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4th International Conference on Management, Finance and Entrepreneurship
ICMFE-2015

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Ankara, Turkey

"PERTRE ANDERI" of IASI, Romania

Bangkok, Thailand

NAM, Ukraine

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Preface

Dear Distinguished Delegates and Guests,

The Conference Committee warmly welcomes our distinguished delegates and guests to the 2015 International Conference on Management, Finance and Entrepreneurship (ICMFE-2015) held on April 11-12 in Medan, Indonesia.

ICMFE-2015 is organized by International Foundation for Research and Development (IFRD). The conference is aimed at discussing with all of you the wide range of problems encountered in present and future issues in economies and Societies. ICESS-2015 is organized in collaboration with Universitas Islam Sumatera Utara, Medan, Indonesia, Yildirim Beyazit University, Turkey, Shinawatra International University, Thailand, PERTRE ANDERI of IASI, Romania and National Academy of Management, Ukraine where researchers from around the world presented their work. The conference committee is itself quite diverse and truly international, with membership around the world.

Proceeding records the fully refereed papers presented at the conference. Main conference themes and tracks are Management, Finance and Entrepreneurship. Conference aims to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event is to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

Conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. All the submitted papers have been peer reviewed by the reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance, and clarity for the purpose of the conference. Conference program is extremely rich, featuring high-impact presentations. The high quality of the program guaranteed by the presence of an unparalleled number of internationally recognized top experts. Conference will therefore be a unique event, where attendees will be able to appreciate the latest results in their field of expertise, and to acquire additional knowledge in other fields. The program has been strutted to favor interactions among attendees coming from many diverse horizons, scientifically, geographically, from academia and from industry.

We would like to thank the program chairs, organization staff, and members of the program committee for their work. We are grateful to all those who have contributed to the success of ICMFE-2015 especially our partners. We hope that all participants and other interested readers benefit scientifically from the proceedings and find it stimulating in the process. Finally, we would like to wish you success in your technical presentations and social networking.

We hope you have a unique, rewarding and enjoyable time at ICMFE-2015 in Medan.

With our warmest regards,

Conference Committee
April 11–12, 2015
Medan, Indonesia.

ICMFE-2015

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PAPERS

Minimalizing Agency Costs through Bonding Mechanism

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Abstract: Agency costs arise from the agency problem in which the majority of a company manager will act for their own interests than to maximize the achievement of corporate goals. Related to this, the principal must spend a greater amount of costs to monitor the agent. This is because a company is almost impossible to have zero agency cost in order to guarantee the manager will take optimal decisions of view of the interests of shareholders because of the great difference between them. The conflict between the principal and the agent can be reduced to align interests between principal and agent, one through insider ownership. Insider ownership is expected to directly benefit managers feel of any decisions taken, where this process is called the bonding mechanism, which is a process to align the interests of management through binding program management in the company's capital. This study uses a manufacturing company that has gone public in Indonesia Stock Exchange in 2011-2013 were analyzed by simple linear regression method. The results showed that agency costs can be reduced through bonding mechanisms, one of which is the managerial ownership, where managerial ownership shows a negatively and significant effect either partially or simultaneously.

Keywords: *insider ownership, agency costs, bonding mechanism, manufacturing company, and simple linear regression method*

1. Introduction

Every company has a different agency problems with other companies. Stiglitz (1992) in Harjito and Nurfauziah (2006) suggested that the problems between the principal and the agent will appear when the relationship between the principal and the agent are imperfect information. Reichelstein (1992) in Harjito and Nurfauziah (2006) stated that the agency problem will arise when the principal, the owner of the company given the task to the agent (manager) to manage the company for the value of the invested by the owner can grow optimally. However, because the manager does not share in the increased value of the investment and compounded by the imperfect information in relation to the owner and manager then comes the problem of the agency. Harjito and Nurfauziah (2006) which states that the agency problem may be the use of corporate funds for the purchase of excessive facility managers, corporate profits detention for less profitable investments, and a variety of fraud that could reduce the earnings or assets of the company as the company selling the product at a cheap price Another company that was owned by the manager. The phenomenon of the emergence of the agency problem is then to encourage the emergence of agency costs. According to Jensen and Meckling (1976), agency costs can be minimized through a bonding mechanism that one through the ownership structure. The structure of ownership in a company will have a different motivation in terms supervise or monitor the company and the management and board of directors. The ownership structure is a mechanism to reduce conflicts between management and shareholders Jensen and Meckling (1976). The ownership structure is believed to have the ability to influence the future course of the company that could affect the performance of a company. Jensen and Meckling (1976) states that managerial ownership is one of the mechanisms that can control agency problems that exist in a company.

Hypothesis Development

Effect of Managerial Ownership Cost Against Agency: Managerial ownership is ownership by the management company, as measured by the percentage of the number of shares held by management (Jensen and Meckling, 1976; Indriastuti 2014). Managerial ownership structure can be explained by two viewpoints, the agency approach and the approach imbalance. Agency approach considers managerial ownership structure as an instrument or tool used to reduce the agency conflict between some of the claims against the company sebuat. Approach sees information imbalance mechanism managerial ownership structure as a way to reduce the imbalance between insider with an outsider information through disclosure of information within the company. Improving managerial ownership is used as one way to address the agency problem in the company. With the rise of managerial ownership, the manager will be motivated to improve their performance so that in this case will impact both the company and meet the wishes of the shareholders. The greater managerial ownership in the company will be more active management to improve its performance because management has the responsibility to fulfill the wishes of shareholders other than himself. Management will be more careful in making a decision, because the management will participate directly benefit from decisions taken. In addition, management also bear the loss if the decisions taken by them wrong.

Research on the effect of managerial ownership on agency costs (agency costs) are also carried out by Crutchley and Hansen (1989), Bathala, et al., (1994); Chen and Lanfeng, 2005; Harjito and Nurfauziah, 2006; Chen and Yu, 2011; Chen and Xuan, 2011) concluded that the level of higher managerial ownership can be used to reduce the agency problem. The size of the number of managerial stock ownership in the companies may indicate the presence of a common interest between management and shareholders. Companies with a large number of stock ownership should have a low agency conflict and agency costs low. Lower agency conflict are reflected in the high rate of turnover of the company's assets and the low operating expenses to sales. Thus the hypothesis:
H1: Managerial ownership and significant negative effect on agency costs

2. Methodology

Sample and Data: The population of this research is manufacturing companies listed in Indonesia Stock Exchange in 2011 - 2013. The sample was purposive sampling method. Sources of secondary data used comes from the Indonesian Capital Market Directory (ICMD) and website idx.co.id.

AC = α + β1 MO it + εit ……………………………….

Where Is:
AC: Agency Cost firm i in year t-1
MO: Managerial Ownership firm i in year

Operational Definition of Variables

Managerial Ownership: Managerial ownership is a shareholder from the management that actively participate in the decision-making companies (Directors and Commissioners). Managerial ownership, measured in proportion to the ownership of the shares owned by managerial (Jensen and Meckling, 1976). Crutchley and Robert, 1989; Bathala, et al., 1994; Ang, et al., 2000; Demsetz and Belen, 2001; Chen and Lanfeng, 2005; Harjito and Nurfauziah, 2006; Bozec and Richard, 2007; Chen and Yu, 2011; Chen and Xuan, 2011) states that the ownership of the shares owned by management increases, then the manager will be more cautious in carrying out its operational activities, it can reduce operating costs, assuming the company is doing business expansion. Managerial ownership is ownership by the management company, as measured by the percentage of the number of shares held by management (Jensen and Meckling, 1976; Indriastuti 2014). The formula:

$$MO = \frac{\text{The number of shares held by management}}{\text{Total stock company}}$$

Agency Cost: Agency costs is the economic concept of the cost of the owner (principal) good organization, individual or group of people, when the owner (principal) select or hire an "agent" to act on his behalf. Both sides have different interests and agents have more information, then the owner (principal) can not directly ensure that agents always act in the best interests of the owner (principal) (Jensen and Meckling, 1976). Agency costs mainly arise due to the cost of the contract and the difference control, separation of ownership and control as well as different manajer.yang purposes (not the maximization of shareholder). Measurement variables using the agency cost burden ratio, ie operating expenses divided by total annual sales. The load ratio measures the inefficiency of controlling operating costs by managerial side, a high ratio (an indicator of inefficient operation) associated with high agency costs (Ang, et al., 2000). The formula:

$$AC = \frac{\text{Operating Expenses}}{\text{Total Sales}}$$

3. Research Result

Effect of Managerial Ownership Cost Against Agency: The test results demonstrate the significance of the model calculated F value of 3.322 (0.001) so that the significance level below 5% can be said that managerial ownership is jointly affect the agency cost (AC). Adjusted R2 values obtained at 0.2661. The adjusted R2 value indicates that 26.61% of the variation can be explained by the independent variable that managerial ownership, the remaining variation agency cost is influenced by other factors outside the model. The test results showed regression coefficient of managerial ownership is negative (-0024). The coefficient is negative means that managerial ownership has a negative effect, meaning that the higher the level of ownership by the manager agency costs will be lower / reduced. Significance level α <5% means that the hypothesis H0 is rejected or one that says public companies with high managerial ownership have lower agency costs. Indonesia, which is one of the developing countries found to be largely a public company ownership structure of the company is owned by managerial (La Porta, 1999; Arifin, 2003; Siregar and Main, 2008). Referring to the agency theory (Jensen and Meckling, 1976), agency costs can be minimized through a bonding mechanism that one through the ownership structure. The structure of ownership in a company will have a different motivation in terms supervise or monitor the company and the management and board of directors. The ownership structure is believed to have the ability to influence the future course of the company that could affect the performance of a company. Jensen and Meckling (1976) states that managerial ownership is one of the mechanisms that can control agency problems that exist in a company.

4. Conclusion

Hypothesis test results indicate that managerial ownership variable significant negative effect on agency costs. This is consistent with the mechanism of managerial ownership structure as a way to reduce the imbalance between insider with an outsider information through disclosure of information within the company. Limitations of this study include: the unit of analysis is only derived from the manufacturing companies listed on the Stock Exchange. It is recognized that the results become more narrow in generalizing the results, and the period of observation in this study is quite, but there are limitations of the variables used in this study. Therefore, for future research should add that not only the unit of analysis is derived from manufacturing companies alone (do research on companies across industries or cross country) and develop other measures of agency costs such as using rsio use of the asset, so that the owner of the company apat measure effectiveness in the use of the asset management companies.

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