (R^2)

The coefficient of determination (R^2) basically measuring the level of the model's ability to explain the variation of the dependent variable. R^2 value is between 0 and 1. A small R^2 value means the ability of independent variables in explaining the dependent variable is very limited. A value that approach 1 means that the independent variables give almost all of the information needed to predict variations in independent variables (Ghozali, 2018).

3.5.5 Hypothesis Testing

1. The Overall Significance of Sample Regression Test (F Statistical Test)

This test is used to determine the effect of all independent variables simultaneously on the dependent variable (Widarjono, 2015). According to Ghozali (2018), if the value of F is more than 4 then Ho can be rejected at level of 5% and if the calculated F value is greater than the table F value, then Ho is rejected and accepts HA.

2. Significant Test of Individual Parameters (t Statistical Test)

The t statistical test shows how far the influence of one independent variable in individually explain the variation of independent variables (Ghozali, 2018). Testing is done by measuring the probability significance value. If the significance value is $\leq$ 0.05 then the hypothesis cannot rejected. This means that in individually, the independent variable has a significant influence on the dependent variable. Conversely, if the probability of the significance value ≥ 0.05 then the hypothesis is rejected. This means in individually, the independent variable does not have significant effect on the dependent variable.

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

4.1 Description of Research Objects

The research objects in this research are banking listed companies on the Indonesia Stock Exchange and publishing the financial statement and annual report of the company consistently for 3 years in a row, which is 2017-2019. The population used in this research in total are 44 companies. Through the sampling techniques that have been mentioned in the previous chapter, namely by using purposive sampling. It can be known from all banking listed companies on IDX there were 44 companies that meets the criteria.

Table 4.1

Research Sampling Criteria

No	Description	Amount
1.	Banking companies that listed on Indonesia Stock Exchange during 2017-2019	**44**
2.	Banking companies that did not published their financial statements and annual report during 2017-2019 in a row	**0**
3.	Banking companies that published their financial statements and annual report in dollar	**0**
	Number of companies that meets the criteria	**44**

4.2 Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide an overview or description of the data. So, this include the minimum value, the maximum value, mean, and standard deviation. The results of the descriptive statistical analysis can be seen in table 4.2.

Table 4.2

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AGENCY COST	132	.001	.099	.04902	.025686
MANAGERIAL.OWNERSHIP	132	.000	12.554	.13295	1.175255
BOARD OF COMMISSIONERS	132	2.000	9.000	4.96491	2.103221
AUDIT FEES	132	4.510	15.256	9.84909	2.115899
Valid N (listwise)	132				

According to the results of the descriptive analysis in the table above, the conclusions are can be taken are as follows:

The mean value of agency cost in banking companies in 2017-2019 is 0.04902 with standard deviation value in the amount of 0.025686. These results can be concluded that the mean value of agency cost is incurred as a result of conflicts between principals and agents is 4,90%. The standard deviation values indicate the level of data distribution, whereby the higher the standard deviation, the wider the variation of the data range and the lower the standard deviation, the closer it is to the average.

According to the results, the standard deviation value is 0.025696 which is low. The amount of minimum value in agency cost is 0.001 and the maximum value is 0.099.

The managerial ownership is the percentage of the number shares owned by the management from the total stock company owned. The mean value of managerial ownership is 0.13295 or 13.29%, with a maximum value of 12.554 or 1255.4% and a minimum value of 0% which means there is no managerial ownership in the company. The standard deviation value is 1.175255 which means the variation of the data range are wide.

The mean value in the board of commissioner variable is 4.96491 which means the average number board of commissioners in the sample is 5 people with the minimum value is 2 persons and the maximum value is 9 people. The standard deviation value in this variable is 2.103221 which means the variation of the data range is low.

The mean value of audit fees is 9.84909 with standard deviation value 2.115899 which means the variation of data range is low. The minimum value in audit fees variable is 4.510 and the maximum value is 15.256.

4.2.1 Frequency Distribution of Managerial Compensation Variable

Table 4.2.1

Frequency Distribution Statistics
Managerial Compensation (Dummy Variable)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NO	9	6.8	6.8	6.8
	YES	123	93.2	93.2	100.0
	Total	132	100.0	100.0	

The managerial compensation in this research is using dummy variable. Whereby, 1 indicates the company have managerial compensation and 0 indicates the company don't have managerial compensation. According to the table, there are 9 data that does not have managerial compensation, which means there are 3 banking companies in 3 years in a row that does not give banking compensation from 44 banking companies in total. And also, there 6.8% banking companies that do not have managerial compensation, meanwhile, there are 93.2% banking companies that do have managerial compensation. It means most of bank companies in 2017-2019 have managerial compensation.

4.2.2 Frequency Distribution of Auditor Size Variable

Table 4.2.2

Frequency Distribution Statistics
Auditor Size (Dummy Variable)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NOT BIG 4	62	47.0	47.0	47.0
	BIG 4	70	53.0	53.0	100.0
	Total	132	100.0	100.0	

The auditor size in this research is using dummy variable. Whereby, 1 indicates the company audited by big four and 0 means the company is audited by non-big four. According to the table, there are 47% that the banking companies does not audited by big 4 and 53% that the banking companies does audited by big 4. Which means most of bank companies in 2017-2019 is audited by big four.

4.3 Classic Assumption Test

Classic assumption test is aim to provide certainty that the regression equations that have been obtained is accurate in estimation, unbiased and consistent. Also, to find out whether truly free from multicollinearity, autocorrelation, and heteroscedasticity problems.

4.3.1 Normality Test

Normality test is carried out to determine that the data distribution is normal or not. This test was carried out using kolmogorov-smirnov because the amount of N in this research is more than 50. The result can be seen in the table 4.3.

Table 4.3

The Results of Normality Test

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.076	132	.099	.982	132	.120

According to the result of kolmogorov-smirnov above, the sig is 0.099. This result can be concluded that the data is normally distributed, because the sig value is above 0.05.

4.3.2 Multicollinearity Test

Performing multicollinearity test to determine whether the regression model finds a correlation between independent variables or not. Multicollinearity test done by looking at the value of tolerance and the value of Variance Inflation Factor (VIF), if the tolerance value is more than 0.10 and the VIF value is less than 10, then no symptoms occur multicollinearity in the regression model. The results of multicollinearity test can be seen in table 4.5.

Table 4.4

The Results of Multicollinearity

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	MANAGERIAL OWNERSHIP	.989	1.011
	BOARD OF COMMISSIONERS	.609	1.643
	MANAGERIAL COMPENSATION	.917	1.090
	AUDITOR SIZE	.862	1.159
	AUDIT FEES	.626	1.597

a. Dependent Variable: AGENCY COST

Based on the table 4.4, the result that calculated by using SPSS 26.0, shows that the tolerance value is more than 0.10 and the VIF value is less than 10. So, it can be concluded that the regression model equation did not contain a multicollinearity problem which means there is no correlation between independent variables. So, it is worth using for further analysis.

4.3.3 Autocorrelation Test

The autocorrelation test is using durbin-watson, which a test used to detect the occurrence of autocorrelation in residual values (prediction errors) from a regression analysis. Autocorrelation meant the relationship between values separated from one another by a certain time lag. The D-W value of the multiple regression is pass from autocorrelation test if the value of du < d value < d4-du. The results of the autocorrelation test analysis through the durbin-watson can be seen in the table 4.5.

Table 4.5

The Results of Autocorrelation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.542[a]	.294	.261	.01704	1.854

a. Predictors: (Constant), AUDITFEES, MANAGERIALCOMPENSATION, MANAGERIALOWNERSHIP, AUDITORSIZE, BOARDOFCOMMISSIONERS

b. Dependent Variable: AGENCY COST

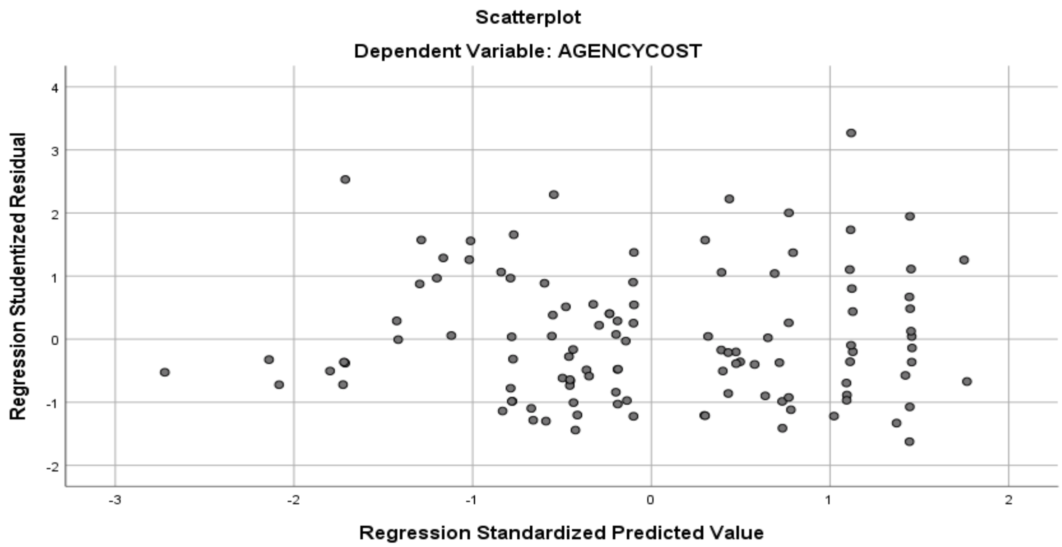
According to the results in table 4.5, the durbin-watson value is 1.854. This value will be compared with DW table with total sample 132, 5 independent variables and a 5% confidence level which resulting the upper limit value (du) = 1.7869 and (4-du) = 2.2131. Based on table 4.5, the durbin-watson value is 1.854 which is in between du and 4-du. So, it can be concluded that it is not contain autocorrelation problem.

4.3.4 Heteroscedasticity Test

Heteroscedasticity exists when a variant of the probability distribution interference is not constant for all observations in the research variables. The method that used in this research to test heteroscedasticity is scatterplot diagram which can be seen in the figure 4.1.

Figure 4.1

The Results of Heteroscedasticity



Based on figure 4.1, it can be concluded that there is no clear pattern and the points are spreading at above and below 0 on the Y axis. Which means there is no heteroscedasticity occurs.

4.4 Multiple Linear Regression Analysis

The multiple linear regression is to determine the effect of independent variables which consists of managerial ownership, board of commissioners, managerial compensation, auditor size and audit fees on the dependent variable which is agency costs. The results of this analysis can be seen in table 4.6.

Table 4.6

The Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.023	.010		2.251	.026
	MANAGERIAL OWNERSHIP	.001	.033	.003	.035	.972
	BOARD OF COMMISSIONERS	.001	.001	.073	.719	.473
	MANAGERIAL COMPENSATION	.025	.004	.459	5.523	.000
	AUDITOR SIZE	.010	.004	.182	2.122	.036
	AUDIT FEES	.000	.001	.012	.115	.909

Based on the results of multiple linear regression analysis above, the regression equation model developed in this study as follows:

$$Y = 0.023 + 0.001\ X_1 + 0.001\ X_2 + 0.025\ X_3 + 0.010\ X_4 + 0.000\ X_5$$

From the calculation above, the regression coefficient results can be interpreted as follows:

1. According to the table, the result is all in positive value. Because, the measurement is using asset turnover ratio. This ratio is having an inverse relationship with agency cost. Where, high asset turnover ratio means low in

agency cost. So, in the end, the relationship between independent variable and the dependent variable is in negative value and the hypothesis is accepted.

2. The number of constant value is 0.023. It can be interpreted that if all independent variables including managerial ownership, board of commissioners, managerial compensation, auditor size and audit fees is considered constant or unchanged. Then, the amount of agency cost will be 0.023.
3. The regression coefficient value of managerial ownership variable is 0.001. It can be interpreted that has a positive value but according to the significant value, it has not significant effect on agency cost. So, the changes that occur in managerial ownership does not cause any changes in agency cost.
4. The regression coefficient value of board of commissioner variable is 0.001. It can be interpreted that has a positive value but according to the significant value, it has not significant effect on agency cost. So, the changes that occur in board of commissioners does not cause any changes in agency cost.
5. The regression coefficient value of managerial compensation variable is 0.025. It can be interpreted that has a positive value and according to the significant value, it has significant effect on agency cost. So, if the other independent variables are constant, then when each of managerial compensation increased per unit will cause an increase in agency cost of 0.025.
6. The regression coefficient value of auditor size variable is 0.010. It can be interpreted that has a positive value and according to the significant value, it

has significant effect on agency cost. So, if the other independent variables are constant, then when each of auditor size increased per unit will cause an increase in agency cost of 0.010.

7. The regression coefficient value of audit fees variable is 0.000. It can be interpreted that has a positive value but according to the significant value, it has not significant effect on agency cost. So, the changes that occur in audit fees does not cause any changes in agency cost.

4.5 Coefficient of Determination (R^2)

The aim of Coefficient of Determination is to find out the percentage of influence in the independent variables on changes in dependent variables that can be seen in table 4.7.

Table 4.7

The Results of Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.561[a]	.315	.283	.021783

a. Predictors: (Constant), AUDIT FEES, MANAGERIAL OWNERSHIP, MANAGERIAL COMPENSATION, AUDITOR SIZE, BOARD OF COMMISSIONERS

Based on Table 4.7, resulting adjusted R square of 0.283. This results can be concluded that 28.3% changes in agency cost is influenced by managerial ownership, board of commissioners, managerial compensation, auditor size, and audit fees. While, the remaining 71.7% is influenced by other variables outside this research model.

4.6 Hypothesis Testing

Hypothesis testing in this study are using F statistical test and t statistical test. The results of hypothesis in this research is as follows:

4.6.1 F Statistical Test

The F statistical test is showing whether all the independent variables that had entered in the model do have a joint influence on the dependent variable or not. The results can be seen in table 4.8.

Table 4.8

The Results of F Statistical Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.024	5	.005	9.912	.000[b]
	Residual	.051	126	.000		
	Total	.075	131			

a. Dependent Variable: AGENCY COST

b. Predictors: (Constant), AUDIT FEES, MANAGERIAL OWNERSHIP, MANAGERIAL COMPENSATION, AUDITOR SIZE, BOARD OF COMMISSIONERS

According to the table 4.8, the result of significant value is 0.000. since the significant value is 0.000 which is smaller than the significant level of 0.05. It can be concluded that the variables of managerial ownership, board of commissioners, managerial compensation, auditor size, and audit fees had a joint significant effect on agency cost in banking companies listed on the IDX.

4.6.2 t Statistical Test

The statistical t test shows how far the influence of independent variable in individually at explaining on the dependent variable. The test aims to determine whether there is a partial influence of managerial ownership, board of commissioners, managerial compensation, auditor size, and audit fees on agency costs in banking companies listed on IDX. The results can be seen in table 4.6.

1. The Effect of Managerial Ownership on Agency Cost

   Testing of this hypothesis is done by testing the significance of the regression coefficient on the managerial ownership variable. The first hypothesis in this study states that the managerial ownership has a negative effect on agency cost. The regression coefficient of managerial ownership is 0.001 and the significant value is 0.972. Since the significance level $\alpha = 5\%$, then the regression coefficient is not significant because the significance value is $0.972 > 0.05$. So, it can be concluded that the managerial ownership did not significantly influence the agency cost. Then, the hypothesis of this study could not be supported.

2. The Effect of Board of Commissioners on Agency Cost

Testing of this hypothesis is done by testing the significance of the regression coefficient on the board of commissioner variable. The second hypothesis in this study states that the board of commissioners has a negative effect on agency cost. The regression coefficient of board of commissioners is 0.001 and the significant value is 0.473. Since the significance level $\alpha = 5\%$, then the regression coefficient is not significant because the significance value is $0.473 > 0.05$. So, it can be concluded that the board of commissioners did not significantly influence the agency cost. Then, the hypothesis of this study could not be supported.

3. The Effect of Managerial Compensation on Agency Cost

Testing of this hypothesis is done by testing the significance of the regression coefficient on managerial compensation variable. The third hypothesis in this study states that the managerial compensation has a negative effect on agency cost. The regression coefficient of managerial compensation is 0.025 and the significant value is 0.000. Since the significance level $\alpha = 5\%$, then the regression coefficient is significant because the significance value is $0.000 < 0.05$. So, it can be concluded that the managerial compensation has a positive significant influence on agency cost. Then, the hypothesis of this study is supported.

4. The Effect of Auditor Size on Agency Cost

Testing of this hypothesis is done by testing the significance of the regression coefficient on auditor size variable. The forth hypothesis in this study states that the auditor size has a negative effect on agency cost. The regression coefficient of auditor size is 0.010 and the significant value is 0.036. Since the significance level α = 5%, then the regression coefficient is significant because the significance value is 0.036 < 0.05. So, it can be concluded that the auditor size has a positive significant influence on agency cost. Then, the hypothesis of this study is supported.

5. The Effect of Audit Fees on Agency Cost

Testing of this hypothesis is done by testing the significance of the regression coefficient on audit fees variable. The fifth hypothesis in this study states that the audit fees has a negative effect on agency cost. The regression coefficient of audit fees is 0.000 and the significance value is 0.909. Since the significance level α = 5%, then the regression coefficient is not significant because 0.909 > 0.05. So, it can be concluded that the audit fees did not significantly influence the agency cost. Then, the hypothesis of this study could not be supported.

4.7 Discussion

Based on the simultaneous significance test or F statistical test, it can be seen that the variables of managerial ownership, board of commissioners, managerial compensation, auditor size and audit fees are simultaneously had a significant effect on agency cost. Meanwhile in a partially way, based on the t statistical test it can be seen that the variables of managerial compensation and auditor size have a significant effect on agency cost, while the variables of managerial ownership, board of commissioners, and audit fees did not significant to the agency cost.

4.7.1 The Effect of Managerial Ownership on Agency Cost

Based on t statistical test, in a partially way, the managerial ownership variable has no effect on agency cost. So, changes in the amount of manager have do not have a significant impact on agency cost.

. This can happen because the amount of shares that manager had is unable to harmonize the differences of interests between principal and agent so that agency problems still exist. So, managers will tend to have opportunistic behaviour. The authority given by the owner to the manager in managing the company is sometimes misused by managers who act for their own will (individual interests) and not in accordance with the principal’s interest which leads to the agency conflict. The results of this study is consistent with a research by Weir (2009) who discovered that managerial ownership is not significant to the agency cost.

4.7.2 The Effect of Board of Commissioners on Agency Cost

In a partially way, the board of commissioner variable has no effect on agency cost. So, the number of the board of commissioners do not have a significant impact on in agency cost.

The reason of this influence can happen because of the board of commissioners are unable minimize any mismanagement of corporate governance. So, it cannot prevent agency cost from occurring. Based on descriptive analysis, the average number of members in banking listed companies is 4.9691 or 5 members of board of commissioners. There are chances that the size is too large and not good for the company because the decision-making process becomes longer and ineffective. Also, there will be a free rider in the board or the size is too small for the company so the company need more expertise to gain more advice or options to be obtained in the decision-making process. The result of this study is consistent with a research by Singh and Davidson (2003).

4.7.3 The Effect of Managerial Compensation on Agency Cost

The results of this study is proved that managerial compensation has a negative significant effect on agency cost. The greater managerial compensation will increase asset turnover which will reduce agency cost.

Shareholders as the principal make a contract to ensure their welfare by expecting an increased profitability. The agency problems arise because of the opportunistic behaviour of the agent to maximize its own well-being besides to the principal’s interest. In order to prevent the manager’s opportunistic behaviour. So, through compensation the managers can be motivated to maximize the company’s profit. Then, when managerial compensation is increased so do the asset turnover.

4.7.4 The Effect of Auditor Size on Agency Cost

The results of this study is proved that the auditor size has a significant negative effect on agency cost. The greater the auditor size will increase the asset turnover which will reduce agency cost.

The larger the auditor size is gained public trust by having a good reputation and achievements. So, the company is expecting that will have higher audit quality because the auditor has characteristics that can be associated with quality, such as training and international recognition. According to De Angelo (1981), larger audit firms have a good audit quality because they invest in audit technology and training. Also, the reputations that auditor had, it can influence the investor confidence. Then, the larger the auditor size, it can improve the company's financial reporting quality which will reduce agency risk from asymmetry information. This result is different from the research by Schäuble (2019).

4.7.5 The Effect of Audit Fees on Agency Cost

Based on t statistical test. In a partially way, audit fees variable has no effect on agency cost. So, changes in the amount of audit fees do not have a significant impact on agency cost.

Because, the amount of the fee that the auditor obtained when completing the audit does not depend on the number of the price that agreed upon by both parties. In order to maintain the credibility and level of trust of an auditor towards of his client, an auditor must act professionally on providing good audit quality to clients. No matter how much the fee is given it does not affect the audit quality. In other words, high audit fees can’t guarantee the company to have a lower agency cost. The result of this study is consistent with a research by Schäuble (2019).

CHAPTER V

CLOSING

5.1 Conclusion

The results of this analysis and discussion in this study aim to determine the influence of internal and external corporate governance mechanisms towards agency costs in Indonesia. Based on the results of the data analysis in the previous chapter, it can be taken a conclusion as follows:

1. Simultaneously, all independent variables have influence on agency cost.
2. The results of this study prove that the managerial ownership has no significant effect on agency cost. The amount the shares owned by managers will not increase the company's asset turnover and not reduce the agency cost.
3. The results of this study prove that board of commissioners has no significant effect on agency cost. The number of members on board of commissioners will not increase asset turnover and not reduce the agency cost.
4. The results of this study prove that managerial compensation has a negative significant effect on agency cost. This means that high amount of manager compensation can increase asset turnover and reduce the agency cost.
5. The results of this study prove that auditor size has a negative significant effect on agency cost. This means that large auditor size can increase asset turnover and reduce the agency cost.

6. The results of this study prove that audit fee has no significant effect on agency cost. The amount of audit fees will not increase asset turnover and not reduce the agency cost.

5.2 Research Limitations

In this study there are several limitations that might affect the results of the study, including:

1. This study uses banking listed company on IDX with a research period of only three years which is 2017-2019 so it cannot yet reflect the overall condition of the companies.
2. The results of the coefficient of determination is 28.3% so that there are still 71.7% remaining that influenced by other variables outside this research model.

5.3 Suggestions

As for suggestions that can be submitted by the authors according to this study that has been done, including:

1. For investors who will conduct transactions on the Indonesia Stock Exchange should pay more attention on managerial compensation and auditor size, because in this study both of these variables have been proven to have a significant influence and able to reduce the occurrence of conflicts and cost incurred. Also, need to pay attention to the application of corporate governance that company have in assessing the characteristics of a company.

2. For managers are advised to be consistent in carrying out a good corporate governance in order to gain shareholders trust that the company's resources are managed appropriately.
3. For further researchers are advised to add research samples with other types of industry and increase the research period so that it is expected to produce better

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APPENDIX

APPENDIX A

Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
AGENCY COST	132	.001	.099	.04902	.025686
MANAGERIAL.OWNERSHIP	132	.000	12.554	.13295	1.175255
BOARD OF COMMISSIONERS	132	2.000	9.000	4.96491	2.103221
MANAGERIAL COMPENSATION	132	.000	1.000	.97368	.160779
AUDITOR SIZE	132	.000	1.000	.60526	.490952
AUDIT FEES	132	4.510	15.256	9.84909	2.115899
Valid N (listwise)	132				

APPENDIX B

Normality Test Results

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.076	132	.099	.982	132	.120

APPENDIX C

Multicollinearity Test Results

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	MANAGERIAL OWNERSHIP	.989	1.011
	BOARD OF COMMISSIONERS	.609	1.643
	MANAGERIAL COMPENSATION	.917	1.090
	AUDITOR SIZE	.862	1.159
	AUDIT FEES	.626	1.597

APPENDIX D

Autocorrelation Test Results

Model Summary[b]

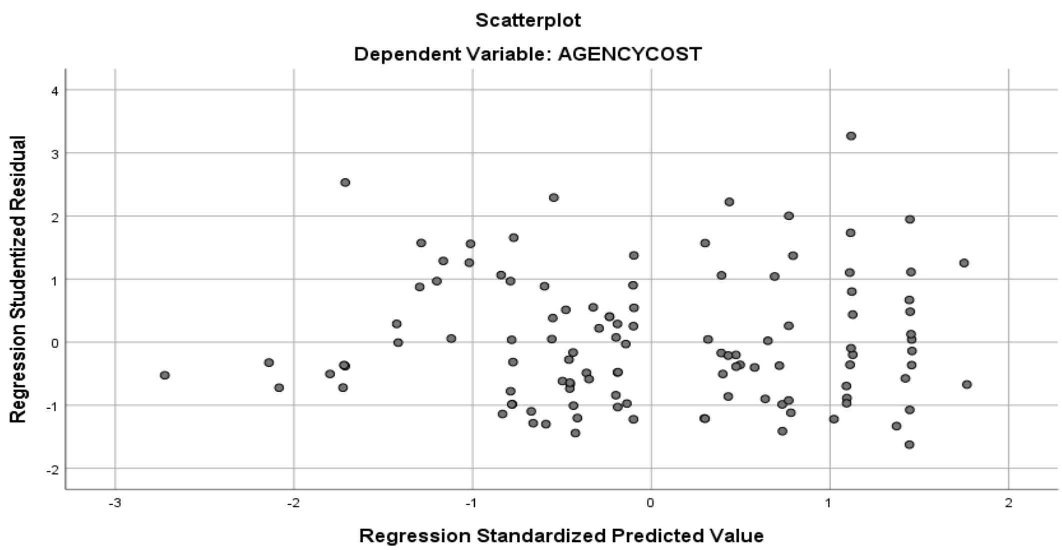
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.542[a]	.294	.261	.01704	1.854

a. Predictors: (Constant), AUDITFEES, MANAGERIALCOMPENSATION, MANAGERIALOWNERSHIP, AUDITORSIZE, BOARDOFCOMMISSIONERS

b. Dependent Variable: AGENCY COST

APPENDIX E

Heteroscedasticity Test Results



APPENDIX F

Multiple Linear Regression Analysis Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.023	.010		2.251	.026
	MANAGERIAL OWNERSHIP	.001	.033	.003	.035	.972
	BOARD OF COMMISSIONERS	.001	.001	.073	.719	.473
	MANAGERIAL COMPENSATION	.025	.004	.459	5.523	.000
	AUDITOR SIZE	.010	.004	.182	2.122	.036
	AUDIT FEES	.000	.001	.012	.115	.909

APPENDIX G

Coefficient of Determination (R^2) Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.561[a]	.315	.283	.021783

APPENDIX H

F Statistical Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.024	5	.005	9.912	.000[b]
	Residual	.051	126	.000		
	Total	.075	131			

a. Dependent Variable: AGENCY COST

b. Predictors: (Constant), AUDIT FEES, MANAGERIAL OWNERSHIP, MANAGERIAL COMPENSATION, AUDITOR SIZE, BOARD OF COMMISSIONERS