International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 11, Issue 9, 2020

The Seriousness in Applying Accounting Standards and the Cost of Capital

Vinda Dewi P[a], Novrys Suhardianto[b], [a,b]The Faculty of Economics and Business of Universitas Airlangga, Surabaya,

Reporting incentives are factors that motivate public companies to apply accounting standards seriously, instead of superficial labelling. This study aimed to obtain evidence that investors reacted more positively toward serious accounting standards users. This study analysed the relationship between reporting incentives, which consisted of six proxies, i.e. firm size; debt ratio; ROA; growth opportunities; internationalisation; ownership concentration, and last the cost of capital by using multiple linear regressions. The data collected in this study was taken from the financial statements and daily stock price of companies listed on the Indonesia Stock Exchange, consisting of 214 samples from 2011-2012. The results of the analysis indicated that firm size, growth opportunities, internationalisation, and ownership concentration had a significant effect on the cost of capital. However, reporting incentives were not related to the cost of capital. Thus, it can be concluded that investors in the Indonesian capital market had no concern for the public companies' seriousness of applying accounting standards.

Key words: *Firm size, debt ratio, ROA, growth opportunities, internationalization, ownership concentration, reporting incentives, cost of capital.*

Introduction

In Indonesia, the convergence of International Financial Reporting Standards (IFRS) with the Financial Accounting Standards (SAK) aims to improve the comparability of the national companies' financial statements. In 2008, the Indonesian Institute of Accountants (IAI) had prepared to convert IFRS into SAK (Chariri, 2007). Dissimilarto countries in Europe and Australia that apply the big-bang approach, IAI decided to use a phased approach in this convergence project as there were still many companies that did not have sufficient knowledge and understanding of IFRS.

The IFRS convergence project and the obligatory adoption of the new IFRS (the terms IFRS and SAK are used interchangeably in this study) have resulted in substantial changes in reporting incentives, the motivation to prepare the financial statements in accordance with the standard (Daske, 2011). For an example, the public expects larger, more profitable, more internationally operated companies which have larger financing needs, better growth opportunities, and more centralised ownership percentages in order to have stronger incentives in reporting transparent financial statements (Daske 2011). In addition to the substantial changes to the reporting incentives, IFRS adoption in terms of 'labelling' or 'its seriousness' needs to be addressed. Companies that implement IFRS seriously are expected to lower the cost of capital because the companies attempt to be more transparent. Reporting incentives was the labelling proposed by Daske (2011) and consists of six variables, i.e.: firm size, debt ratio, ROA, growth opportunities, internationalization, and ownership concentration.

This research contributes to analysing the effect of reporting incentives on the cost of equity capital by using the data from 2011-2012 on all publicly listed companies on the BEI (Indonesia Stock Exchange). This study applied six independent variables, which were: firm size, debt ratio, ROA, growth opportunities, internationalization, and ownership concentration. The methods applied in this research were multiple linear regression analysis and factor analysis which would be tested in regression factor. The purpose of using the multiple linear analysis method was to discover the influence of firm size, debt ratio, ROA, growth opportunities, internationalisation, and ownership concentration in regards to the cost of capital. The factor analysis was employed to summarize the six variables into one, namely the reporting incentives. Then, the reporting incentives were regressed towards the cost of capital. The dependent variable used was the common share of the cost of capital of the Capital Asset Pricing Model (CAPM) method.

The result of this study can be used in the consideration of business entities, government, and the Financial Services Authority (OJK) being more stringent in applying IFRS-based SAK in order to obtain a smaller cost of capital. The results of this study were closely related to the agency problems that arise from conflict between agent and principal. This research assumed that the seriousness in applying SAK would increase transparency and eventually reduce conflict so that the cost of capital became lower. The cost of capital was assumed as a proxy for the agency cost, which was the cost spent by the principal to oversee its agent to work in accordance with the principal's interests (Jensen and Meckling, 1976).

The next section of this article provides a literature review and hypotheses about the effects of managerial ownership, firm size, and financial performance on the environmental information reporting by the corporate. The next section covers the research method, results, and discussion. The final section provides conclusions and suggestions for further research.

Literature Review

The Influence of Firm Size on the Cost of Equity Capital

Diamond and Verrenchia (1991) state that large firms tend to have a greater total risk for investors and will earn substantial profit per share as a result of increased disclosure. Companies that have large size are seemingly attractive to investors because it is expected that large companies will hold large amounts of securities, thus the trading will increase and the securities' liquidity will increase as well. Larger companies are also expected to have greater seriousness in applying SAK due to the complexity of operations and reporting so that investors will be more appreciative (Daske, 2011). Based on the aforementioned description, the first hypothesis can be concluded as follows:

H_1: As part of the reporting incentives, firm size affects the cost of equity capital.

The Effect of Debt Ratio on the Cost of Equity Capital

According to Keown (2002), the cost of capital can be minimized by using leverage ratio. A company is considered to use the leverage ratio if the funding involves fixed liabilities, one of which is debt. With a high level of debt risk, a company may be struck by the creditors' unwillingness to provide additional debt funds?. This will raise the cost of new debt that will be higher than the tax benefit from the use of debt and will become a further burden for the shareholders. The shareholders and creditors will also face bankruptcy risks that could lead to a reduction in the company's total market price and the cost of capital increase. In the opinion expressed by Brigham et al. (1999), the more long-term debt is used in corporate spending, the more the cost of capital will decrease. In addition, the greater the long-term debt is, the more the company will face pressure to present a report that complies with the accounting standards in order to not violate its debt contract (Daske 2011). Based on the aforementioned description, the second hypothesis can be concluded as follows:

H2: As a part of reporting incentives, the leverage ratio affects the cost of equity capital**.**

The Effect of Profitability on the Cost of Equity Capital

As measured by the ROA, there is a weakness in measuring the management performance in a company's profitability because it tends to focus on short-term goals rather than long-term goals. Measuring performance with ROA can improve short-term goals, but it can also cause negative consequences on the long-term goals. Pouraghajan et al. (2012) stated that ROA has a significant and positive effect on the cost of capital. Thus, it can be concluded that the higher the ROA, the greater the cost of capital. On the other hand, high profitability implies an increase

in the drive to seriously comply with accounting standards because firms are capable of escaping from operational pressures that result from the lack of resources (Daske 2011). Based on the aforementioned description the third hypothesis can be concluded as follows:

H_3: As a part of the reporting incentives, profitability affects the cost of equity capital.

The Effect of Growth Opportunities on the Cost of Equity Capital

Gaver and Gaver (1993) explain that growth opportunities are not only manifested in new projects supported by extensive research and development activities, but also in the form of more options for implementing new projects. This excessive capability is not observable. The formula used in calculating the growth opportunities can also be referred to as the market value of equity. Future development in business opportunities offers benefits for potential investors and companies to be more dedicated in applying the standards to anticipate the complexity of future financial reporting. Based on the aforementioned description, the fourth hypothesis can be concluded as follows:

H_4: As a part of the reporting incentives, growth opportunities affect the cost of equity capital.

The Effect of Internationalization on the Cost of Equity Capital

In this globalisation era, many multinational companies can easily enter any country; therefore, operating decisions, investments and funding financing are coloured by international implications. The number of decisions derived from accounting data makes the knowledge of international accounting issues become highly crucial to comprehend. Singh (2003) explains that internationalisation increases debt, therefore, it will reduce the cost of capital. Thus, it can be concluded that the greater the internationalisation level, the smaller the cost of equity capital because it signifies that the company's condition progresses, resulting in the company not having to spend a large amount of capital to attract investors. In addition, internationalisation of a company's operations will motivate companies to present financial statements (SAK) internationally accepted as an anticipation of different accounting standards at the international level. Based on the aforementioned description, the fifth hypothesis can be concluded as follows:

H_5: As a part of the reporting incentives, internationalization affects the cost of equity capital.

The Influence of Ownership Concentration towards the Cost of Equity Capital

Ashbaugh et al. (2004) discover that institutional ownership is capable of reducing the cost of equity capital. The finding indicates that the existence of the ownership structure can improve

the performance of the stock market and stock prices. If there are majority owners of a company, they will tend to expropriate the minority owners. Based on such an assumption, the institutional investors, as the majority owners, are challenged and try to show that they will not expropriate the minority owners and the public as a whole. For that purpose, the majority owners have the power to pressure the managers to disclose any information regarding the company's condition despite requiring a considerable cost. Based on the aforementioned description, the sixth hypothesis can be concluded as follows:

H_6: As part of reporting incentives, ownership concentration affects the cost of equity capital.

Research Method

Approach and Data

The population of this study was all companies listed on the Indonesia Stock Exchange (IDX) from 2011-2012. From the population, 214 companies met the criteria for this study. The sampling process of this study is shown in Table 1.

Table 1: Sample Selection

No.	Criteria	Total
1.	The number of go public companies observed on BEI during 2011-2012.	910
2.	Companies whose financial statements ended before 31st December.	(14)
3.	Companies that did not issue audit financial statements since 2011-2012.	(126)
4.	Companies that did not reveal the value of foreign sales	(556)
Total Samples		214

The data related to the variables of firm size, debt ratio, ROA, growth opportunities, internationalisation, and ownership concentration were obtained from audited financial statements submitted to *Bapepam* and the Indonesia Stock Exchange. The data related to the cost of capital variable was obtained from the daily stock price list of all 'go public' companies listed in Indonesia Stock Exchange (BEI) since 2011-2012. The periods of 2011 and 2012 were selected as the year of observation as in 2011, the companies in Indonesia had not uniformly applied IFRS. Meanwhile, in 2012, the companies in Indonesia had applied IFRS as the applied standard in preparing their financial statements.

Operational Variables' Definitions

The variables of this research were the firm size (X^1), debt ratio (X^2), ROA (X^3), the growth opportunity (X^4), internationalisation (X^5), ownership concentration (X^6) and the cost of capital (Y) calculated by using the multiple linear regression. The factor analysis was employed to

summarize the six independent variables into one new variable referred to as the reporting incentives (X^7). Then, it was tested simultaneously to the cost of capital (Y).

1. The firm size ($SIZE_{it}$) was calculated by the total company asset log because the large total asset was identical with large profitability besides being more stable than the total sales and market capitalization (Sularto, 2007). $SIZE_{it}$ = Total Log assets of an *i* company *in t* period.
2. The debt ratio (LEV_{it}) was calculated by using the ratio of the total debt to the total assets. LEV_{it} = The total *i* company's debt in *t* period was divided by the total assets of *i* company in *t* period.
3. Profitability (ROA_{it}) was measured by the value of net income divided by the total assets. ROA_{it} = net income of *i* company in *t* period was divided by the total assets of *i* company in *t* period.
4. The growth opportunities ($Growth_{it}$) were measured by using the total equity value divided by the share price which had been multiplied by the outstanding share price. According to Setiawan's research (2006), referring to pecking order theory, companies with high growth opportunities will face a high information gap between the managers and the external investors regarding the quality of the corporates' investment projects. The existence of such information gap causes the cost of equity capital stock to be greater than the cost of debt capital.
5. Internationalisation (X_5). The internationalisation value was obtained by measuring the value of overseas sales divided by the total sales. Internationalisation is an important growth tool for a company (Amal et al., 2013). The greater ratio of internationalisation indicates that the sales abroad are more successful than the domestic ones.
6. Ownership Concentration (X_6). The ownership concentration value was obtained by measuring the percentage of majority share ownership. According to Dallas (2004), the share ownership is considered to be concentrated if most of the shares are possessed by a small number of individuals or groups, making the shareholders have relatively dominant shares compared to others.
7. The cost of capital (Y). The cost of capital used in this study was the cost of capital of equity. The cost of equity capital is the proportion that must be spent by a company to give satisfaction to its investors at a certain level of risk (Martin et al., 1996). In this study, the equity cost model was proxied by the CAPM model (Sudana, 2011).

$$\boldsymbol{Rit = Rf + \beta i\,(Rmt - Rf)}$$

Description: R_{it} = the cost of the share capital of *i* company in *t* period.; R_f = risk-free investment income proxied by the interest rates of the Interest Rate of Bank Indonesia (SBI); β_i = a systematic risk coefficient of *i* company stock.; R_{mt} = market return in the *t* period proxied by the return index of the Composite Stock Price Index (IHSG). The systematic risk coefficient of the stock was calculated as the slope of the relationship between the stock return of the *i*

company's stock ($R_i - R_f$) which served as the Y axis whereas the market premium return ($R_m - R_f$) which served as the X axis.

Result and Discussion

Descriptive Statistics Analysis

The companies employed as the samples in this study amounted to 107, were listed on the Indonesia Stock Exchange (IDX) and had met the criteria for sample selection. The observation during 2011-2012 had collected total samples of 214 samples. The descriptive statistical analysis of each research variable is described as follows:

Table 2: Descriptive Statistics Analysis

Variable	**N**	**Minimum**	**Maximum**	***Mean***	***Std. Deviation***
SIZE	214	10.9400	13.8256	12.2930	0.6958
LEV	214	0.0800	3.0800	0.5537	0.4368
ROA	214	-0.6109	0.4200	0.0659	0.1163
GROWTH	214	-24.2200	52.0100	6.8883	10.1817
INTER	214	0.0000	2.3725	0.2797	0.3277
OWN	214	0.2100	0.9720	0.5363	0.2130
COC	214	0.0188	0.1709	0.0867	0.0329
Valid N (*listwise*)	214				

Source: Secondary Data (processed)

The Firm Size Descriptive Statistics Analysis.

The average firm size in the sample company was 12.2930 with a standard deviation of 0.6958. The company with the smallest size was PT. Kedaung Indah Can Tbk with a firm size value of 10.94 while the value of the largest company size was 13.8256 by PT. Adaro Energy Tbk.

The Debt Ratio Descriptive Statistics Analysis.

The average debt ratio of the studied sample companies reached 0.5537 with a standard deviation of 0.4368. The smallest debt ratio was 0.08 by PT. Keramika Indonesia Assosiasi Tbk while the largest debt ratio was 3.08 by PT. Primarindo Asia Infrastructure Tbk.

The ROA Descriptive Statistics Analysis.

The average ROA in the studied sample companies reached 0.0659 with a standard deviation of 0.1163. The smallest ROA was of PT. Arpeni Pratama Ocean Line Tbk of -0.61 while the largest ROA was 0.42 of PT. Multi Bintang Indonesia Tbk.

The Growth Opportunities Descriptive Statistical Analysis.
The average growth opportunities in the sample companies amounted to 6.8883 with the standard deviation of 10.1817. The smallest opportunity growth was of PT. Unitex Tbk with -24.22 points while the largest growth opportunity was 52.01 by PT. Unilever Indonesia Tbk.

The Internationalisation Descriptive Statistics Analysis.
The average internationalisation value in the sample companies reached 0.2797 with a standard deviation of 0.3277. The smallest internationalisation was by PT. Wheels Vivatex Tbk with 0.0000 point while the largest internationalisation value was 2.3725 by PT. Medco Energi Internasional Tbk.

The Ownership Concentration Descriptive Statistics Analysis.
The average ownership concentration in the studied sample companies was 0.5363 with a standard deviation of 0.2130. the lowest ownership concentration value was of PT. Multipolar Tbk with 0.21 point while the largest ownership concentration value was 0.9720 by PT. Smart Tbk.

The Cost of Equity Capital (COC) Descriptive Statistic Analysis.
The average cost of equity capital of the sample companies was 0.0867 with a standard deviation of 0.0329. The cost of equity capital by PT. Mitra Adiperkasa Tbk of 0.0188 was the lowest one while the lowest cost of equity reached 0.1709 by PT. Kimia Farma Tbk.

Multiple Linear Regression

The multiple linear regression analysis in this study was conducted to determine how the firm size, debt ratio, ROA, growth opportunities, internationalization, and ownership concentration partially affected the cost of equity capital on companies listed on the Indonesia Stock Exchange in 2011-2012. The results of the multiple linear regression analysis are explained as follows:

The amount of influence can be simultaneously observed from the value of the adjusted coefficient of determination (R^2) of 0.053 or 5.3%. This value indicated that, simultaneously, the influence of firm size (X_1), debt ratio (X_2), ROA (X_3), growth opportunities (X_4), internationalisation (X_5), and ownership concentration (X_6) on the cost of capital (Y) was 5.3%, while the rest (94.7%) was determined by other external factors of the studied variables.

From Table 3, it can be observed that the variables of debt ratio (X_2) and ROA (X_3) were not proven to cause any effects on the amount of the cost of capital. Meanwhile, the firm size (X_1), growth opportunities (X_4), internationalisation (X_5), and ownership concentration (X_6) were proven to affect the cost of capital. Furthermore, partial discussion was served regarding the

influence of each variable of firm size (X_1), debt ratio (X_2), ROA (X_3), growth opportunities (X_4), internationalisation (X_5), and ownership concentration (X_6) on the cost of capital (Y) in companies in Indonesia in the period of 2011-2012.

Table 3: The Results of Multiple Linear Regression Analysis

Model	**ß**	**Sig ß (Partial)**
Constants	-0.004	
SIZE	0.007	0.036*
LEV	-0.003	0.633
ROA	-0.023	0.322
GROWTH	0.000	0.099**
INTER	-0.015	0.030*
OWN	0.023	0.039*
R^2	0.079	
Adjusted R^2	0.053	
Sig ß (Simultaneously)	0.008	
Dependent Variable: COC		

Source: Secondary Data (processed)
* Significant at 5% level
** Significant at 10% level

Company Size Influence on the Cost of Equity Capital.
The result of multiple linear regression analysis in Table 3 indicated that the value of β for firm size variable was 0.007 marked positive, with a β significance value equal of 0.036 which was smaller than the significance level of 0.05. Hence, partially, there was a significant influence on firm size to the cost of equity capital. This is not in line with the studies of Siagian (2014) and Febrian (2007). This is because large companies cause larger investors to bear larger total risk factors as well. Thus, the company earned a large profit per share as a result of increased disclosure. Companies reduce information asymmetry by publishing disclosure that results in the decreased cost of capital.

In this study, a significant effect took place as not all large companies earned a large profit per share. This was because large companies had larger assets than small companies that required greater capital. Therefore, the greater the company, the greater the cost of the company's capital.

Febrian (2007) in his research mentions that some research imply that an investors' preference to invest in large companies is because they provide higher returns per share than the small ones. Large corporations also have more activities that cause an impact on the society.

Therefore, larger companies provide more accounting information through disclosures in their annual reports. Reduced asymmetry information in large companies causes an impact on the company's cost of capital decline.

The Leverage Ratio Influence on the Cost of Equity Capital.
The result of the multiple linear regression analysis in Table 3 indicated that the β negative value for leverage ratio variable reached 0.003 with a β significance level of 0.633 which was bigger than the significance level of 0.05. Hence, partially, there was no significant influence of leverage ratio to the cost of equity capital. This was not in accordance with the research done by Nurdiyanto (2013), which stated that companies that had a lot of debt would raise the cost of capital because the use of debt not only increased the company's risk but also its profits. Therefore, the leverage ratio positively affected the cost of capital.

In this study, the leverage ratio had no significant effect on the cost of capital. This was because companies with high liquidity tend to have a high cost of capital. To reduce the cost of capital, companies decided to make loans with creditors for the purpose of business expansion. Debt is risky in terms of future returns, but the return will be worth the investment if the debt is put to good use. However, the most profitable aspect of the debt is the tax burden reduction. The funding decision was a calculated decision which could reduce the cost of capital.

The ROA Influence to the Cost of Equity Capital.
The result of the multiple linear regression analysis in Table 3 indicated that the β value was negative for ROA variable at 0.023 with a β significance value of 0.322 which was bigger than the significant level of 0.05, Therefore, partially, there was no significant influence of ROA to the cost of equity. This is in accordance with the research by Gode and Mohanram (2001).

This insignificant effect was because companies with larger ROAs were more likely to have a low cost of capital. This was because if the company profitted, the investors would not expect an excessively high return. With large profits, investors could get a rate of return beyond their expectations.

The Growth Opportunities Effects on the Cost of Equity Capital.
The result of multiple linear regression analysis in Table 3 indicated that the β value for growth opportunity variable was 0.000, marked positive with the β significance value of equal to 0.099, which was smaller than the significance level of 0.10. Hence, partially, there was a significant influence from the growth opportunity to the cost of equity capital. This is in accordance with the research of Jimanto (2009). Nevertheless, the results of this study did not support the research conducted by Hanniarsa (2009).

This significant effect was caused by companies that had a better chance to grow and therefore were more attractive to investors than those with a lesser chance to grow. In addition, the firms with better growth opportunities tend to become big companies. With such a good growth, the company's opportunities, the company's cost of capital would become smaller.

The result of this significant influence, according to Jimanto (2009), occurs because large companies reveal more useful information for investors and society, and have the opportunity to generate large profits. This is because of the opportunity to obtain a larger business fund, thus causing the risks received to be lower and result in lower cost of capital due to the low rate of returns implied investors.

Effect of Internationalisation on the Cost of Equity Capital.
The result of multiple linear regression analysis in Table 3 indicates that the value of β negative for internationalisation variable was 0.015 with β significance value equal to 0.030, smaller than the level of significance 0.05, hence partially there was significant influence from internationalisation to the cost of equity capital. This is consistent with Singh's (2003) study.

The occurrence of significant influence is caused by the activities of an internationalized company that provide a big advantage for investors. Therefore, the companies with internationalisation have the opportunity to get new customers on a larger level. Thus, the greater the internationalisation, the cost of capital will be smaller because it signifies the condition of the company that the better so that companies do not have to spend a large cost of capital to attract investors.

This significant result, according to Singh (2013), is due to the company's international activities that can cause a lower risk. Thus, multinational companies with high funding sources of debt are an appropriate strategy to reduce the cost of the total capital.

Ownership Concentration Effects on the Cost of Equity Capital.
The result of multiple linear regression analysis in Table 3 shows that the value of β for ownership concentration variable was 0.023 with positive significance with the β significance value of 0.039 is smaller than 0.05 significance level, partially there was a significant influence of ownership concentration on the cost of equity capital. This is in accordance with research conducted Brush et al. (2000). In his research, Brush et al. (2000) state that the concentration of ownership has an impact on the rising cost of capital. The results of the research indicate that institutional ownership and the majority did not succeed in improving the company's financial performance which means not succeeding] in increasing shareholder value. This failure was due to the fact that the company manager did not succeed in increasing sales growth. As a result, the company must create a strategy that can attract investors by revealing the

company's condition, thus having an impact on the greater the cost incurred to provide information to the public (cost of capital).

In this study, the results were significant because investors as majority owners did not want stock market prices, caused by information asymmetry, to go down. Therefore, majority owners could pressure the managers to provide accurate information about the underlying conditions.

Factor Analysis

The data analysis technique applied the confirmatory factor analysis because it aimed to test whether a construct has uni-dimensionality or whether the indicators used can confirm a construct or variable. If each indicator were a construct measurement indicator, it would form a high loading factor value. Factor analysis technique using Principal Component Analysis (PCA).

Table 4: KMO Measure of Sampling Adequacy

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.621
Bartlett's Test of Sphericity	Approx. Chi-Square	146.085
	Df	15
	Sig.	0.000

Source: Secondary Data (processed)

In Table 4, the value of KMO was 0.621. The value was greater than 0.5, therefore it can be concluded that the correlation between variables can explain other variables and factor analysis was appropriate to be used as an analytical apparatus.

The Eigenvalue is a value that shows the number of variances associated with each factor. Factors having an eigenvalue of one were included in the model, whereas a value less than one is a factor not included in the model. If the eigenvalue is greater than one, then the more representative factor it represents a variable.

Table 5: Eigenvalue and % Variance Explained

Comp	Initial Eigenvalues				Extraction Sums of Squared Loadings		
	Total		% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	1.990	33.167	33.167	1.990	33.167	33.167
	2	1.212	20.204	53.370			
	3	0.969	16.156	69.526			
	4	0.768	12.798	82.324			
	5	0.587	9.791	92.115			
	6	0.473	7.885	100.000			

Source: Secondary Data (processed)

The result of the research formed one factor consisting of six indicators with Eigenvalue 1.990. The percentage of variance was the total of variance explained attributes from each factor, equal to 33.167%.

After obtaining the Eigenvalue and percentage of variance values, the next step in the factor analysis was to examine its component matrix.

By observing the component matrix in Table 6, it can be concluded that there were four indicators that had values above 0.4. Therefore, two indicators, namely debt ratio and internationalisation indicator, which had a value below 0.4, must be discarded. Then the confirmatory factor analysis was completed by including four indicators, namely the firm size, ROA, growth opportunities, and ownership concentration. As a result of return factor analysis, there was the difference between the KMO and variance explained values.

Table 6: Component Matrix

	Component
	1
SIZE	0.454
LEV	-0.615
ROA	0.770
GROWTH	0.766
INTER	-0.015
OWN	0.475

Source: Secondary Data (processed)

Table 7: Component Matrix

	Component
	1
SIZE	0.562
ROA	0.721
GROWTH	0.775
OWN	0.579

Source: Secondary Data (processed)

From the table above, after issuing two indicators with component matrix values below 0.4, the result of the component matrix with four indicators, which were the firm size, ROA, growth opportunities, and ownership concentration constituted the real indicators that made up the reporting incentives.

Table 8: Kaiser-Meyer-Olkin Measure of Sampling Adequacy

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.568
Bartlett's Test of Sphericity	Approx. Chi-Square	90.158
	Df	6
	Sig.	0.000

Source: Secondary Data (processed)

In Table 8, the KMO value was 0.568 which was greater than 0.5. Therefore, it can be concluded that the correlation between variables could explain other variables and that the factor analysis was appropriate to be applied as an analytical tool.

Table 9: Eigenvalue and% Variance Explained Value

Comp	**Initial Eigenvalues**				**Extraction Sums of Squared Loadings**		
	Total		**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
	1	1.770	44.252	44.252	1.770	44.252	44.252
	2	0.909	22.718	66.971			
	3	0.837	20.917	87.887			
	4	0.485	12.113	100.000			

The research result formed one factor consisting of four indicators with eigenvalue value of 1.770. This is in accordance with the provision of Eigenvalue > 1. The percentage of variance, the total of variance explained attributes of each factor, amounted to 44.252%. This result was better than the percentage of variance in Table 5 amounting to 33.167%.

Incentives Regression Factor towards the Cost of Capital.

In this research the regression test of reporting factor incentives with the cost of capital was completed after the factor analysis towards six independent variables. Both positive and negative influences of the independent variables to the dependent variable can be seen by calculating the β value. The result of the regression factor test is explained as follows:

Table 10: Regression Factor Test Result

Model	**ß**	**Sig ß (Partial)**
Constants	0.087	
RI	0.001	0.822
R^2	0.000	
Adjusted R^2	-0.004	
Sig ß (Simultaneously)	0.822	
Dependent Variable: COC		

Source: Secondary Data (processed)

The result of the regression factor test was that the constant value of 0.087 indicated the amount of the cost of capital which was not influenced by the reporting incentives. The regression coefficient in this study showed a positive mark, meaning that the independent variable was in the direction of the change of dependent variable. There were no significant results in the regression factor test .

Conclusion

The conclusions obtained from this research were: (1) the firm size had a significant positive effect on the cost of capital; (2) the debt ratio had no effect on the cost of capital; (3) the ROA had no effect on the cost of capital; (4) the opportunity growth had a significant positive effect on the cost of capital; (5) internationalisation had a significant negative impact on the cost of capital; (6) ownership concentration had a positive effect on the cost of capital; and (7) by factor analysis, reporting incentives as a whole had no significant effect on the cost of capital. This indicated that reporting incentives did not affect the amount of the cost of capital.

Based on the research that has been conducted, the researchers encountered some conditions beyond their control, which were (1) some sample companies did not include how much

overseas sales they earned, thus, the researchers could not identify the size of those companies that conducted international activities to calculate the internationalisation variables; and (2) Several sample companies had different disclosure of the share ownership percentage in their annual reports and notes on financial statements (CALK), thus, the researchers selected one piece of information that indicated the number of ownership in detail.

This research provides suggestions for subsequent research, i.e.: (1) companies are expected to be more transparent in disclosing overseas sales in the notes to the companies' financial statements; and (2) further research is expected to employ managerial ownership variables that are not measured by the managerial ownership, but by the presence or absence of managerial ownership in a company instead. In this case, a dummy scale can be applied in measuring the managerial ownership.

REFERENCES

Amal, M., Awuah Gabriel B., Raboch H., & S. Andresson. (2013). *Differences and Similarities of the Internationalization Processes of Multinational Companies from Developed and Emerging Countries*.

Ashbaugh, H., Collins, Daniel W., & LaFond Ryan. (2004). *Corporate Governance and the Cost of Equity Capital*.

Brigham, Eugene F. & Joel F Houston. (1999). *Manajemen Keuangan*. Jakarta: Erlangga.

Chariri, Anis & Ghozali Imam. (2007). *Teori Akuntansi.* Edisi Ketiga. Semarang: Badan Penerbit Universitas Diponegoro.

Dallas, George. (2004). *Governance and Risk. Analytical Hand Books for Investors, Managers, Directors, and Stakeholders*. New York: McGraw Hill.

Daske, H., L. Hail, C. Leuz, & R. Verdi. (2011). Adopting a Label: Heterogeneity in the Economic Consequences Around Voluntary IAS and IFRS Adoptions. *Journal of Accounting Research.*

Diamond, D. & R. Verrecchia. (1991). Disclosure, Liquidity and the Cost of Capital. *Journal of Finance, Vol 4*, P 1325-1359.

Febrian, Bayu. (2007). *Pengaruh Pengungkapan Sukarela, Beta Saham, dan Ukuran Perusahaan terhadap Cost of Equity Capital*. Fakultas Ekonomi Universitas Brawijaya, Malang.

Gaver, J.J. & K. M. Gaver. (1993). Additional Evidence on the Association Between the Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Polocies. *Journal of Accounting and Economics, Vol. 16*, P 125-160.

Gode, Dan & Mohanram Portha. (2001). What Affects the Implied Cost of Equity Capital?. *Stern School of Business, New York University*.

Jensen, M. C. & W. H. Meckling. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. Journal *of Financial Economics, Vol. 4,* P 305-360.

Keown, Arthur, J. Scott, David F., Martin J., Petty, & William. (2002). *Dasar-dasar Manajemen Keuangan*. Jakarta: Salemba Empat.

Martin, C.L. & N. Bennet. (1996). The Role of Justice Judgments in Explaining the Relationship Between Job Satisfaction and Organizational Commitment. *Group and Organization Management*, P 84-104.

Pouraghajan, Abbasali *et al*. (2012). Relationship Between Cost of Capital and Accounting Criteria of Corporate Performance Evaluation: Evidence from Tehran Stock Exchange. *World Applied Sciences Journal*.

Siagian, Mance Tiaren. (2014). *Pengaruh Manajemen Laba, Risiko Beta Saham, dan Ukuran Perusahaan terhadap Biaya Modal Ekuitas*.

Singh, Manohar & Nejadmalayeri Ali. (2003). Internationalization, Capital Structure, and Cost of Capital: Evidence from French Corporations. *Journal of Multinational Financial Management*.

Sudana, I Made. (2011). *Manajemen Keuangan Perusahaan Teori dan Praktek.* Jakarta: Erlangga.