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The Effect of Dividend Policy, Good Corporate Governance Mechanism, And Audit Quality on Agency Cost

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ABSTRACT

This study is to analyze the effect of dividend policy, good corporate governance mechanisms, and audit quality on agency costs in manufacturing companies that conduct IPOs on the Indonesia Stock Exchange in the 2017-2020 period. In Indonesia, there are many companies that have relationships with agency costs, especially companies whose managers and owners of capital are different, such as companies listed on the Indonesia Stock Exchange (IDX). This research is essentially a form of quantitative research that uses secondary data, namely the company's annual report. This study used a sample of 132 companies in the manufacturing sector. The technique for analyzing the data in this study test a regression model selection test, classical assumption test, multiple linear regression, f test, and individual hypothesis testing (t test). According to the results of data analysis, it can be concluded that dividend policy, audit committee, audit quality, and institutional ownership has no effect on agency costs. In the other hand, independent commissioners have a significant negative effect on agency costs.
Keywords: Dividend Policy, Good Corporate Governance Mechanism, Audit Quality, and Agency Cost.

INTRODUCTION

The development of the business world has become something that must be faced by adjusting and following these developments. Because of these developments, of course, business people must be able to take steps to be able to continue to compete with other companies. One of the actions that can be taken is to enlarge the business by expanding the business. Companies usually if they need large enough funds, they use the help of investors from external companies. For this reason, an agent (company) will be formed as a capital manager and also a principal (investor) as a provider of capital or a reciprocal/agency relationship (Learmount, 2003). According to Jensen & Meckling (1976) Agency theory is a relationship that occurs on group or individual contracts, namely the principal who will give authority to other parties who act as capital managers or agents to carry out work on behalf of the principal and this authority must be in accordance with the expectations of the principal. This reciprocal relationship creates a problem called the agency problem. To

overcome agency problems, it is necessary to have costs incurred which are commonly called agency costs. according to Jensen & Meckling (1976) Agency cost is any cost spended in order to minimize agency problems between the agent and the principal. The relation between independent and dependent variable is the number of agency costs incurred by the company varies, one of which is influenced by dividend policy, good corporate governance mechanisms, and audit quality.

Various cases that occurred in Indonesia that have a relationship with agency costs, one of which is the case of PT Tiga Pilar Sejahtera. The company, which operates in the consumer goods sector, faced problems when the government found findings related to rice harvesting by a subsidiary of PT Tiga Pilar Sejahtera named PT Indo Beras Unggul (CNBC, 2019). Another case that has implications for the decline in the welfare of the principal and company managers is the case of PT Mitra Adi Perkasa, Tbk. The company has an outlet called Starbucks Indonesia. The outlet was caught in a case by one of its employees in which the employee harassed customers.

Dividend policy is crucial in controlling the agent. Dividend policy is an integral part of policies and decisions in corporate funding. According to research from Hamdan (2018) dividend policy has a negative effect on agency costs where dividend policy increases, then the level of agency costs. company is declining. Research from Handayani (2020) also stated that dividend policy has an effect on agency costs. Research from Ranjita (2019) states that dividend policy has a positive effect on agency costs. On the other hand, research conducted by Burhanudin & Handayani (2018) states that dividend policy has no effect on agency costs. Research from Yuliandini et al.(2020) participated stated that the dividend policy had no effect on agency costs. The differences occurred because each company has not paid attention to the importance of dividends in influencing agency costs.

Another factor that influences agency costs is good corporate governance. Good corporate governance mechanisms have a role in influencing agency costs, one of which is the existence of an audit committee, company ownership structure and also an independent board of commissioners. Based on Article 70 paragraph (1) of Law No. 19 of 2003 talking SOEs, the commissioners and supervisory boards of SOEs are required to form an audit committee. according to Pratiwi et al. (2016) The audit committee is a part of the company to monitor the management of a company. With the presence of the audit committee, in essence it will make the company's internal control better. Research conducted by Farooq et al. (2018) explained that the audit committee has a significant negative effect on agency costs. Research from Handoko (2015) that the audit committee has an effect on agency costs. Research from Ariningrum & Diyanty (2017) states that the audit committee has a positive effect on agency costs. On the other hand, research conducted by Karasneh & Bataineh (2018) that the audit committee has no effect on agency costs. Research from Ayunitha et al. (2020) also stated that the audit committee has no influence on agency costs. These differences occured because the function of the audit committee is still not effective.

In addition, the ownership structure in a company has implications for agency costs. Ownership that comes from external to the company can be owned by certain institutions or institutions. according to Pratiwi et al. (2016) Institutional ownership is shares had by

government entities, legal entities, foreign institutions, financial institutions, trusted funds, and other institutions. According to Dharmastuti (2013) companies whose shares are mostly owned by institutions (more than 5%) then the institution is able to oversee the company as a whole so that agency costs can be minimized. Research conducted by Chaudhary (2021) proves that sensitive institutional ownership has no effect on agency costs. research conducted by Sintyawati & Made (2018) stated that institutional ownership has a significant negative effect on agency costs. Research from Tee et al. (2017) stated that institutional ownership has a positive effect on agency costs. These differences occured because there is still intervention from institutional ownership.

In addition, the independent board of commissioners has a crucial role in providing oversight and also input for the company's directors. An independent commissioner is a party who is not related to the principal or agent and does not serve as a director of a business entity that has a relationship with the owner of the company (Fadillah, 2017). In Indonesia itself, BAPEPAM-LK No.IX.I.5 regulates the portion of the independent board of commissioners in an entity, which is at least 30%. In addition, the Regulation of the Minister of State-Owned Enterprises No.PER-01/MBU/2011 states that the independent board of commissioners is at least 20%. Research from Ayunitha et al. (2020) said that the board of commissioners has a positive influence on agency costs. Research from Al-Kahfi et al. (2021) states that the independent board of commissioners has a positive effect on agency costs. On the other hand, research conducted by Putri (2017) independent board of commissioners has no effect on agency costs. These differences occurred due to differences in the industrial sectors studied.

Based on article 68 paragraph I of Law No. 40 of 2017 talking about limited liability companies, it is said that the board of directors is required to submit the company's financial statements to a public accountant for audit. If the company's business is to collect or manage public funds, the company issues a debt acknowledgment paper to the public. With the existence of a quality audit, of course, the abuses committed by agents are expected to be minimized so that it can also have implications for the decrease in agency costs incurred. according to DeAngelo (1981) Audit quality is basically the probability of a combination to know and report material errors or errors in the financial statements submitted by the agent. Research conducted by Siregar (2015) audit quality has no significant effect on agency costs. Other research conducted by Kamel Okasha et al. (2019) say that audit quality has a positive effect on agency costs. Research conducted by Dang & Fang (2011) that audit quality has a negative effect on agency costs. These differences occured because audit quality does not guarantee the detection of fraud.

Referring to the phenomena that have been elaborated above, the researcher intends to carry out further research on the factors that affect agency costs. This research try to give several contribution. Firstly, this study try to examine three aspect namely dividend policy, audit committee, and audit quality all together in one testing model. Second, this use newest data from manufacturing sector on the Indonesia Stock Exchange in 2017-2020. Third, we looks at good corporate governance from the internal and external side of the company. Based on the elaboration in the existing background section, the author builds several problem formulations including Does dividend policy have a negative effect on agency costs? Does

the audit committee have a negative influence on agency costs? Does institutional ownership have a negative effect on agency costs? Does an independent board of commissioners have a negative influence on agency costs? Does audit quality have a negative effect on agency costs? Referring to the background and problem formulation described above, the purpose of this study is to analyze the effect of dividend policy, good corporate governance mechanisms, and audit quality on agency costs.

The concept of international political economy emerged in the 19th century. By definition, international political economy studies the economic interactions of political organizations or political actors and the impact of processes between economic institutions on domestic politics. IPE examines how the international system is formed, what roles state and non-state actors play in this process, which actors win and lose, and how the system affects the domestic and foreign policies of states. Its primary emphasis is divided into three categories: mercantilism, liberalism, and structuralism. The pioneer of mercantilism is Alexander Hamilton (1757–1804). The origins of this idea date back to the 16th century. It is an idea that seeks to promote national prosperity. It thus promotes the economic independence of nations. Later, with the movement toward economic liberalism, the idea of liberalism emerged. Its pioneers were Juan Bautista Alberdi, José María Luis, John Maynard Keynes, and Adam Smith. Economic liberalism developed for 300 years. It argues that the state should keep its hands off the economy and deal only with simple tasks. In together, structuralism was introduced by Karl Marx and advocates ideas such as workers' rights and class struggle. IPE's research interests include exchange rates, welfare policies, international trade, and integration broadly defined.

METHOD

The type of data in this study is secondary data. The population in this study are companies in the manufacturing sector listed on the Indonesia Stock Exchange (IDX) in 2017-2020. This sector was chosen because based on several studies, the manufacturing sector is the most expansive sector in recent years which is growing rapidly with a lower concentration of ownership compared to other sectors. Furthermore, based on data from the Ministry of Industry, manufacturing sector companies are one of the largest contributors to GDP in national economic growth (Kemenperin.go.id 2019). The data source used in this study is in the form of annual reports of companies in the manufacturing sector that have been listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020 and are available on the website.www.idx.co.id as well as the official website of the manufacturing company. Analysis of the data used is by using quantitative analysis techniques. While the method used is purposive sampling in which the sample is taken using certain considerations (Sugiyono, 2017 p. 85). The reason for using this purposive sampling technique is because it is suitable for use for quantitative research, or research that does not generalize. In this study, in order to determine the research sample, the researcher determined several criteria. These criteria include: Manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2020.

Conducted Initial Public Offering (IPO) before 2017. Manufacturing sector companies that did not experience delisting and carried out comprehensive annual financial reporting in the 2017-2020 reporting period.

The measurement of the variables used in this study can be explained, namely agency cost is measured using the expense ratio or selling and general administrative (SGA) (Hamdan, 2018). In this study, dividend policy is measured by the dividend payout ratio (DPR). This study measures the audit committee by the number of audit committees in the company based on research from Putri & Sukartha (2016). Institutional ownership is measured by the ratio of institutional ownership in companies based on research from Karasneh & Bataineh (2018). The independent board of commissioners is measured by the percentage of independent commissioners based on the research of Putri & Sukartha (2016). audit quality is measured by the size of the public accounting firm using a dummy variable, namely giving a number 1 for companies that use the services of a big four public accounting firm and a number 0 for companies that use the services of a public accounting firm that is not included in the big four based on research from Kamel Okasha et al. (2019).

This study utilizes multiple linear tests to test regression models and predictions regarding more than one independent variable or predictor.

In addition, for the regression model used in this study, namely:

$$ERO = \alpha + \beta_1 DPR + \beta_2 ACE + \beta_3 IOP + \beta_4 BIC + \beta_5 AQY \quad ...\text{.....}(1)$$

Information :

ERO = *Expense Ratio*
α = constant
DPR = *Dividend Policy*
ACE = *Audit Committee*
IOP = *Institutional Ownership*
BIC = *Board Independence*
AQY = *Audit Quality*
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Regression Coeficient

RESULT AND DISCUSSION

Based on the research period that has been determined, the population of manufacturing companies on the Indonesia Stock Exchange until 2020 is 193 companies. In selecting the sample, this study used certain criteria. The criteria used for determining the sample are listed on the Indonesia Stock Exchange and also reporting a comprehensive annual report from 2017 to 2020 and not delisting and having made an Initial Public Offering before 2017.

Table 1. Sample Criteria

Criteria	Number of Companies

Manufacturing companies on the Indonesia Stock Exchange from 2017 to 2020	193
Manufacturing companies conducting Initial Public Offering (IPO) 2017 and above	48
Manufacturing companies that are delisted and do not publish comprehensive annual reports from 2017 to 2020	12
The number of companies that became the research sample	**133**
Research period	**4**
Number of research samples	**532**

Referring to table 1, it can be seen that the total manufacturing corporations on the IDX from 2017-2020 were 193 companies. Of these, 48 of them were companies that were newly registered after 2017, therefore they were excluded from the sample because they did not meet the criteria for being registered consecutively during the study period. In addition, there were also 12 companies that did not have complete reports or were delisted from the IDX list, so they were excluded from the sample. Overall, a total of 133 companies were used as research samples, with a total of 532 data analyzed companies with a study period of 4 years.

Table 2. Table of Descriptive Statistical Data

Var	Obs	mean	Standard Deviation	Minimum	Maximum
ERO	528	0.1561489	0.2110425	0.0044654	3.333965
DPR	528	0.1862852	0.3229258	-1.010101	2,516129
ACE	528	3.045455	0.3046418	2	5
IOP	528	0.6965021	0.2907046	0	0.9995408
BIC	528	0.409004	0.1120276	0	1

Source: STATA v.12 output, the results of research data (2021)

Referring to the results of the data shown in Table 2, the value of the agency cost at the standard deviation of 0.21 is greater than the average value of 0.15, this shows that the agency cost has a low distribution and fluctuation. In addition, the average agency cost of 0.15 indicates that the average manufacturing company has an agency cost of 0.15 or 15% of its sales value. Referring to the results of data processing in the table above, the dividend policy has a standard deviation score of 0.32 which is greater than the average score. This indicates that the dividend policy has a low distribution and fluctuation. The average value of the dividend policy variable is 0.18 explaining that the average manufacturing company distributes dividends of 0, 18 or 18% of the profit earned and has fulfilled its obligations in order to minimize agency problems. Table 2 shows the value of the audit committee's standard deviation of 0.30 which is smaller than the average score. This indicates that the audit committee has a high distribution and fluctuation. In addition, the average score of the audit committee is 3 which indicates that the average manufacturing company has an audit

committee of 3 people which is in accordance with the minimum limit specified in terms of increasing internal control.

Table 3. Statistical Results of the Audit Quality Dummy Variable (AQY)

var_cov.	Freq.	Percent	cum.
0.00	78	59.09%	59.09%
1.00	54	40.91%	100%
Total	132	100%	

Source: STATA v.12 output, the results of research data (2021)

Referring to table 2, there is a standard deviation of the institutional ownership variable of 0.29 which is not greater than the average value. This indicates that institutional ownership has a high distribution and fluctuation. In addition, there is an average institutional ownership of 0.697, which indicates that the average manufacturing company's shares are institutionally owned by 0.697 or 69.7% which can increase supervision from external parties, namely institutions. Referring to table 2, it can be seen that the independent board of commissioners has a standard deviation of 0.11 which is not greater than the average score. This indicates that the independent board of commissioners has a high distribution and fluctuation. The average value of the independent board of commissioners is 0.

Referring to the results of data processing in table 3, this indicates that audit quality tends to be at a value of 0. This explains that on average, manufacturing companies use the services of non big four public accounting firms instead of the big four. This is of course related to the amount of company operating costs that must be incurred. If you use the services of a big four public accounting firm, of course, the cost is more expensive and has implications for increasing agency costs.

Table 4. Chow Test

Probability > F	0,0000
A	0,05

Source: STATA v.12 output, the results of research data (2021)

Based on the output in the table above, it can be explained that the Prob value < of the Alpha value, which is the correct model in the Chow Test is the Fixed Effect model.

Table 5. Lagrange Multiplier Test

Probability Chibar2	0,0000
A	0,05

Source: STATA v.12 output, the results of research data (2021)

Based on the output data in the table above, it can be explained that the value of Prob < Alpha value which in the Lagrange Multiplier Test selected is the Random Effect Model.

Table 6. Hausman Test

Probability > Chi2	0,0037
A	0,05

Source: STATA v.12 output, the results of research data (2021)

Based on the output in the table above, it can be explained that the value of Prob < Alpha value so that in the Hasuman test the Fixed Effect model was selected. Based on these testers, the model used in this test is the Fixed Effect model.

The next stage, if i already have an appropriate research model to use in this study, then there is a classical assumption test. According to (Basuki et al. 2016:297) the classical assumption test used in linear regression with the Ordinary Least Squared (OLS) model. However, in panel data regression, not all of these tests are needed because in the BLUE (Best Linear Unbias Estimator) requirements the normality test is not included and also some opinions do not require these conditions to be fulfilled. The classical assumption test used for panel data regression itself is usually only multicollinearity and also heteroscedasticity.

Table 7. Multicollinierity Test

Variable	**VIF**	**1/VIF**
IOP	5,64	0,177383
BIC	5,02	0,199284
AQY	2,00	0,500525
DPR	1,63	0,612688
ACE	1,02	0,976137
Mean VIF	3,06	

Source: STATA v.12 output, the results of research data (2021)

After the centering process was carried out on the audit committee variables, it was seen that there was no influence from one variable to another, so it can be concluded that there is no multicollinearity problem in the regression model in this study. Furthermore, Cross-sectional Time-Series FGLS Regression is used to test the hypothesis to anticipate heteroscedasticity and autocorrelation problems. Based on the table below, it can be seen that the panel data regression results obtained the F-statistic value of 1.22 with a probability of 0.0000. Therefore, because the value of the probability is less than 0.05, it can be concluded

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that H0 is rejected and H1 is accepted. As a result, there is a simultaneous effect of dividend policy, good corporate governance mechanisms, and audit quality on agency costs.

Table 8. Partial Regression Test (t Test)

Variable	Regression Model	
	Cross-sectional Time-Series FGLS Regression	
	t	Prob
DPR	-0.73	0.467
ACE	-0.53	0.599
IOP	0.78	0.434
BIC	-2.14	0.032**
AQY	-1.35	0.177
Number of Obs	528	
Adjusted R-Squared	0.0154	
F (5, 391)	1.22	
Prob (F-Statistic)	0.0000	

note: *significance 1% ** significance 5% ***significance 10%

The partial regression test or commonly called the t-test is essentially a test carried out to determine the effect of each independent variable individually on the dependent variable. If the value of probability significance has a value < alpha (α), it can be concluded that the independent variable individually has a significant influence on the dependent variable.

The first hypothesis made in this study is that dividend policy (DPR) has a negative effect on agency costs. Referring to table 10, it can be seen the probability level appears to have a value of 0.467 or greater than a significance level of 0.05 (0.467 > 0.05), which indicates there is no significant effect. So the first hypothesis is rejected. According to Burhanudin & Handayani (2018), says that dividend policy does not have a significant effect on agency costs. Yasa & Dewi (2016) also stated that the dividend policy has no significant effect on agency costs, which indicates that a high dividend policy has no effect on agency costs. This can happen because it is caused by various factors such as one of the factors from a sample of companies that are still growing so that companies tend to use existing funds in the company for company development first. Thus, because the rights of shareholders have not been fulfilled, namely in the form of dividends, of course there is a need for inspection and supervision of the funds in the company whether they are in accordance with the condition of the company that has not been able to distribute dividends so that inspection and supervision fees are included in the agency cost.

The second hypothesis made in this study is that the audit committee (ACE) has a negative effect on agency costs. Referring to table 10 above, it can be seen that the probability number itself has a score of 0.599 or greater than a significance grade of 0.05 (0.599 > 0.05), which means that there is no significant effect. So the second hypothesis is rejected. According to Putri & Sukartha (2016), stated that the audit committee did not have a significant effect on agency costs. Haryanto & Yanto (2018) also stated that the audit committee did not have a significant effect on agency costs, which indicated that a high audit committee had no effect

on agency costs incurred by the company. This is because the existence of an audit committee will certainly increase the company's operational costs even though in terms of resource management it will be better. Thus, a high audit committee will require high operational costs as well as these costs in the form of monitoring costs so that inspection and supervision costs are included in agency costs.

The third hypothesis made in this study is that institutional ownership (IOP) has a negative effect on agency costs. Referring to table 10 above, it can be seen that the probability number itself has a value of 0.434 or greater than a significance level of 0.05 (0.434 > 0.05), which means that there is no significant effect. So the third hypothesis is rejected. Hatang & Hapsari (2020) also stated that institutional ownership does not have a significant effect on agency costs, which indicates that institutional ownership does not have an intervention in terms of influencing agency costs spended by the company. This is because basically the shareholders who have majority ownership tend to have more power in terms of controlling the company either directly or even having a strategic position in the company that can control the company's management. Thus, the majority shareholder is certainly motivated to maintain the company's image such as by giving orders to managers to carry out better and more accountable management which will result in an increase in supervision costs, bonding costs which are included in agency costs.

The fourth hypothesis in this study is that the independent board of commissioners (BIC) has a negative effect on agency costs. Referring to table 10 above, it can be seen that the probability number itself has a value of 0.032 or less than a significance grade of 0.05 (0.032 < 0.05), which means that there is a significant effect. So that the fourth hypothesis is accepted. Haryanto & Yanto (2018) also stated that the independent board of commissioners has a significant negative effect on agency costs, which indicates that the independent board of commissioners has an intervention or influence in minimizing agency costs incurred by companies, especially in manufacturing sector companies listed on the Indonesia Stock Exchange. This is because independent commissioners have a role in supervising and acting as guardians of the company's shareholders and have a good level of independence. The higher the level of the independent board of commissioners, of course, it will minimize agency problems which have implications for the decrease in agency costs paid by the company.

The fifth hypothesis in this study is that audit quality (AQY) has a negative effect on agency costs. Based on table 10 above, it can be seen that the probability number itself has a value of 0.177 or greater than a significance grade of 0.05 (0.177 > 0.05), which means that there is no significant effect so the fifth hypothesis is rejected. Based on these tests, it can be concluded that the audit quality variable does not have a significant negative effect on agency costs. According to Beshkooh et al. (2013) explained that audit quality has no relationship with agency costs where audit quality has no influence in minimizing agency costs paid by the company. This is because the audit quality provided by the big four audit firm certainly has implications for high audit fees and causes the company's operational costs to increase so that it also has an impact on increasing agency costs.

CONCLUSION

Referring to the finding of data processing and also the discussion that has been discussed, the conclusions in the study entitled "The Influence of Dividend Policy, Good Corporate Governance Mechanisms, and Audit Quality on Agency Costs" include the results of testing the first hypothesis explaining that dividend policy does not have a significant negative effect on agency costs. This explains that the dividend policy in a company does not affect the size of the agency costs paid in the company's operational process. The finding in testing the second hypothesis explain that the audit committee does not have a significant negative effect on the agency costs paid by the company. This explains that the number of audit committees in the company has no influence in terms of increasing or decreasing the company's agency costs. In addition, testing the third hypothesis explains that institutional ownership does not have a significant negative effect on agency costs. This means that the amount of institutional ownership does not affect the size of the agency costs paid by the corporation.

The result in the fourth hypothesis test is that the independent board of commissioners variable shows that the independent board of commissioners has a significant negative effect on agency costs. This means that the independent board of commissioners in the company if it is bigger, it will be able to reduce the amount of agency costs paid by the company in carrying out the company's operations. On the other hand, the results of the fifth hypothesis test, namely the audit quality variable, did not have a significant negative effect on agency costs. This means that the audit quality used by a company does not affect the size of the agency costs paid by the company. The process in this study was carried out by researchers to analyze the effect of dividend policy variables, audit committees, institutional ownership, independent commissioners, and audit quality on agency costs that have been carried out based on applicable scientific procedures**.** However, there are still various limitations in this study. Firstly, this study not include the effect of pandemic covid-19 to the model. Even though, covid-19 has great effect on the company during year of 2020 in Indonesia. Further research may include the pandemic variable as the control variable so the model of analysis can be more comprehensive.

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