

The Effect of Agency Problems on Cost Stickiness in the Banking Industry: The Role of the Board of Commissioners and the Audit Committee Effectiveness

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Abstract: This study aims to examine the effect of agency problems on cost stickiness on Banking in Indonesia. Furthermore, this study will also examine how the effect of agency problems on cost stickiness on the different effectiveness level of the board of commissioners and audit committees. The samples used are banks listed on the Indonesia Stock Exchange 2012-2016 and regularly report their financial reports and annual reports. This study found that cost stickiness on operational costs occurred in the Indonesian banking sector and agency problems have a positive influence on the level of cost stickiness. The study also found that, the positive effect of agency problem on cost stickiness will be lower in banking high level of effectiveness of Board of Commissioners or Audit Committee.

1 INTRODUCTION

Study has found asymmetric cost behavior by Anderson et al. in 2003, that the decline in sales did not coincide with a decrease in selling costs. Companies that have studied on average have a 0.55 percent increase in sales costs, general costs and administrative costs when there is a one percent increase in sales, but when a one percent decline in sales, sales costs, general costs and costs just decreased by 0.35 percent (Anderson et al., 2003). This phenomenon is called Cost stickiness, ie where a cost is said Sticky when the increase in cost is greater than the decrease in activity changes with the equivalent amount (Ratnawati and Nugrahanti, 2015). Sticky costs can arise because of the first, unbalance of resource adjustment (Vonna and David, 2016). Second, managers tend to choose to retain unused resources rather than reducing resources when activity decreases (Windyastuti and Biyanto, 2005). In Anderson's research (2003) there is a suspicion that the Cost stickiness may be caused by agency costs, but no significant empirical evidence has been found. So this research is intended to fill the research gap. The Agency Theory predicts that there is a difference of interest between shareholders and corporate managers, leading to agency problems, in which

managers engage in activities for their own benefit rather than shareholder profits (Jensen and Meckling, 1976). This research will continue the research of Chen et al. (2012), which examines the relationship of agency problems with cost stickiness. But unlike the research is the subject of the company that will be used is a Banking company listed on the Indonesia Stock Exchange (BEI) in 2012-2015. Because the subject used by Banking then, Cost stickiness researched at Operating Cost, because Operating Cost is one of measuring tools Banking performance (Windyastuti, 2014). Similar to Chen et al. (2012), Agency problems are measured by FCF, since FCF is the most common proxy for measuring agency problems (Jensen 1986; Masulis et al., 2007; Richardson 2006; Stulz 1990; Shleifer and Vishny 1997; Titman et al., 2004). This study will also look at the role of corporate governance in moderating the effects of agency problems on cost stickiness. Like Fathoni and Hermawan (2013) research, the implementation of corporate governance is produced by the effectiveness of the board of commissioners and audit committees, by measuring independence, competence, size, and activity.

2 LITERATURE REVIEW

2.1 Cost Stickiness Concept

Costs are said to be sticky if the magnitude of the increase in cost associated with increased volume is greater than the decrease in cost associated with an equivalent volume decrease (Cooper and Kaplan, 1998). Initially introducing the concept of sticky cost, Malcol (1991), suggests that "many new costs tend to have somewhat non-variable characters, which are not comparable with activity changes." For example, Operating costs. A bank wants to raise its revenue by improving the company's performance. To improve the performance of the company, the bank requires additional employees. These additional employees will increase Operating costs, and the company's revenue is expected to rise as well. If the income rises, then the Operating costs will automatically increase. But when income goes down, managers cannot reduce their employees directly. This is what makes Operating costs difficult to decrease when revenue goes down. This cost condition is called sticky cost. With the recruitment of new permanent employees, the administrative and general costs of the company will increase. Yet when there is a decrease in activity volume, companies can not directly dismiss new employees or in other words retain resources (Windyastuti, 2014). Thus the company will experience a sticky cost and still pay the salaries of employees even though the employee is not working optimally. Cost adjusts to changes in resource volume that managers have ordered, while resource volume is affected by fluctuating demand. The cost adjustment is done intentionally by the manager. Managers need to be careful in planning resource orders, i.e. delaying orders to get certainty of falling demand (Anderson et al., 2003).

2.2 Corporate Governance of Bank

Governance of Bank was previously stipulated in Bank Indonesia Regulation no. 8/4 / PBI / 2006, then now governed by the Financial Services Authority (POJK) Regulation No.55 / POJK.03 / 2016 supplemented by Circular Letter of the Financial Services Authority No.13 / SEOJK.03 / 2017. The regulation stipulates consideration in order to improve bank performance, protect the interests of the stakeholders, and improve compliance with laws and regulations and ethical values that are generally accepted in the banking industry. In addition, improving the quality of governance implementation is one of the efforts to strengthen the internal

condition of the national banking system. According to POJK No.55 / POJK.03 / 2016, Good Governance is a Bank management procedure that applies the following principles:

- 1) Transparency (transparency) is openness in disclosing material and relevant information and openness in implementing decision-making process.
- 2) Accountability (accountability) is the clarity of functions and implementation of the Bank's organ liability so that its management runs effectively.
- 3) Responsibility (responsibility) is the suitability of Bank management with legislation and sound bank management principles.
- 4) Independence (independency) is the professional management of the Bank without the influence or pressure of any party.
- 5) Fairness which is justice and equality in fulfilling the rights of Stakeholders arising based on the agreement and the laws and regulations.

2.3 Duties and Responsibilities of The Board Of Commissioners

Article 1 point (6) of Law Number 40 Year 2007 (Pasal 1 angka (6) Undang- Undang Nomor 40 Tahun 2007) regarding Limited Liability Company (UUPT) stipulates that the definition of the Board of Commissioners is an organ of the Company which is in charge of general and / or special supervision in accordance with the articles of association and advises the Board of Directors. The duties and functions of the board of commissioners are stipulated in Article 108 UUPT, the commissioner is in charge of supervising the management policy, the general management of the company and the company's business, and advising the directors. Furthermore, in Article 114 UUPT affirms that the commissioner is obliged in good faith and full responsibility to perform its functions for the benefit of the company.

The Board of Commissioners consists of Independent Commissioners and Non-Independent Commissioners. Independent Commissioners shall be at least 50% (fifty percent) of the total members of the Board of Commissioners. Independent Commissioners are members of the Board of Commissioners who have no financial, management, share ownership and / or family relationships with members of the Board of Directors, other BoC members and / or controlling shareholder, or any relationship with the Bank that may affect the relevant ability to act independently.

In POJK No.55 / POJK.03 / 2016, the total number of members of the Board of Commissioners

is stipulated to be at least 3 (three) persons and at most equal to the number of members of the Board of Directors. According to Emirzon (2007), a company should be at least 20% of the members of the board of commissioners must come from outside the company, this is useful to improve the effectiveness of the role of oversight and transparency of consideration. This commissioner role is expected to minimize agency issues arising between the board of directors and shareholders. According to Hermawan (2011), more and more board of commissioners in an organization will be able to facilitate the work because the work can be divided into more people and easier to specialize because it has a number of experts that more and varied. Uadiale's research (2010) shows that firms with large numbers of board of directors will be more effective in monitoring, thus improving the company's financial performance compared to firms with fewer board of directors. However, according to Muntoro (2006), the size of the board of commissioners is too big will be able to make the process of seeking agreement and decision making process becomes difficult, long and long-winded.

In order for the council to proceed effectively, the existing board of commissioners within a company must have sufficient competence. Although the board of commissioners may utilize the services of experts from outside the company, the ability of the board of commissioners to detect problems early will be much sharper if there are members of the commissioner who are experts in the field related to the issue (Muntoro, 2006). Competence can be seen from the educational background and experience of the members of the board of commissioners. To be able to understand and oversee the process of presenting the company's financial statements, specifically expected board members have knowledge or background in finance and accounting (Hermawan, 2011).

Activities and activities undertaken by the board of commissioners within the company include the submission of supervisory accountability reports on the performance of directors, financial statements, and business prospects of the company that has been done by the board of directors. Furthermore, the board of commissioners provides advice or recommendations to the members of the board of directors for review conducted by the audit committee. In POJK No.55 / POJK.03 / 2016, the Meeting of the Board of Commissioners shall be held periodically at least 4 (four) times in 1 (one) year. Anderson et al. (2003) and Xie et al. (2003) also states that board activity as measured by meeting frequency can also affect board effectiveness. Research

conducted by Brick and Chidambaran (2010) states that board activity includes the frequency of the number of meetings attended by the board and changes in the structure of the board subcommittees, as well as the activity of the board will determine the quality level of supervision of the board. Frequency of meetings has been used as a proxy to measure the activities of the board of commissioners, the higher the frequency of meetings will increase the effectiveness of the board of commissioners. This is because the higher the activity of the board, it will increase the disclosure of information that will ultimately reduce the level of information asymmetry.

2.4 Duties and Responsibilities of Audit Committee

In order to support the effectiveness of the implementation of duties and responsibilities, the Board of Commissioners shall form one of the audit committees. Understanding the audit committee according to the National Committee on Governance Policy (KNKG, 2006) in the General Guidelines of Good Corporate Governance Indonesia is: "Audit Committee is a group of people selected by a larger group to do certain work or to perform specific tasks or a number of members of the council the commissioner of the client company responsible for assisting the auditor in maintaining its independence from management." The audit committee is one of the institutional elements in the concept of Good Corporate Governance which is expected to contribute highly in the application level. Its existence is expected to improve the quality of internal control of the company, as well as able to optimize the mechanism of checks and balances, which ultimately aimed at providing optimum protection to shareholders and other stakeholders (IKAI, 2010). According to KNKG (2006), the audit committee is in charge of assisting the board of commissioners to ensure that:

- a. the financial statements are presented fairly in accordance with generally accepted accounting principles,
- b. the company's internal control structure is well implemented,
- c. the implementation of internal and external audits is conducted in accordance with applicable audit standards, and;
- d. follow-up findings of audit results carried out by management.

In POJK No.55 / POJK.03 / 2016, Audit Committee membership shall consist of at least 1 (one) Independent Commissioner who is also

chairman, 1 (one) Independent Party having expertise in finance or accounting field, and 1 (one) Independent Party having expertise in law or banking field. Of course, with adequate competence of audit committee members, it is expected that the existence of audit committees will be effective in the context of effective corporate governance.

In POJK No.55 / POJK.03 / 2016 , Committee Meetings are held in accordance with the needs of the Bank. Vafeas (1999) and Adams (2005) in his research mentioned that the frequency of meetings conducted by the board will increase the value of the company, the higher the frequency of meetings conducted, the supervisory activities by the board will be higher. Research conducted by Byun (2007) also states that the activities of the audit committee may include activities in holding meetings with fellow members of the committee as well as with the board.

3 RESEARCH METHOD

3.1 Data Collection and Sample Selection

The population is the sum of the entire group of individuals, events or objects that attract researchers to investigate or investigate (Lind et al., 2012). The population used in this study is a banking company listed on the Indonesia Stock Exchange (BEI) from 2012 to 2016. Purposive Sampling is used as a method of sampling. Purposive Sampling is a method of sampling taking into account certain criteria so that data obtained more representative and relevant. Purposive sampling in this study was conducted by considering the following criteria:

1. Companies belonging to the banking industry listed on the Stock Exchange and publish the complete consolidated financial statements and coefficients that have been audited as of December 31, from 2012-2016.
2. Companies selected as samples have the completeness of financial report data used as a variable in this study during the study period that is 2011 - 2016.
3. The company does not have any negative equity, revenue, operating expenses or 0 (zero) because it identifies the company in an abnormal condition. In addition, the operating cost does not exceed its revenue.
4. The company does not merge in 2012 - 2016.

The type of data used in this study is secondary data obtained from Datastream Thomson Reuters at the Library of the Faculty of Economics and Business Universitas Indonesia and from the company's official website. The data is in the form of complete financial data of banking companies registered in 2012 - 2016.

3.2 Regression Models

The research model used is based on previous studies of cost stickiness by Anderson et al. (2003), Calleja et al. (2006), Chen et al. (2012), and Windyastuti (2014). In addition the model of this study is an adaptation of previous research models coupled with other references. The research, in essence, aims to determine the phenomenon of cost behavior that is not symmetry (cost stickiness) in the company and the factors that affect the level of cost stickiness. This research is quantitative that will use multiple regression model to analyze the influence of independent variable and control variable to the dependent variable. As stated from the framework, the dependent variable in this study is Cost Stickiness which will be proxied with Operating Cost Ratio with Bank Revenue. This is described in the research model as follows:

$$OE_{i,t} = \beta_0 + \beta_1 SALESCHG_{i,t} + \beta_2 SALESCHG_{i,t} * DECDUM_{i,t} + \varepsilon_{i,t} \quad (1)$$

In addition, another variable that is a factor that affects the level of cost stickiness, namely FCF. The control variables used in this study are employee intensity, asset intensity and fixed assets to total asset ratio. Thus the next model of research is as follows,

$$OE_{i,t} = \beta_0 + \beta_1 SALESCHG_{i,t} + \beta_2 SALESCHG_{i,t} * DECDUM_{i,t} + \beta_3 SALESCHG_{i,t} * DECDUM_{i,t} * FCF_{i,t} + \beta_4 FCF_{i,t} + \beta_5 AI_{i,t} + \beta_6 EI_{i,t} + \beta_7 FATA_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where $OE_{i,t}$ is Rate of change of Operating Costs on firm i in year t ; $SALESCHG_{i,t}$ is Rate of change of annual bank operating income; $DECDUM_{i,t}$ is Interaction variable / dummy moderation, worth 1 if revenue decreases and is worth 0 if else; $FCF_{i,t}$ is Free Cash Flow company i in year t ; $AI_{i,t}$ is Intensity of Asset to Total Revenue of company i in year t ; $EI_{i,t}$ is Employee Intensity to Total Income of company i in year t ; $FATA_{i,t}$ is Fixed Asset Ratio to Total Asset of company i in year t .

3.3 Variables for Regression Analysis

The dependent variable tested in this research is the rate of change of operating cost (OE_{i, t}). This variable is used in previous studies such as Anderson et al. (2003), Calleja et al. (2006), Chen et al. (2012), and Windyastuti (2014). According to previous studies, the level of cost stickiness can be measured by the logarithm of the ratio of sales, administrative and general costs of the current year to the previous year. Sales, administrative and general costs are used as a proxy for cost stickiness because these costs have the potential for distortion and behavioral costs that are not symmetrical because management's involvement in controlling these costs is considerable (Sorros and Karagiorgos, 2013). But because this research uses Banking as the subject of research, then the ratio used is the operating cost.

The independent variable is a variable that is modified or changed to measure its effect on the dependent variable (Lind et al., 2012). The independent variables in this study are changes in operating income and agency issues proxied by Free Cash Flow as in the research of Chen et al. (2012). Changes in annual operating income are indicators tested to determine the company's cost stickiness rate (Windyastuti, 2014). In essence, changes in sales both up and down will determine changes in operating cost behavior. This variable can be measured logarithm of operating income ratio of the current year with operating income of the previous year. Free cash flow is measured by operating cash flow minus capital expenditure then the result is divided by total assets.

Moderate variables are variables that influence (strengthen or weaken) the relationship between independent variables with dependent variable (Sugiono, 2014). In this study, moderation variables are DECDUM and Corporate Governance (CG), namely the effectiveness of the board of commissioners and audit committee. In addition to the SALESCHG variable, this study uses interaction variables or dummy moderation related to sales changes (DECDUM). This variable is worth 1 if the firm's revenue on *t* is smaller than last year's (decreased), and is 0 if the other. As Hermawan (2011) studied the effectiveness of the board of commissioners and audit committee using the scoring method. Scores are obtained based on checklists, which are based on characteristics that are considered to enhance the effectiveness of the board of commissioners and audit committees, namely independence, activity, size, and competence. For each question, the assessment will consist of two possible answers, good and poor, or three possible

answers that are good, fair, and poor. For each good value will be given a value of 3, fair will be given a value of 2, and poor will be given a value of 1. For questions that cannot be obtained from the company's annual report, it will be given a poor value or 1.

The control variable is a variable related to the dependent variable that is controlled or made constant so that the influence of independent variable to the dependent variable is not influenced by other factors outside this research (Lind et al., 2012). In this study, control variables used are Employee Intensity, Asset Intensity, and Fixed Assets Ratio to Total Assets. Calculation of Employee Intensity variable, that is by comparing the number of employees with income and Intensity of Assets that is by comparing total assets with income.

4 RESULTS

4.1 Sample Description

Based on the sample criteria described above, the total banking listed on the Indonesia Stock Exchange (IDX) is 44 banks. In order for the data used to be more stable then issued a sample of banking that conducted an initial public offering (IPO) and merger between the period of research that is as many as 15 banks. In other words overall the total sample used in the study amounted to 29 banks. Because the study period is five years, so the total observation becomes 145.

4.2 Descriptive Statistics Agency Problems to Cost stickiness

Table 1 gives an overview of samples that have been done treatment winsorization where descriptive statistical results show that the average of the variable level of changes in OE is 0.0791 and standard deviation of 0.0682 which means the spread of data from OE is not scattered or concentrated around the value. Descriptive statistic after winsorization, the biggest change of operating cost occurred at Bank QNB Indonesia (BKSW) in 2014 of 0.2320. This is due to the increased interest expense arising from customer deposits increased 211.69% The increase in the number of customers due to the acquisition of both banks namely Qatar and Bank Kesawan. While the lowest level of operating cost change after the winsorization, the level of change in the lowest operating costs of Bank MNC International (BABP) in 2012 to amounted to 0.2320. The decrease in operating expenses in BABP was due to a 25%

decrease in interest expense but the greatest decrease came from a 76% decrease in impairment losses on financial assets (securities and loans).

Variable rate of change in operating income (SALESCHG) shows that the average rate of change in operating income of 0.0678 and standard deviation of 0.0589, the value indicates that the average value is greater than the standard deviation value so that the distribution of data for the rate of change of income operations are not dispersed. The maximum value of the SALESCHG variable after the winsorization is 0.2098. the scores achieved by BKSJ 2014. Income of BKSJ which experienced a significant increase is interest income of 141.12% and income provision and commission of 83.69%. Increase in interest income is influenced by the number of assets 2014 which increased 88.63% compared to 2013. While the minimum value on SALESCHG Variable after the winsorization of -0.0312 is the value of Bank of India (BSWI) in 2016. At BSWI, interest income decreased by 36 % due to a significant decrease in the amount of credit. Other operating income in 2016 decreased 152% caused mainly by the cut in deferred fees, and commissions other than loans.

The agency problem variable (FCF) shows that the average agency problem is 0.0162 with standard deviation of 0.0307. This value indicates that the standard deviation value is greater than the mean value, so the distribution of data for agency problems is scattered and varied. After the winsorization, the maximum value of the FCF variable to 0.0824 is Bank Mega (MEGA) in 2013. The high FCF in MEGA, due to the result of the 2012 fiscal year is the receipt of the sale and purchase of the traded asset. Then the minimum value of FCF variable after the winsorization of -0.0468 is the value of MEGA in 2012. This is because it is predominantly used to make payments on the sale and purchase of traded assets.

Variable AI, EI, and FATA include the control variables of the study. The asset intensity variable (AI) shows that the average of AI variable is 10.1465 and the standard deviation is 1.8932. These results indicate that the average value is greater than the standard deviation value so that the distribution of data for the level of changes in operating income is not scattered. After winsorization, the maximum and minimum values of AI variables are 13.8762 and 6.1672. The value is owned by Bank QNB Indonesia (BKSJ) in 2013 and Bank Tabungan Pensiunan Nasional (BTPN) in 2014. Employee intensity variable (EI) indicates that the average variable EI is 0.0000111 and standard deviation is 0,000000636. These results indicate that the average value is greater

than the standard deviation value so that the distribution of data for the level of changes in operating income is not scattered. After the winsorization is done, the maximum and minimum values of the EI variable are 0.00000263 and 0.000000419. The value is owned by Bank Bumi Arta (BNBA) in 2012 and Bank Permata (BNLI) in 2015. The fixed asset ratio variable to total assets (FATA) indicates that the average FATA variable is 0.0166 and the standard deviation is 0.0113. These results indicate that the average value is greater than the standard deviation value so that the distribution of data for the level of changes in operating income is not scattered. After winsorization, the maximum and minimum values of the FATA variable are 0.04256 and 0.0036. The value is owned by Bank Bumi Artha (BNBA) in 2015 and Bank MNC International (BABI) in 2014.

4.3 Descriptive Statistics Checklist of the Effectiveness of the Board of Commissioners and the Audit Committee

This study also examines the role of governance in moderating the effect of agency problems on cost stickiness. The governance measured in this study is the effectiveness of the board of commissioners and audit committee. The data were obtained from Hermawan's (2011) research checklist that was adjusted for the purpose of this study. Table 2 and 4 describe the descriptive statistics of each question that comprises the independence component of the board of commissioners and the Audit Committee. Value distribution of each question is described in tables 3 and 5.

4.4 Correlation Analysis

Pearson correlation test on this model summarized in the table 6 shows the relationship of each variable to each other. In general it can be concluded that each variable does not have a very strong correlation with each other because no one has a value greater than 0.80. Based on table 6 can be interpreted for variables that have a positive correlation with OE is SALESCHG of 0.78, AI of 0.25 and FATA of -0.14. So it can be interpreted that the income and operating costs move in the same direction. In addition to SALESCHG, the OE variable also had significant positive correlation ($\alpha = 5\%$) with

the AI variable and significant negative correlation ($\alpha = 10\%$) with the FATA variable.

4.5 Hypothesis Testing Results

This study will use Pooled Least Squared (PLS) with the exception of Strong BOC group that is more appropriate using Random Effect (RE). This can be very common given that the sample in this study operates in the banking sector (industry) which has the same characteristics. Cost stickiness is an adjustment to higher cost increases as revenue increases, but the cost adjustment is smaller when income decreases. Table 7 shows the result of t test of SALESCHG variable having coefficient of 0,9850 and p-value equal to 0,0000. The p-value below the $\alpha = 1\%$ level suggests rejecting the null hypothesis. In other words there is a significant positive effect of SALESCHG on OE. These findings are consistent with the concept of cost behavior in which operating costs will increase as operating income increases. Each 1% increase in operating income, operating expenses will increase by 0.985%.

SALESCHG * DECDUM moderation variable has coefficient of -1,1157 and p-value is 0,019. This p-value value indicates that the SALESCHG * DECDUM variable has a significant negative effect (in $\alpha = 5\%$) against the OE variable. Operating costs will increase by 0.1307% if there is a decrease in income by 1%. These results are consistent with the research of He et. al. (2010) stating that the decrease in operating income is not permanent so that the unemployed resources are not adjusted for the decline.

4.5.1. The Effect of Agency problem to Cost Stickiness

Table 7 shows Moderate variables SALESCHG * DECDUM * FCF has coefficient of -32.1172 and p-value of 0.005. This p-value value indicates that the SALESCHG * DECDUM * FCF variable has a significant negative effect (in $\alpha = 1\%$) against the OE variable. The smaller (negative) variable coefficients SALESCHG * DECDUM * FCF indicate a greater level of cost stickiness. This finding is consistent with the first hypothesis and is consistent with the research of Chen et al. (2012) stating that when free cash flow generated by operational activities is high and at the same time decreasing revenue, the cost stickiness level of operating cost is higher. That is, managers

have an incentive to use the company's free cash flow to invest in additional company resources. In these circumstances, managers expect that the decline in income in the year is not permanent (more than two consecutive years). In addition, managers are also optimistic that in the future the market conditions will increase, so managers increase costs rather than reduce them.

4.5.2. The Effect of Agency problem to Cost Stickiness at the Effectiveness Level of the Board of Commissioners

This research separates the research sample into two groups based on the effectiveness score of the board of commissioners. The first group was a group with effectiveness scores below the median of all samples. This group contains 59 observations or 41% of the total sample. The second group is the group with effectiveness score above the median of all samples, there are 86 observations or 59% of the total sample. Table 8 shows the regression result of both groups of effectiveness scores of the board of commissioners. It can be seen that the SALESCHG * DECDUM * FCF variable coefficient is -280.1581 in samples with low effectiveness score and -36,0016 in samples with high effectiveness score. Both coefficient values SALESCHG * DECDUM * FCF in each group are significant in $\alpha = 5\%$. It is found that the effect of agency problem on the level of cost stickiness of operating cost of banking is higher in the sample group which has low effectiveness of the board of commissioner. This is in line with the first hypothesis that the effectiveness of the board of commissioners weakens the positive influence of agency problems with cost stickiness. Under the effective board conditions, operating costs continue to increase but only by 36.11%. Although indicated there is earnings management, but in this condition the board of commissioners carry out its obligation that is to supervise especially on the board of directors. With more supervision, earnings management can be minimized.

4.5.3. The Effect of Agency problem to Cost Stickiness at the Effectiveness Level of the Audit Committee

In addition to the effectiveness of the board of commissioners, this study also separates the research sample into two groups based on the effectiveness of the audit committee. The first group was the group with effectiveness scores below the median of all samples, The group contained 61 observations or

42% of the total sample. The second group is a group with effectiveness score above the median of all samples, there are 84 observations or 58% of the total sample. Table 9 is a regression result of two groups of audit committee effectiveness scores. Whereas in the group of samples with a score higher effectiveness of the audit committee, the variable SALESCHG * DECDUM * FCF has -29.7095 and significant coefficient in the level of $\alpha = 5\%$. These results show that, the effect of agency problem on the cost stickiness level of operating cost is higher in the sample group which has low audit committee effectiveness score compared with the high sample group. This is in line with the third hypothesis that the effectiveness of audit committees weakens the positive influence of agency problems with cost stickiness. This means that the effectiveness of the audit committee can mitigate the actions of managers in restraining the adjustment of operating costs when operating income decreases. Basically managers know more information about the company they manage. Therefore, an effective audit committee is required in order to mitigate agency problems at the company.

5 CONCLUSION

Based on hypothesis testing, the conclusion obtained is the operating cost of banking is the cost stickiness. That is, the change in the rate of increase in cost at the time of sale rises higher than the rate of change in the decrease in cost when the sale falls. In this research found the existence of cost stickiness on operating cost is indicated by the increase of 0.985% for every 1% increase in sales, but for every 1% decrease in sales still increased the cost of 0.13%. This can happen because managers expect that the decline in income in the year is not permanent (more than two years). In addition, managers are also optimistic that in the future market conditions will increase so that managers continue to increase costs. From the operational side, there are several properties of costs in the operating cost that are better maintained than reduced, because if reduced will sacrifice higher costs. For example layoffs, the company must pay severance pay.

Based on hypothesis testing, the agency problem proxied with free cash flow (FCF) has a significant positive influence on the level of cost stickiness. By moderating FCF to the level of income decline, it can be concluded that FCF has a positive effect on cost stickiness. This is evidenced by statistical test results, which concludes an increase in operating costs of

32.25% per 1% decrease in income. This can happen because of conflict of interest and moral hazard, managers will pursue the highest possible compensation but when income decreases they will object if the compensation is lowered. When FCF is higher, managers have a greater opportunity to invest more in operating costs when demand increases, and delay the decrease in operating costs when demand decreases. Next result, the high effectiveness of the board can weaken the positive relationship between the agency problem and the cost stickiness. Evidenced in statistical tests, on banks that have the effectiveness of the board of commissioners is low every 1% decrease in income increased operating costs by 274.72%. Whereas in banks that have high effectiveness of boards of commissioners, every 1% decrease in income occurs an increase in operating cost of only 31.84%. From the results of statistical tests and hypotheses can be concluded, that banks that have weak effectiveness of the board of commissioners strengthen the positive relationship agency problems with cost stickiness, in other words the weaker the effectiveness of the board of commissioners then the higher the agency problem affect the cost stickiness. On the contrary, banks with strong commissioner effectiveness, the less the agency problem affects cost stickiness. This can happen because an effective supervisory board activity is able to mitigate earnings management practices at the company. In addition to the effectiveness of the board of commissioners, corporate governance is also proxied with the effectiveness of the audit committee with the scoring method. As a result, the effectiveness of high audit committees can weaken the positive relationship between agency issues and cost stickiness. Evidenced in statistical tests, banks that have the effectiveness of low audit committees every 1% decrease in income increased operating costs by 49.72%. Whereas in banks with high audit committee effectiveness, every 1% decrease in income occurs an increase in operating cost of 29.86% only. From the results of statistical tests and hypotheses can be concluded, that banks that have the effectiveness of weak audit committees to strengthen the positive relationship agency problems with cost stickiness, in other words the weaker the effectiveness of the audit committee, the higher the agency problem affect the cost stickiness. And conversely, banks that have strong audit committee effectiveness, the less the agency problem affects cost stickiness. This can happen because the audit committee can mitigate agency issues against cost stickiness by conducting independent financial audits to the company.

Further research is expected to be done in all industries of the company with the number and period of more research to see sticky properties on other costs, such as Cost of production or salary burden on the company, to use more than one proxy agency problem that is Leverage, CEO Period, CEO Salary, and CEO Turnover. It is hoped that subsequent research will use samples outside Indonesia as a comparison also expected to examine similar issues with different proxies, such as internal control.

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