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Agency Cost, Firm Performance, Corporate Governance: Evidence from Indonesia

Authors : Arnold Sanda Layuk

Abstract : Fraud in the disclosure of financial statements by management shows that agency conflict is an important issue in the company. The conflict has consequences for the agency costs that must be borne and has an impact on the firm's performance. The effect of agency costs on firm performance is investigated in this study, as well as whether several variables such as corporate governance mechanisms can positively moderate the agency cost and firm performance relationship. The agency cost is measured by the asset utilization ratio and discretionary expenditure ratio. The firm's performance is represented by the return on equity. Data was collected from the manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2019, then regressed on the panel data using the panel corrected standard error model (PCSE). According to the findings, agency costs are negatively related to firm performance, which supports previous empirical research findings. It also found that the agency cost and firm performance relationship is significantly moderated by board size and ownership concentration as the representatives of corporate governance mechanisms. It suggests that corporate governance can become tools to reduce agency costs and increase firm performance as well. The empirical evidence adds to previous research on agency conflict, particularly in emerging markets. These findings are expected to supplement previous research and provide additional information to shareholders in order to control opportunistic management decisions that affect their investments and discretionary operational expenses.

Keywords : agency cost, corporate governance, asset utilization ratio, firm performance
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