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The Determinant of Agency Cost in Indonesia

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Abstract: The objectives of this study are to investigate the effect of leverage, independent commissioners, board size, managerial ownership, institutional ownership, and audit committee on agency cost in manufacturing companies listed in Indonesian Stock Exchange period 2011-2015. The agency cost is proxied by expenses ratio. Data analysis technique is used multiple linear regression. The results of the study showed that all independent variables affect the agency cost simultaneously. Then, it partially indicates that leverage, managerial ownership and institutional ownership have negative effect on agency cost, while there is no effect of independent commissioner, board size and audit committee found on agency cost.

Keywords: agency cost, leverage, managerial ownership, institutional ownership.

JEL classification: G14;G30:G32;G34

INTRODUCTION

One of the elements that must be considered in managing a company is how big the ability of company to meet the needs of funds will be used for company operations. The company funding sources are divided into two types: internal financing and external financing. Internal fundings are obtained from retained earnings, and cash flow, while external funding from issue of shares, issue of bonds, and bank debt (Myers *et al*, 2006).

Funding through the stock are type of permanent funding for the company. The issue of shares result the separation function of management by the manager (agent) and function of ownership (principal). Manager act as a representative of investors, so managers must adhere to the policies that can increase shareholder value. The manager (agent) has an obligation to maximize the welfare and benefit of investors.

However, on the other hand the manager has other goals to maximize their expected benefit, causing the difference of interests that lead to agency conflict (Jensen and Meckling, 1976).

Agency conflict occurs when managers tend to make decisions that benefit themselves rather than the interests of shareholders (Jensen and Meckling, 1976). Management is acting inappropriately to the interests of principal may cause the higher of agency cost (agency cost). Agency costs represent costs incurred over the owner or manager to organize and control performance of management so that they work for benefit of company (Jensen, 1986). Agency costs are high, affecting the business activities of company and can harm both parties (Destriana, 2011).

The operating Expense ratio is one of the financial ratios to measure the agency cost of companies. This ratio can be indicate the level of efficiency of the company, the higher operating expense ratio show that conditions of company is poor which every sales absorbed in high cost, so that low income. Operating expenses reflecting managerial discretion in spending resources of the company (Florackis, 2008) such as fancy furniture, resort properties, and automobile (Alfadhl et al, 2013). The higher ratio indicates the high of agency cost, in otherwise, low expense ratio indicates the lower of agency cost.

The higher of sales or the smaller total sales, general, and administrative expenses, then lower the operating expenses ratio will be. The following are average of sales data all sectors listed in Indonesia Stock Exchange 2011-2015:

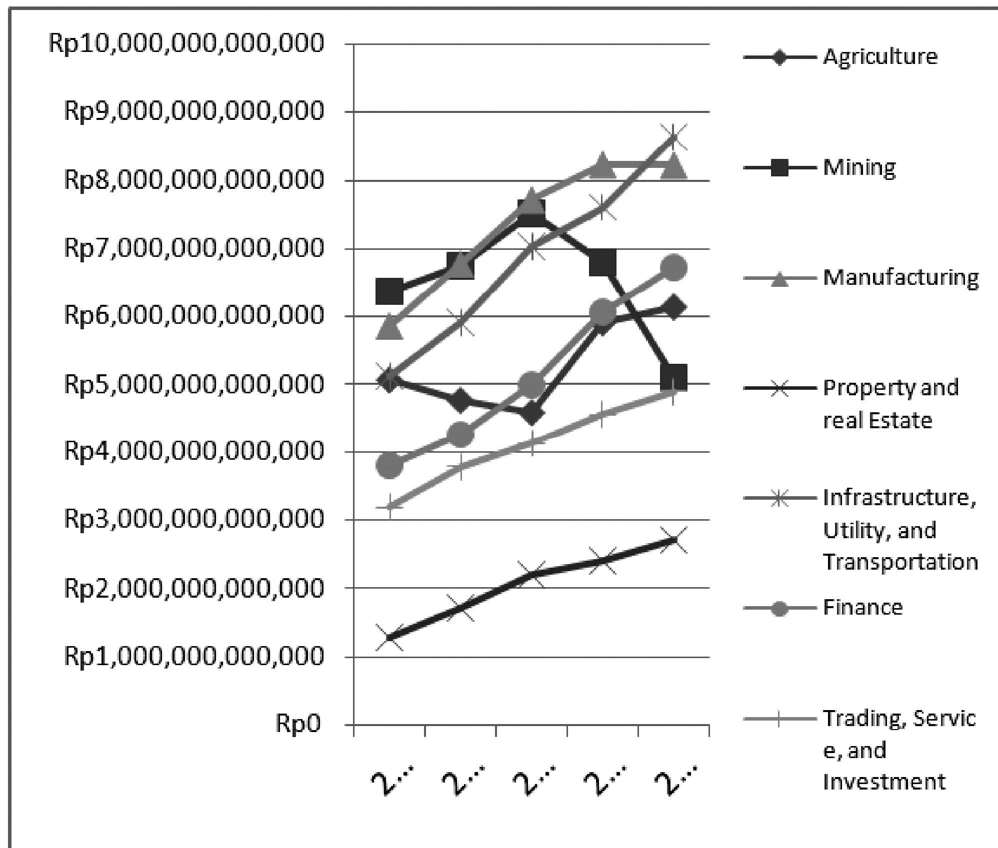

Figure 1: Average of Sales All Sector Period 2011-2015

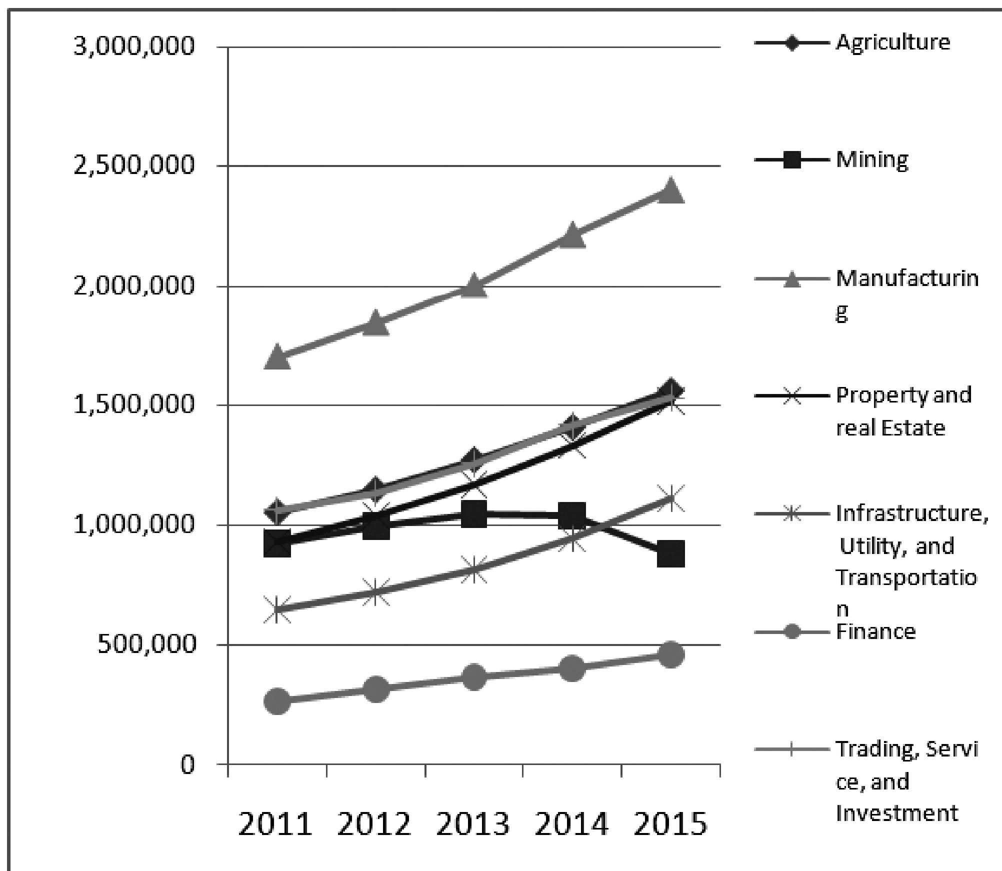

Figure 2: Gross Domestic Bruto All Sector Period 2011-2015

Based on the chart above, the manufacturing sector has the highest average of sales in the year 2012 to 2014. The mining sector has the highest average of sales in 2011 but decreased significantly in 2013 and 2015. Although the infrastructure, utilities and transport sector have the highest- average of sales in 2015, but from 2011-2014 the average sales are still below manufacturing sector. In addition, the manufacturing sector is a major component of the national economy and has an important role in national development. Industry Minister expose the year 2012 the national manufacturing industry reached the growth as much as 6.40%. The figure was higher than the economic growth in 2012, which amounted as much as 6.23%. The branches of industry which has high growth are enjoyed by the sector fertilizer, chemicals, and materials of rubber with 10.25%, cement and non-metal mineral products by 7.85%, food industry, beverages, and tobacco by 7.74%, as well as industrial transport equipment, machinery, and equipment of 6.94% (Media industry Magazine, 2013). Can be evidenced from total of Gross Domestic Product manufacturing sector is higher than in other sectors. Following the data of Gross Domestic Product of each sector of the years 2011-2015:

Gross Domestic Product (GDP) is the total production of goods and services produced by the unit production in an area at a particular time. Based on the table above the manufacturing sector has the highest GDP number compared to other sectors. The level of GDP is higher indicatingthat the manufacturing sector company performance was good. The managers are supposed to take actions for the interests of investors to manage the company assetsoptimally to increase sales and to contribute the economic growth of the country. These conditions can increase the firm value and increased trust of shareholders (principal)

to the manager (agent), so that the lower agency cost. Hence, the manufacturing sector has been selected as a research object.

Agency conflictis related to the implementation of corporate governance mechanism of company. Corporate governance aims to prevent agency problems (Destriana, 2011). Based on the definition of Krisnauli and Hadiprajitno (2014) concerning the corporate governance mechanisms include independent board size, the size of the board of directors, audit committee and ownership structure which are managerial ownership and institutional ownership. Beside of five independent variables, such leverage may also affect on agency cost (Florackis, 2008).

The size of the board is one of the important aspects of the implementation of corporate governance. Size of the board of directors may affect the effectiveness of the decision-making activities of the company. Increasing the size and diversity of the board of directors will provide more benefits for the company because it created a network with outside parties of companies to ensure the availability of resources (Faisal, 2004). That is done to make the right decisions and to minimize the agency cost. According to Faisal (2004) there is a significant negative relationship between board size with agency cost. Contrary to Florackis (2008) which argues that the size of the board of directors has a significant positive effect on agency cost.

In addition, relaed to the size of the board of directors, Henry (2007) argues that the size of independent commissioners (board independence) is the main internal control mechanism that monitoring managers then can reduce the agency cost. Fama and Jensen (1983) argue that independent directors would be more effective to monitor the management. The monitoring by an independent commissioner assessed is able to solve the agency problem. Independent commissioners can contribute to reduce agency cost. Research of Handiprajitno (2013) states that independent board has significant positive relationship on agency cost. This is contrary with Sanjaya and Christiani (2012) that independent board has significant negative effect on agency cost.

According Alfadhl et al. (2013), managerial ownership has a role of motivation to make managers interested in maximizing the benefits and reducing agency costs. This is because the manager takes role as agent as well as the owner of the company, so it will reduce fraudulent by managers. Thus, it indirectly can bring together both investors (principal) and the manager (agent). Alfadhl and Allabullah (2013) explain that managerial ownership has a positive relationship significantly on agency cost. Research of Handoko (2014) also suggested positive relationship between managerial ownership and agency cost, but this relationship is not significant. These results are contrary with Ang et al. (2000) that managerial ownership hassignificant negative effect on agency cost. Faisal (2004) also suggested a negative relationship between managerial ownership on agency cost but not significant.

Institutional ownership is shares owned by institutional as monitoring parts of the company (Destriana, 2011). Enhancement of institutional ownership led performance of managers optimally monitored and protected from opportunistic behavior. The institutional ownership acts as a deterrent against waste conducted by the management so that the agency cost is low (Faisal, 2004). McKnight and Weir (2009) suggested a positive relationship between institutional ownership and agency cost. Meanwhile, Krisnauli and Hadiprajitno (2014) argue that the proportion of institutional ownership has a positive effect but not significantly on agency costs. In contrast to Handiprajitno (2013) that explains that a

negative relationship between institutional ownership on agency cost. Saputro and Syafruddin (2012) reported a negative association, but not significant between institutional ownership and agency cost. The existence of an effective audit committee is also one good corporate governance mechanism. Audit committee can improve the monitoring of the management. It will encourage management to improve the efficiency of management of its assets, as well as avoiding fraud by management. Handiprajitno (2013) suggested a positive relationship between the audit committee and agency cost. In contrast to research Friantin and Laksmono (2012) which explains that audit committee does not affect on agency cost.

Agency cost also be controlled with the use of debt (leverage). According Crutchley and Hansen (1989), the use of debt is expected to reduce the agency conflict. The addition of debt reduce free cash flow available for the manager has an obligation to pay its interest obligations. Research of Florackis (2008) states that there is a negative relationship between the agency cost and leverage proxied by debt to asset ratio. Ang et al. (2000) also suggested a negative correlation debt to asset ratio (DAR) to the agency cost proxied by the expense ratio, but not significant. In contrast to Handoko (2014) leverage affects the agency cost positively, but not significant.

Based on the background of the problem, a phenomenon, and research gaps previous studies, the authors conducted a study entitled "Effect of Leverage, Independent Commissioner, Board Size, Managerial Ownership, Institutional Ownership, and the Audit Committee on Agency Cost in manufacturing companies listed in Indonesia Stock Exchange period 2011-2015".

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a theory to explain relationship between shareholders (principal) and the manager (agent). Principal gives responsibilities to professionals who understand the business to manage assets of the company which to achieve their purpose. They work for the interests of the company, so manager acts as the agent of the shareholders. Jensen and Meckling (1976) argue that the separation of these functions is very vulnerable with agency conflict (conflict of interest).

The agency conflict occurs between owners and managers because of the possibility of the manager acted not quite according to the interests of the principal. The management and owners do not always have the same interests. Conflict of interests between owners and management lies in maximizing the benefits of principal with the constraints, the benefits (utility), and the incentives that will be received by the management (Sunarto, 2009).

Management can take actions that the unprofitable for the company as a whole which over a long time could harm the interests of the company. Even to achieve their interest expects using accounting management could act as a tool for engineering, hence, the agency problem arises any divergence interests between principal and manager. Shareholders as a provider of funds and facilities, has an interest secure funds and facility for the operation of the company because shareholders concerned over the safety of the funds that has been invested in the company. The manager of the company gets a salary from the company, so their decisions are expected to prosperous shareholders (Fujianti, 2012).

Agency Cost

The conflict between shareholders and managers lead presence of agency costs. Agency costs are costs incurred by shareholders or management in order to encourage directors to work maximize the share price rather than working as their own interests. According to Jensen and Meckling (1976) agency problem can raises agency cost which consists of:

a. The monitoring of expenditure by the principle, is monitoring costs incurred by the principal to supervise the conduct of the agent in managing the company. Example: paying an auditor to audit the financial statements of companies and insurance to protect assets of the company.

b. The bounding expenditure by the agent (bounding cost), which are expenses incurred by the agent to ensure that the agent does not act adverse principal. Example: fluency in paying interest on debt, the implementation of a proper accounting system so as to produce financial statements in accordance with the needs of the principal.

c. The Residual Loss, is the reduction of principal or agent utility for their agency relationship. utilizing facility of the company such excessive spending on official travel and first-class accommodation, luxurious official cars or in other words the cost were not for the benefit of the company.

Signalling Theory

Signalling theory is a theory to explain how should be signs of success or failure of the management (agent) is delivered to the owner (principal). Signalling theory discuss encouragement companies to provide information to external parties. These encouragements are caused by asymmetry information between management and external parties (Retno and Priantina, 2012). Modignali and Miller assume that investors have the same information about the prospects of company as managers, it is called symmetric information. But in fact, the managers often have better information than the investors' outsiders; this is called asymmetric information (Brigham and Houston, 2006: 38). Asymmetric information could cause agency cost.

One of signsn is given by the manager of the company through funding decision. Companies with very favorable prospects will try to avoid the sale of shares and prefer getting a capital with new ways that others, includes using debt outside the normal target. Conversely, a company with unfavorable prospects will want to sell the shares, which means attract new investors to share their losses. (Brigham and Houston, 2006: 39)

Good Corporate Governance

Corporate governance is a governance system that regulates and controls companies that create value added to all stakeholders. Good Corporate Governance is a governance system which is applied in a company as anticipatory measures to overcome the agency problems or agency conflict. The high agency cost can be caused by the bad implementation of governance systems. Core et al. (1999) describes that the company faces the higher of agency problem when the structure of corporate governance is weak. Hence, it needs implementation of Good Corporate Governance (GCG).

Implementation of Good Corporate Governance provides many benefits both the company and other parties that have direct and indirect relationship with the company. Benefits of good corporate governance for the company according to IICG (in Setyaningsih, 2014) are as follows:

a. Minimize The Agency Cost: Shareholders should bear the costs arising from the delegation of authority to management. These costs can include loss because management uses company resources for personal benefit or monitoring cost that must be issued by the company to prevent it.

b. Minimize The Cost of Capital: A good company will create a positive reference for creditors. This condition is important in minimizing the capital cost to be borne if the company will apply for a loan, beside it can stream financial performance. Moreover,it makes the company products become more competitive.

c. Increase the Value of Company Stock: A company that has good managing and good condition will attract investors to invest their capital. A survey conducted by Russell Reynolds Associates (1977) revealed that the quality of the board of directors is one of the main factors considered by institutional investors before deciding to buy the company stock.

d. Lifting the Corporate Image: The company image is an important factor that is closely associated with the performance and the company presence on public and particularly investors. Image of a company sometimes will needa very large cost compared with profit of company to improve that image.

IDENTIFICATION FACTORS THAT AFFECT AGENCY COST

Leverage

Debt policy has a disciplinary effect on the manager'sbehavior. The increase of debt increases leverage, thus increasing the possibility of bankruptcy or financial distress. Bankruptcy encourages the better performance of managers. Companies with high debt levels will be controlled by the debtor and hence the manager only has a small chance to do activities that are worthless. Moreover, the use of debt (leverage) will decrease free cash flow provided by the manager (Jensen, 1986). Debt interest payments to creditors will reduce free cash flow available to managers so as to limit the over investment problem (Harvey et al., 2004). So that the burden of operating is low and can minimize agency cost.

Independent Commissioner

Independent commissioner is a member of board directors who has no affiliated with the directors, commissioners and other controlling shareholders, as well as free of a business relationship or other relationship that could affect its ability to act independently or act solely in interests of the company. According to the Client (2002), the company with a high proportion of independent commissioners have low financial fraud. Supervision of independent directors will also reduce the discretion of management. Therefore, the independent directors can improve monitoring and control, so can reduce agency cost.

Board Size

The guidance of Good Corporate Governance Indonesia in 2006 describes that board of directors as the organ in charge of and responsible collegially in managing the company. Each member of the board of directors can perform their obligation and decision making in accordance with the division of duties and responsibilities. Large size of the board directors is more powerful than small ones. According Florackis

(2008) the size of a large board of directors can help strengthen relationships between companies and their environment, to give advice and suggestions regarding the company strategic decisions and plays an important role in creating a corporate identity. So the large size of the board of directors is expected to produce strategic decisions optimally in the company operations so it can reduce agency conflict and agency cost.

Managerial Ownership

Managerial ownership is the amount of shares owned by the management as the board of directors or board of commissioners. The size of managerial stock ownership in the company may indicate similarities between the interests of shareholders with management (Faisal, 2004). Managers are not shareholders are likely to be concerned with their own interests. The greater managerial ownership in the company will encourage the management to come to feel the company so their decision making will have a direct impact on management (Destriana, 2011). Agency conflict is reduced and so as agency cost.

Institutional Ownership

Institutional ownership is the amount of shares owned by companies such as insurers, banks, government agency, and other agencies. Institutional ownership in the company acts as a party which company monitoring. Increased institutional ownership led to monitoring managers performance optimally and protected from opportunistic behavior. The increase of institutional ownership will lead to a more efficient the utilization of the company assets, so that institutional ownership act as a deterrent against waste conducted by the management so that the lower agency cost (Faisal, 2004).

Audit Committee

The audit committee is a committee established by the board of commissioners to control corporate management. Moreover, the audit committee is considered as the link between the shareholders and the board of commissioners with management to solve controlling problem or the possibility arise of the agency problem. The existence of the audit committee can improve the monitoring of the management, so it will encourage management to improve the efficiency of asset organize, then avoid fraudulent by management. According to Handoko (2014) when the audit committee properly undertakes their function is to help commissioners conduct oversight of the company performance, the management will focus on improving performance for the prosperity of shareholders so as to reduce agency cost.

Based on the formulation of the problem, the theoretical overview, and the results of previous studies, the researh hypothesis are:

H1: Leverage has negative effect on agency cost.

H2: independent commissioner has negative effect on agency cost.

H3: Board size has negative effect on agency cost.

H4: Managerial ownership has negative effect on agency cost.

H5: institutional ownership has negative affect on agency cost.

H6: The audit committee has negative effect on agency cost.

RESEARCH METHOD

The type of this research is conclusive causal as objective to obtain evidence of a causal relationship between leverage, independent commissioners, board size, managerial ownership, institutional ownership, and audit committee on agency cost.

The source of research data was gotten from the secondary data, because the data was obtained indirectly, the data which have been published on Indonesia Stock Exchange (www.idx.co.id). The data used are the financial statements of manufacturing companies sector period 2011-2015.

The research population is the manufacturing company sector that have been go public and listed on Indonesia Stock Exchange period 2011-2015. The samples used purposive sampling techniques, the manufacturing companies sector that publish annual reports during 2011-2015, that contains data of the variables needed for this study. The number of samples in this study are 47 companies. But there are some companies having outlier data that should be excluded from the research sample, and then the total sample is 38 companies.

The data were analyzed using IBM SPSS version 20 that is multiple regression linear tests aimed to determine the effect of independent variables on the dependent variable. Before the multiple regression analysis performed first performed classical assumption that aims to test a regression model in order to avoid bias or regression model BLUE (Best Linear Unbiased Estimator). The accuracy of the regression function in interpreting the actual value can be measured by the coefficient of determination, the value of F statistics and values of t statistics (Ghozali, 2013: 97).

The research variables were divided into two, dependent variable and independent variable. The dependent variable (Y) is agency cost proxied by Operating Expenses Ratio. Faizal (2004) explain that the SG & A ratio reflecting the managerial discretion to utilize company resources. The greater size of management discretion showing the higher of agency costs. The expense of managerial discretion is the expenses arising from the managerial policy of the company, the higher ratio show that the managers are less optimal in decision or policy making that causing high operating costs and high agency cost. The higher operating expenses ratio means that the company uses excessive fees that are used by the manager to get fancy things related offices, such as luxury furniture, resort properties, and cars (Alfadhl and Alabdullah, 2013). Operating Expenses Ratio uses the formula:

$$\text{Operating Expenses Ratio} = \frac{\text{Sales, General and Administrative Expenses}}{\text{Total Sales}} \quad (1)$$

The research independent variables include: Leverage (X1), Independent Commissioner (X2), Board Size (X3), Managerial Ownership (X4), Institutional Ownership (X5), and Audit Committee (X6).

Leverage

This ratio indicates the proportion of the use of debt by the company. The proxy is used to measure the leverage ratio, that is debt to total assets ratio (DAR). According Nazie et al. (2012) DAR use the formula:

$$LEV_{it} = \frac{\text{Total Debt}}{\text{Total Asset}} \times 100 \quad (2)$$

Independent Commissioner

Independent Commissioner is commissioners who have not affiliated with the directors, as well as free of a business relationship or any relatiosnhip that may affect their ability to act independently in the company. According Handiprajitno (2013) independent commissioner is calculated by:

$$KOMINDP_{it} = \frac{\sum \text{the total number of independent commissioner}}{\text{the total number of commissioner on the board}} \quad (3)$$

Board Size

The board of directors, according to guidance of Good Corporate Governance Indonesia in 2006 is an organ of the company that responsible colleagues in managing. The size of the board of directors influences how the company operational processes. According Florackis (2008) board size is the total amount of board of directors in the company:

$$BOARD_{it} = \text{the total numberof directors on the board}_{it} \quad (4)$$

Managerial Ownership

Managerial ownership is the amount of share owned by the board of directors and board of commissioners. The size of the managerial ownership may indicate similarities between the interests of shareholders with management (Faisal, 2004). According to Singh and Davidson (2003) managerial ownership can be calculated by:

$$KM_{it} = \frac{\sum \text{shares owned by board of director and board of commissioner}}{\sum \text{the total number of shares outstanding}} \times 100\% \quad (5)$$

Institutional Ownership

Institutional ownership is the amount of share owned by the government, financial institutions, institutional legal entities, foreign institutions, trust funds and other institutions at the end of the year (Shien et al., 2006). According Gul et al. (2012) institutional ownership can be calculated by:

$$KI_{it} = \frac{\sum \text{shares owned by intitution}}{\sum \text{the total number of shares outstanding}} \times 100\% \quad (6)$$

Audit Committee

The audit committee is a committee established by the board of commissioners to control corporate management. The audit committee can minimize the fraud by management. In this study, the audit committee is the total number of audit committees on the company refers to research Handoko (2014).

$$KA_{it} = \sum \text{ the total number of audit committee} \quad (7)$$

RESULT AND DISCUSSION

Result

The results using multiple linear regression showed results of F test (simultaneous test), calculated F value of 9.738 with sig 0,000 ≤ 0.05 so it can be concluded that the variable leverage, independent commissioners, board size, managerial ownership, institutional ownership, and the audit committee has simultaneouseffect on agency cost.

Tabel 1
Result of Statistic Test

Model	Uji t			*Result*
	B	*t*	*Sig.*	
Constant	0.785	3.285	0.001	
X1	-0.029	-6.087	0.000	Negatively effect
X2	-0.131	-1.245	0.215	Has no effect
X3	0.021	1.099	0.273	Has no effect
X4	-0.027	-4.018	0.000	Negatively effect
X5	-0.033	-4.285	0.000	Negatively effect
X6	0.035	0.276	0.783	Has no effect
	Uji F		0.000	Simultaneouly effect
	Adjusted R^2			0.227

Source: Output SPSS, 2016

Table 1 present the statistic results of t test (partial test), leverage on agency cost has a coefficient value -0029 and the level sig. 0.000 < 0.05. Based on these results leverage has negative effect on agency cost. Independent commissioners of the agency cost has a coefficient value -0.131 and the level sig. 0.215 > 0.05. Based on the results of an independent commissioner has no effect on agency cost. Board size to the agency cost has a coefficient 0.021 and the level sig. 0.273 > 0.05. Based on these results the board size has no affect on agency cost. Managerial ownership to the agency cost has a coefficient value -0.027 and the level sig. 0.000 < 0.05. Based on these results managerial ownership has negative effect on agency cost. Institutional ownership on the agency cost has a coefficient value -0033 and the level sig. 0.000 < 0.05. Based on the results of institutional ownership negatively effect on agency cost. The audit committee on the agency cost has a coefficient 0.035 and the level sig. 0.783> 0.05. Based on the results of the audit committee has no effect on agency cost. Based on the analysis of the multiple linear regression equation can be formulated as follows:

$$\textit{Agency cost} = 0{,}785 - 0{,}029\ \textit{LEV} - 0{,}027\ \text{KM} - 0{,}033\ \text{KI} + e$$

The coefficient of determination (R^2) seen in Adjusted R^2 in Table 2 has a value of 0.227 (22.7%). This demonstrates the ability of the model to explain variations of dependent variable, where the independent variables affect dependent variable 22.7%. While the remaining 77.3% is explained by the independent variables beside research variables.

DISCUSSION

Effect of Leverage on Agency Cost

The results indicate that leverage has negative effect on agency cost. These results are consistent with the research hypothesis. These results are consistent with studies such as Florackis (2008) and Nazir et al. (2012) which explain that the leverage has negative effect on agency cost. Leverage may affect the agency cost in the company. First, the higher the debt can reduce the amount of free cash flow available for managers to invest (Jensen, 1986), because the higher of debt, causing company has an obligation to pay interest on the debt no matter the amount of corporate profits. Thus, the opportunistic behavior of managers can be limited by not making investments that not benefit the company. Second, the increased of leverage could increase the monitoring conducted by the creditor that will encourage managers to perform that benefit the company business (Ang et al., 2000). So agency conflict can reduce and so as agency cost.

The lower operating expenses ratio indicates that the lower agency cost is because operating expenses ratio describe the management discretion or management policy. If the management policy is appropriate for the firm, the expenses incurred by the company is low compared to the benefits obtained.

Effect of Independent Commissioner on Agency Cost

The results of this study indicate that independent commissioner has no effect on agency cost. These results are not consistent with the research hypothesis that is independent commissioner has negatively effect to agency cost. The existence of board of directors, according Kep / 305 / BEJ / 07-2004 item 1-C which explain that listed companies must have an Independent Commissioner at least 30% (thirty percent) from total members of the Board of Commissioners to choose first through RUPS before recording and begin effectively acts as Independent Commissioner, after the company's shares are listed. With the existence of these regulations, the presence of independent directors was formed only to complete regulatory, so their effectiveness to control performance of the board of directors are not optimal. This can be evidenced in the data from the 180 research data, 93 data have proportion board of commissioner for 33%. This causes independent commissioner has no effect on agency cost. The results are consistent with Handoko (2014) explain that an independent commissioner has no effect on agency cost.

Effect of Board Size on Agency Cost

The results of this study showed that the board of directors has no positive effect on agency cost. These results contrast with Faisal (2004) explain that that the board of directors has negative effect on agency cost. These results could have occurred because of the asymmetric information which management has better information than investors so as to make the board become apathetic to the interests of the people and concerned with its own interests causing the higher of agency conflict. Board size has no effect on agency cost due to its small amount. Evidenced by stasitic descriptive data showed that the average number of board of directors 4.42 people. So the board size does not affect agency cost. These results are consistent with Friantin and Laksono (2012) which explain that the board size has no effect on agency cost.

Effect of Managerial Ownership on Agency Cost

Crutchley and Hansen (1989) argue that the company increases the managerial ownership to align managerial position with shareholders that act in accordance the interest of shareholders. The results of this study

indicate that managerial ownership has negative affect to agency cost consistent with the research hypothesis. These results are consistent with studies such as Ang et al. (2000) and Wellalage and Locke (2011). The more enhancing proportion of managerial ownership will make the better company performance because managers felt partially owning the company. Investment decisions take into consideration of the interests of shareholders so that the investments taken appropriate, benefits to be higher than the costs or expenses incurred.

Effect of Institutional Ownership on Agency Cost

Institutional ownership act as a company monitoring party. The higher is institutional ownership will utilize company assets efficiently. Additionally, institutional ownership acts as a waste deterrent conducted by the management (Faisal, 2004). The percentage of institutional ownership in a company encourages managers to focus on long-term goals rather than short-term, so it will reduce the conflict between shareholders and management, son can reduce agency cost.

This study showed a negative correlation significantly between institutional ownership and agency cost. These results are consistent with Handiprajitna (2013) which explain that institutional ownership has negatively affect to agency cost. Institutions ownership in majority has a stronger management control, so as to reduce agency costs (Shleifer and Vishny, 1986).

Effect of Audit Committee on Agency Cost

This study shows that the audit committee has no effect on agency cost. These results are not consistent with the research hypothesis. This is posibility because the size of audit committee according Kep / 305 / BEJ / 07-2004 item 1-A explain that the Audit Committee consisting at least 3 members, one of whom is an independent commissioner listed company who also serves as chairman of the audit committee, while the other members are independent external party where at least one of them has the ability in the field of accounting and finance. The sample of research data for audit committee has 3 people for minimun and 4 people for maximum during the years of the study. The sample of data has proved that 172 audit committee as many as 3 people and 8 data as many as 4 people. It is proved that the audit committee was set up just to meet existing regulations. So that the effectiveness of the audit committee in supervisory functions is less optimal and does not affect on agency cost. These results are consistent with Friantin and Laksono (2012) explain that the audit committee did not affect agency cost.

CONCLUSION

Based on the explanation and analysis above, it can be drawn conclusion as follows: (1) leverage has significant negative effect on agency cost (2) independent commissioner has no effect on agency cost (3) board size does not affect the agency cost (4) managerial ownership has significant negative effect on agency cost (5) institutional ownership has negative effect on agency cost (6) the audit committee does not affect the agency cost.

Advice can be given to investors who will invest based on the results of this research that should take into account the level of leverage, managerial ownership, institutional ownership company investment purposes because it can indicate the level of agency conflict that would affect the company performance.

For further research is recommended to use other independent variables besides the research variables such as board remuneration, nomination commite, or block ownership.

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