

ACKNOWLEDGEMENT

Praise and gratitude to Almighty God for all the blessings and opportunity that have been given by Him. Without His grace and guidance, the author will not be able to complete this final paper.

This final paper with entitled “THE EFFECT OF CORPORATE GOVERNANCE ON COMPANIES’ COST OF DEBT (STUDY OF LISTED COMPANIES ON INDONESIA STOCK EXCHANGE)” is aimed to fulfill final requirement to attain the Degree of Bachelor in Economic in Pelita Harapan University. Besides, this final paper facilitates the process of learning and expanding knowledge horizon.

The author realizes without any guidance, support, encouragement and prayer from various people, this final paper cannot be completed. Therefore, the author would like to thank profusely to all those who have assisted in the process of completing this Final paper, namely to:

- 1) Dr. Kim Sung Suk, as the Dean of Business School of Pelita Harapan University.
- 2) Dr. Drs. Antonius Herusetya, Ak. MM as the Head of Accounting Department of Pelita Harapan University.
- 3) Dr. Drs. Marcus Jacob Papilaja. M. S. as Head of Supervisor, for his guidance, suggestions and assistance during the writing of this final paper.

- 4) Sahat M. Simanjatak. B.A., M.B.A. as author's academic advisor of the author.
- 5) All lectures who have taught and shared their knowledge to Author during the study period in Pelita Harapan University.
- 6) Business School staffs for helping Author in all administrative procedures.
- 7) My beloved mother and father for their love, supports, caring, prayer and motivation in many aspects during the writing process. I love you till the end of time.
- 8) My beloved sister and brothers, Aisha, Ivan, and Ihaw for their support, prayer, and understanding. You guys are the best.
- 9) My spiritual father, Dr. Erastus Sabdono, thank you for your love, caring, and advice. You'll be always in my heart.
- 10) All of my friends who are also doing this thesis, Aprilia, Clarissa, Diana, Ferdina, Gracia, Jossia and Stevanie. Thank you for the "level one" distraction throughout stressful period.
- 11) My Thursday Gangs, Jane, Haris, Ryan, Billy, and Patrick, for the laughter that we've shared.
- 12) My chicki friends, Juliet, Monica, and Veronica. Thanks for your support, laughter, and encouragement for these three and half years.
- 13) My close friends Della, Elsy, Evelina, Ivone, Jason, Jessica, Rocky, and Vica, who always supportive and cherish the author during difficult times.

- 14) My Rehobot family and RM Teens Pluit for their prayer and attention.
- 15) All of my friends who have taught and shared their knowledge to Author during the study period in Pelita Harapan University.
- 16) Countless parties who have helped me enormously but cannot be mention one by one.

Finally, the author realizes that there is still many deficiencies in writing this final paper and the result is far from perfect. Therefore, criticism and suggestions will be very useful for the Author to improve this final paper into a better one. Hopefully this Final paper may be beneficial to those who read it.

Tangerang, December 7th 2012

(Ayu Lestari Halim)

TABLE OF CONTENTS

| | Page |
|--|------|
| TITLE PAGE | |
| STATEMENT OF ORIGINALITY OF THESIS | |
| THESIS SUPERVISOR APPROVAL | |
| THESIS EXAMINING LECTURES APPROVAL | |
| ABSTRACT | vi |
| ACKNOWLEDGEMENT | vii |
| TABLE OF CONTENT | x |
| LIST OF FIGURES | xiii |
| LIST OF TABLES | xiv |
| LIST OF APPENDIX | xv |
| CHAPTER I INTRODUCTION | |
| 1.1 Background | 1 |
| 1.2 Problem Formulation | 4 |
| 1.3 Limitation of Problem | 4 |
| 1.4 Objectives of Research | 5 |
| 1.5 Benefit of Research | 5 |
| 1.6 Systematic of Thesis | 6 |
| CHAPTER II THEORITICAL FRAMEWORK | |
| 2.1 Agency Theories | 8 |
| 2.2 Corporate Governance | 10 |
| 2.2.1 Basic Principles of Corporate Governance | 12 |
| 2.2.2 Corporate Governance Mechanisms | 14 |
| 2.3 Cost of Debt | 18 |
| 2.4 Previous Research Framework..... | 20 |

| | |
|----------------------------------|----|
| 2.5 Theoretical Framework | 23 |
| 2.6 Hypothesis Formulation | 24 |

CHAPTER III RESEARCH METHODOLOGY

| | |
|---|----|
| 3.1 Population and Sample | 27 |
| 3.2 Type and Sources of Data | 27 |
| 3.3 Data Collection Methods | 28 |
| 3.4 Research Variables..... | 28 |
| 3.4.1 Dependent Variable | 28 |
| 3.4.2 Independent Variable | 29 |
| 3.4.3 Controlling Variables | 30 |
| 3.5 Data Analysis Method..... | 33 |
| 3.5.1 Descriptive Statistics Analysis | 34 |
| 3.5.2 Classic Assumption Statistical Analysis | 34 |
| 3.5.2.1 Normality Test | 34 |
| 3.5.2.2 Multicollinearity Test | 35 |
| 3.5.2.3 Heteroscedasticity Test | 35 |
| 3.5.2.4 Autocorrelation Test | 36 |
| 3.5.3 Hypothesis Test | 37 |
| 3.5.3.1 Coefficient of Correlation..... | 37 |
| 3.5.3.2 Coefficient of Determination..... | 37 |
| 3.5.3.3 F test | 38 |
| 3.5.3.4 Partial (t) test | 38 |

CHAPTER IV RESULT AND ANALYSIS

| | |
|-------------------------------------|----|
| 4.1 Research Objects Overview | 40 |
| 4.2 Data Analysis | 41 |
| 4.2.1 Descriptive Statistics | 41 |
| 4.2.2 Classic Assumption Test | 45 |

| | |
|--|-----------|
| 4.2.2.1 Normality Test | 45 |
| 4.2.2.2 Multicollinearity Test | 46 |
| 4.2.2.3 Heteroscedasticity Test | 47 |
| 4.2.2.4 Autocorrelation Test | 48 |
| 4.2.3 Hypothesis Test | 49 |
| 4.2.3.1 Coefficient of Determination..... | 49 |
| 4.2.3.2 F Test | 50 |
| 4.2.3.3 Partial (t) Test | 51 |
| 4.3 Interpretation of Result | 54 |
| 4.3.1 The Effect of Board of Independent Commissioners to Cost of Debt..... | 54 |
| 4.3.2 The Effect of Audit Committee to Cost of Debt | 55 |
| 4.3.3 The Effect of Institutional Ownership to Cost of Debt | 55 |
| 4.3.4 The Effect of Managerial Ownership to Cost of Debt | 56 |
| CHAPTER V CONCLUSION AND SUGGESTIONS | |
| 5.1 Conclusion | 57 |
| 5.2 Limitations of Research | 58 |
| 5.3 Suggestions | 58 |
| BIBLIOGRAPHY | 59 |
| APPENDIX..... | 64 |

LIST OF FIGURES

| | Page |
|---|------|
| Figure 2.1 Research Model | 24 |
| Figure 4.1 Normal P-Plot of GCG toward Cost of Debt | 46 |
| Figure 4.2 Scatter plot of Heteroscedasticity Test..... | 48 |

LIST OF TABLES

| | Page |
|---|------|
| Table 3.1 Decision Making Based on Durbin Watson Test | 36 |
| Table 3.2 Coefficient of Correlation's Interpretation | 37 |
| Table 4.1 Descriptive Statistics | 41 |
| Table 4.2 Distribution Data of Cost of Debt | 42 |
| Table 4.3 Distribution Data of Independent Variable | 42 |
| Table 4.4 Distribution Data of Variable Control | 43 |
| Table 4.5 Multicollinearity Test Result | 47 |
| Table 4.6 Autocorrelation Test Result (Durbin-Watson)..... | 49 |
| Table 4.7 Model Summary Result | 49 |
| Table 4.8 ANOVA Result | 50 |
| Table 4.9 Coefficient Result | 52 |

LIST OF APPENDIX

| | Page |
|------------------|------|
| APPENDIX A | 64 |
| APPENDIX B | 74 |