Impact of Institutional Governance Tools on Reducing Agency Costs to Commercial Banks Listed in the Amman Stock Exchange

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Received: May 15, 2020 Accepted: August 26, 2020 Online Published: October 4, 2020

doi:10.5430/ijfr.v11n5p414 URL: https://doi.org/10.5430/ijfr.v11n5p414

Abstract

This study aims to identify the Impact of institutional governance tools on reducing agency costs in the banks listed in Amman Stock Exchange (ASE). To this end, the researcher has studied the impact of an institutional governance tools on reducing the agency costs. Which are: board of directors’ size, board of directors’ independent members ratio, number of audit committee meetings, ratio of debt-financing, market share and bank’s size. The agency costs are measured by three indicators: assets turnover ratio, operating expenses ratio and free cash flow indicator. Study sample comprises all 16 banks listed in the ASE, for which data are available in the ASE during period of the study (2017 – 2019). EXCEL and SPSS are used to identify descriptive characteristics of study and analyze data. Regression analysis method is also used to test the study hypotheses.

The study results have concluded that agency costs increase with the increase in the board of directors size, the independent members ratio, number of meetings of audit committees, debt finance ratio and market share ratio. The study has also concluded, as per the operating expenses indicator, that agency costs increase with the increase of debt financing, while they decrease with the increase in the board of directors size. According to the free cash flow indicator, the study results have showed that the agency costs increase with increase in the board of directors size.

Keywords: agency costs, institutional governance, Jordanian banks

1. Introduction

As a result of the increase in companies’ size and variety of their activities as well as the complexity of their business, not to mention the emergence of huge companies that are difficult to run and control their operational and administrative activities, owners have become unable to administer their own companies by themselves, since many lack the proper administrative, financial and operational experience of running a company. This has led many to entrust other people for the task in exchange for salaries and particular bonuses, thus, ownership has been separated from administration, and that led to what is known as the agency theory.

The agency theory is based on the fact that owners or shareholders entrust managers with the work and activities necessary to achieve owners’ objectives and interests, in exchange for certain management interests, namely receiving certain incentives and remuneration. Owners’ interests may conflict with those of managers, as managers pursue their interests and objectives at the expense of owners or shareholders.

The contractual relationship between owners and managers, known as the agency theory, has generated various problems, challenges and costs. Agency costs include costs paid by owners, in the form of remuneration and incentives, for managers in exchange for their accomplishment of entrusted tasks, as well as control costs, manifested in control procedures set by owners for fear of managers attempting to achieve their own interests at the expense of owners’ interests, and finally, costs paid by the administration in preparing reports and additional information provided to the owners.

In Jordan, like other developing countries, many companies encounter many challenges due to agency, namely, the increase in agency costs which constitute a burden to owners and threatens the continuity of the company’s business (Mansour, 2013). Therefore, it was essential to find ways to reduce agency costs through searching for the key factors affecting agency costs and causing their increase or decrease.
This paper aims to examine the impact of corporate governance tools on reducing agency costs in the banks listed in ASE. The impact of the board of directors’ size, board of directors’ independent members ratio, number of audit committee meetings, debt-financing ratio, the bank’s market share and bank’s size on reducing agency costs in the banks listed in ASE will be addressed.

1.1 Problem of the Study

The contractual relationship between owners and managers, which is based on the agency theory, has led to problems and challenges resulting from conflicts of interest between owners and managers. This has resulted in increased agency costs that affect the company’s performance, and poses as a burden to owners. Corporate governance and its tools are considered a means to achieve the company’s administration in a way that guarantees the interests of stakeholders. Therefore, it became essential to identify the impact of corporate governance tools on reducing agency costs of banks listed in ASE, as well as the factors affecting agency costs. which created order to rule and manage the company in the interests of all stakeholders, thus appeared the need to search for knowing the impact of the tools of corporate governance in reducing agency costs in the banks listed in ASE factors affecting agency costs.

The elements of the study problem are illustrated by answering the following questions:

1. What impact do corporate governance, represented in the board of directors’ size, board of directors’ independent members ratio and number of audit committee meetings, have on agency costs in the banks listed in ASE?
2. What impact do the bank’s characteristics, represented in debt-financing ratio, market share ratio and the bank’s size, have on agency costs in banks listed in ASE?

1.2 Study Objectives

The study aims to achieve the following objectives:

1. Measure the impact of governance tools, represented in the board of directors’ size, board of directors’ independent members ratio and number of audit committee meetings, on agency costs in the banks listed in ASE.
2. Measure the impact of the bank’s characteristics, represented in debt-financing ratio, market share ratio and the bank’s size, on agency costs in banks listed in ASE.

1.3 Significance of the Study

The theme of agency costs is considered a research area that has recently gained interest from the part of researchers at an international level. This study is significant due to the importance of the role played by banks in the national economy, so the collapse of these banks would have a negative impact on the national economy.

The study will provide beneficiaries in the Hashemite Kingdom of Jordan with some field findings regarding the impact of institutional governance tools on reducing agency costs in banks listed on the ASE.

1.4 Study Hypotheses

The study hypotheses are:

Ho1: There is no impact of corporate governance tools, represented in the board of directors’ size, board of directors’ independent members ratio and number of audit committee meetings, on agency costs in the banks listed in ASE.
Ho2: There is no impact of the bank’s characteristics, represented in debt-financing ratio, market share ratio and the bank’s size, on agency costs in banks listed in ASE.

2. Theoretical Framework

Agency costs can be defined as a kind of internal costs to be paid to the agent who performs a service and represents the interests of the principal. These costs rise and increase due to fundamental problems such as conflict of interests between principals and shareholders, where shareholders prefer that principals would administer the company in a way that will maximize their rights, while principals prefer to maximize their wealth and increase their power (Schroeder, 2001).

The agency theory is based on the general concept of a relationship between the two parties, the principal and the agent, where this theory is based on the following hypotheses Zureikat et al (2016):

1- Economic rationality of relevant parties.
2- Different preferences of relevant parties.
3- The possibility of motivating the agent to carry out their duties and responsibilities.
The agency theory, which results from the separation between ownership from management, may lead to conflicts of interest between owners and managers, thus leading to increased agency costs. The agency problem is centred on the problem of information asymmetry. Due to information incompleteness between the owner and the agent, as well as the lack of full knowledge of the daily activities performed by managers, two key problems arise:

1. The problem of adverse selection. It results from the failure to give the agent the powers and capabilities to carry out the required actions.

2. The problem of moral hazard, resulting from the manager acting for his own benefit rather than for the owner’s (Mansour, 2013).

Conflicts of interest arise as a result of agency theory and separation of ownership from management. It has several forms, including (Jensen & Mckling, 1976):

1. Conflict of interest between managers and owners:

   It occurs as a result of the difference in objectives between owners and managers, therefore, managers tend to increase the reliance on external funds rather than internal, which would be less expensive. Eventually, the cost of obtaining funds in the company increases.

2. Conflict of interest between shareholders and creditors:

   It happens when creditors think that owners seek to use their money to achieve their own objectives. Owners may not be able to repay their obligations to creditors, where the latter would demand a higher financial allowance and greater benefits, thus leading to an increase in the financing cost in the company.

Some argue that some tools can be applied to solve the agency problem and lessen its effects. Jensen (1986) sees that this problem and the conflict of interests between owners and managers can be solved by increasing the managers’ ownership, raising incentives and compensations to managers, and increasing the use of debt in financing. While Shaqqour (2016) sees that the agency problem can be solved through the following tools:

1. Granting a share of the company’s ownership (by the owner) to the managers.

2. Effective surveillance by the board of directors of the activities and work performed by the executives.

3. Surveillance by non-executive members (Independent) of the board of directors of the activities and work performed by the executives.

4. Surveillance by auditors and accountants of the activities and work performed by the executives.

3. Literature Review

Schäuble (2019), his study aims to explore the impact of internal and external corporate governance tools on agency costs. Agency costs were measured using a frontier stochastic analysis. The results of the study showed that corporate governance tools represented by management ownership and variable management bonuses are negatively related to the level of agency costs. And that these tools are effective tools in achieving the company's profits, which leads to a consensus of interests between managers and owners, and thus reduces agency cost.

Al-Najjar (2018), his study aims to clarify the effect of cash dividends and management bonuses in reducing agency costs. Agency costs were measured by the utilization rate of assets. The results of the study showed that companies listed on the Palestine Stock Exchange suffer from high agency costs, and the banking sector suffered the highest agency costs compared to the rest of the economic sectors, and the study showed that the existence of sound systems for management bonuses will reduce the conflict of interest between the owner and the management.

Owusu & Weir (2018), his study aims to analyze the relationship between agency costs, ownership structure and corporate governance tools in Ghana. Agency costs were measured through two indicators which are the sales to total assets ratio and the expense to sales ratio. The results of the study show that higher management and corporate ownership significantly reduces agency costs.

Zureikat et al (2016), his study aims to investigate the extent to which some internal governance tools contribute to reducing the agency costs in Jordanian industrial companies listed on the ASE, and these tools are debt financing, institutional ownership, board size, and management bonuses. The study found an inverse relationship between ratio of debt financing and agency costs, and agency costs increase when the board of directors’ size is large and decrease when the board of directors’ size is small, also agency costs decrease when the company size is large and rise when the company size is small.
Yegon, et al (2014) his study aims to find out the impact of corporate governance on agency cost for service firms in Kenya. Agency costs were measured by the utilization rate of assets, while institutional governance was measured by the size and independence of the board of directors. The results of the study indicated that agency costs decrease with smaller board of directors.

Mansor et al. (2013) concluded that the number of board meetings held in family business, the autonomy of management, the size of the audit committee, the function of internal audit in the non-family businesses are tools of governance that aimed at reducing earnings management activities. Siddqsi et al. (2013) indicated a positive relationship between board size and liquidity ratio, while the results showed a negative relationship between the number of the board of directors meetings and liquidity ratio.

McKnight & Weir (2009) indicated that the change in the structure of the company’s board of directors does not affect agency costs, and that an increase in the board of directors’ share in the company helps in reducing agency costs.

Florackis & Ozkanm (2008) concluded that the administrative ownership, administrative rewards and administrative concentration have an important role in mitigating agency costs, that the effect of corporate governance internal tools varies depending on the company, according to the difference in growth opportunities in the company, and that companies that increasingly grow face challenges more than those much slower.

Firth, et al (2008) His study aims to analyze the relationships between governance tools, ownership structure and agency costs, in Chinese companies listed on the Shanghai and Washington Stock Exchange during the three-year period (1998-2000). The study showed that agency costs are higher, and the study also found that boards of directors with a majority of external directors are not associated with lower agency costs.

Finally, Singh & Davidson (2003) concluded that administrative ownership has a positive relationship with assets utilization ratio, but does not relate to administrative, general and selling expenses. Concerning the board size, it has a negative relationship with the assets utilization ratio. Results showed that external independent members of the board of directors don’t have a role in reducing agency costs.

The study contribution and difference from other studies

This study is distinguished from other studies, that it was applied in the Jordanian environment, as the study was applied to banks listed on the ASE. It was also distinguished by the methods of measurement used, where by the dependent variable (agency costs) was measured by three indicators (asset turnover index, operating expenses index and free cash flow index), and the independent variable (governance tools) was measured by (the board of directors’ size, board of directors’ independent members ratio and number of audit committee meetings)

4. Methodology

4.1 Sample and Population

The study population comprises all the 16 banks listed in the ASE for the year 2019. The study sample comprises all banks listed in the ASE Securities for the year 2019, which contain all the data required for this study, represented in the financial statements of banks listed in the ASE during the period (2017 – 2019).

4.2 Research Methods and Data Collection Sources

The analytical descriptive research methodology has been followed, and two types of data collection sources have been used:

- Secondary sources: the study information and data were collected by reviewing the literature as well as relevant theoretical and field studies through reviewing books, research studies, periodicals, publications, in addition to the internet.

- Primary sources: the data needed for the study were collected through the reports published by the banks in the ASE directory and on the ASE website.

4.3 Study Variables and Measurement Methods

The study variables comprise agency costs as a dependent variable and the independent variables include the board of directors’ size, board of directors’ non-executive members ratio, number of audit committee meetings as well as external audit fees, financial leverage ratio and the company’s market share, while the company’s size constitute the mediator variable.

Dependent variable: agency costs:
Three indexes have been used to measure agency costs, Singh & Davidson (2003), Florackis & Ozkanm (2008), McKnight & Weir (2009):
- Assets turnover rate index: it is measured by the ratio of the bank’s total income to the bank’s total assets.
- Operational expenditure index: measured by the ratio of operating expenses to total bank income.
- Free cash flow index: measured by the ratio between cash flows from operational activities and distributions to the bank’s total income.

Independent variables:
- Number of board members.
- Number of non-executive members of the board of directors.
- Number of audit committee meetings.
- Financial leverage ratio: it is measured by the bank’s total debts to the bank’s total assets.
- The company’s market share: it is measured by the ratio of the bank’s total income to the total income of all banks.
- Company size: it is measured by bank’s total assets logarithm.

5. Results

The study has used the EXCEL and the SPSS to analyze data, investigate descriptive statistics of variables and test the hypotheses. Table 1 shows the descriptive statistics of the variables while Table 2 shows the hypotheses testing results. Each hypothesis and descriptive statistics for study variables are stated as follows:

Table 1. Descriptive statistics of study variables

| The variable                              | N  | Min | Max | Mean | SD        |
|------------------------------------------|----|-----|-----|------|-----------|
| Assets turnover ratio                    | 48 | .04 | .07 | .0579| .00765    |
| Operating expenses ratio                 | 48 | .39 | .79 | .567 | .09357    |
| Free cash flow indicator                 | 48 | -.12| .14 | .026 | .05644    |
| Board of directors’ size                 | 48 | 11.00| 15.00| 12.500 | 1.3445    |
| Board of directors` independent members ratio | 48 | .00 | .33 | .245 | .11236    |
| Number of meetings of AC                 | 48 | 4.00| 21.00| 8.500 | 5.2749    |
| Debt-financing ratio                     | 48 | .73 | .97 | .8675| .01658    |
| Bank`s market share                      | 48 | .025| .45 | .15  | .12346    |
| Bank`s size                              | 48 | 4.08| 5.41| 3.89 | .38432    |

Table 2. The hypotheses testing results

| The variable                              | Account value | assets turnover | operating expenses | free flow | cash    |
|------------------------------------------|---------------|-----------------|-------------------|-----------|---------|
| Board of directors` size                 | P-value sig.  | .000            | .049              | .02       |         |
|                                          | T-value       | -5.898          | -2.030            | 2.425     |         |
| Board of directors’ independent members ratio | P-value sig.  | .007            | .098              | .176      |         |
|                                          | T-value       | -2.853          | 1.695             | -1.380    |         |
| Number of audit committee meetings,      | P-value sig.  | .000            | .146              | .868      |         |
|                                          | T-value       | -7.039          | 1.485             | -.167     |         |
| Debt-financing ratio,                    | P-value sig.  | .005            | .000              | .418      |         |
|                                          | T-value       | -2.964          | 4.449             | -.879     |         |
| Bank`s market share                      | P-value sig.  | .001            | .415              | .823      |         |
|                                          | T-value       | -3.621          | .824              | .225      |         |
| Bank`s size                              | P-value sig.  | .45             | .522              | .984      |         |
|                                          | T-value       | -7.64           | -.647             | .020      |         |
5.1 First Hypothesis

There is no impact of corporate governance tools, represented in the board of directors’ size, board of directors’ independent members’ ratio and number of audit committee meetings, on agency costs in the banks listed in ASE.

The impact of each of the governance tools has been measured on a case-by-case basis, as follows:

(A) The impact of board size on agency costs in the banks listed in ASE.

Agency costs were measured by the assets turnover index. Table 1 shows that the lowest value of the assets turnover index reached 0.04, the highest reached 0.07, the mean 0.0579. The Table also shows that the lowest value of the operating expenses index was 0.39, the highest 0.79, the mean 0.567. Regarding the free cash flow index, the Table shows that the lowest value of this index reached 0.12, the highest value was 0.14, while the mean reached 0.026. The size of the board of directors was measured through the number of board of directors members of each bank. Table (1) indicates that the lowest value of the board of directors size reached 11, the highest 15, while the mean reached 12.5.

The hypothesis was tested by Simple Regression. Table 2 shows results of testing the impact of the board size on agency costs in the banks listed in ASE.

The P-value sig. of the assets turnover index reached 0.45, which is less than the significance level of α = 0.05, therefore the null hypothesis is rejected and the alternative hypothesis is accepted. This means that the size of the board of directors have an impact on agency costs as per the assets turnover index. Since the T-value of the assets turnover index is = -5.898, a negative value, it indicates that an increase in the size of the board leads to a decrease in the assets turnover rate and eventually raises agency costs.

The P-value sig. of the operating expenses index amounted to 0.522, the significance level α = 0.05, therefore the null hypothesis is rejected and the alternative accepted, i.e. that the size of the board has an impact on agency costs as per the operating expenses index. Since the T-value of the operating expenses index amounted to = -2.030, a negative value, it indicates that an increase in the size of the board causes a decrease in the operating expenses and thus reduces agency costs.

The P-value sig. of the free cash flow index amounted to =0.984 which is less than the significance level α = 0.05, therefore the null hypothesis is rejected and the alternative accepted, i.e. that the size of the board of directors have an impact on agency costs as per the free cash flow index. Since the T-value of the free cash flow index amounted to = -2.425, a positive value, it indicates that an increase in the size of the board causes an increase in the free cash flows index and thus increases agency costs.

(B) The impact of the board size on agency costs in the banks listed in ASE.

The independent members ratio was measured by the ratio of the number of independent members to the number of the board members of each bank. Table 1 shows that the smallest value of the independent members ratio reached 00, the highest 0.33 while the mean amounted to 0.245.

The hypothesis was tested by Simple Regression. Table 2 shows the results of testing the impact of the independent members ratio on agency costs in the banks listed in the ASE.

The P-value sig. of the assets turnover index reached 0.45, less than the significance level α = 0.05, therefore the null hypothesis is rejected and the alternative hypothesis is accepted, i.e. that the ratio of the number of independent members affects agency costs as per the assets turnover index, and since the T-value of the assets turnover index is = -2.853, a negative value, it means that an increase in the ratio of the number of independent members leads to a decrease in the rate of the assets turnover, and eventually increases agency costs.

The P-value sig. of the operating expenses index amounted to 0.522, which is higher than the significance level α = 0.05, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the ratio of the number of independent members does not affect agency costs as per the operating expenses index.

The P-value sig. of the free cash flow index amounted to =0.984 =0.176, which is higher than the significance level α = 0.05, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the ratio of the number of independent members does not affect agency costs as per the free cash flow index.

(C) the impact of the number of audit committee meetings on agency costs in the banks listed in ASE.

The smallest value of the number of audit committee meetings was 4, as shown in Table 1, the highest 21, while the arithmetic mean reached 8.5.
The hypothesis was tested by Simple Regression. Table 2 shows the results of testing the impact of the number of audit committee meetings on agency costs in the banks listed in the ASE.

The P-value sig. of the assets turnover index reached 0.45, reached 0.005, less than the significance level $\alpha = 0.05$, therefore the null hypothesis is rejected and the alternative hypothesis is accepted, i.e. that the number of audit committee meetings affect the agency costs as per the assets turnover index, and since the T-value for the assets turnover index is $=-7.039$, a negative value, it means that an increase in the number of audit committee meetings leads to a decrease in the assets turnover rate, and eventually increase agency costs.

The P-value sig. of the operating expenses index amounted to 0.522, which is higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the number of audit committee meetings does not affect agency costs as per the operating expenses.

The P-value sig. of the free cash flow index amounted to $=0.984 = 0.868$, which is higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the number of audit committee meetings does not affect agency costs as per the free cash flow index.

5.2 Second Hypothesis

There is no impact of the bank’s characteristics, represented in debt-financing ratio, market share ratio and the bank’s size, on agency costs in banks listed in ASE?

The impact of each of the bank’s characteristics was measured separately, as follows:

(A) The impact of debt-financing ratio on agency costs in the banks listed in ASE. The debt-financing ratio was measured by the bank’s total debts to the bank’s total assets. Table 1 shows that the smallest value of the debt-financing ratio reached 0.73, the highest 0.97 while the mean amounted to 0.87.

The hypothesis was tested by Simple Regression. Table 2 shows the results of testing the impact of the debt-financing ratio on agency costs in the banks listed in the ASE.

The P-value sig. of the assets turnover index reached 0.45, reached 0.005, less than the significance level $\alpha = 0.05$, therefore the null hypothesis is rejected and the alternative hypothesis is accepted, i.e. that the debt-financing ratio affects the agency costs as per the assets turnover index, and since the T-value for the assets turnover index is $=-2.964$, a negative value, it means that an increase in the debt-financing ratio leads to a decrease in the assets turnover rate, and eventually increase agency costs.

The P-value sig. of the operating expenses index amounted to 0.522, less than the significance level $\alpha = 0.05$, therefore the null hypothesis is rejected and the alternative hypothesis is accepted, i.e. that the debt-financing ratio affects the agency costs as per the operating expenses index, and since the T-value for the operating expenses index is $=-4.449$, a positive value, it means that an increase in the debt-financing ratio leads to an increase in the operating expenses, and eventually increase agency costs.

The P-value sig. of the free cash flow index amounted to $=0.984 =0.418$, higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the debt-financing ratio does not affect the agency costs as per the free cash flow index.

(B) The impact of board size on agency costs in the banks listed in ASE. The bank’s market share was measured by the bank’s total income to all banks’ total income. Table 1 shows that the smallest value of the bank’s market share reached 0.025, the highest 0.45 while the arithmetic mean amounted to 0.15.

The hypothesis was tested by Simple Regression. Table 2 shows the results of testing the impact of the bank’s market share on agency costs in the banks listed in the ASE.

The P-value sig. of the assets turnover index reached 0.45, less than the significance level $\alpha = 0.05$, therefore the null hypothesis is rejected and the alternative hypothesis is accepted, i.e. that the bank’s market share affects the agency costs as per the assets turnover index, and since the T-value for the assets turnover index is $=-3.0621$, a negative value, it means that an increase in the bank’s market share leads to a decrease in the assets turnover rate, and eventually increase agency costs.

The P-value sig. of the operating expenses index amounted to 0.522, higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the bank’s market share does not affect the agency costs as per the operating expenses index.
The P-value sig. of the free cash flow index amounted to $=0.984$ higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the bank’s market share does not affect the agency costs as per the free cash flow index.

(C) The impact of board size on agency costs in the banks listed in ASE. The size of the bank was measured by working out the total assets logarithm for each bank. Table 1 shows that the smallest value of the bank’s size was 4.08, the highest 5.41, while the mean reached 3.89.

The hypothesis was tested by Simple Regression. Table 2 shows the results of testing the impact of the bank’s size on agency costs in the banks listed in the ASE.

The P-value sig. of the assets turnover index reached 0.45, higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the bank’s size does not affect the agency costs as per the assets turnover index.

The P-value sig. of the operating expenses index amounted to 0.522, higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the bank’s size does not affect the agency costs as per the operating expenses index.

The P-value sig. of the free cash flow index amounted to $=0.984$ higher than the significance level $\alpha = 0.05$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected, i.e. that the bank’s size does not affect the agency costs as per the free cash flow index.

6. Discussion and Conclusions
The study has concluded the following:

1- The results of the study, as per the assets turnover index, have revealed that agency costs increase with the increase in the size of the board of directors, the increase in the number of the board independent members, increase in the number of audit committee meetings, increase in the debt-financing ratio as well as the increase in the bank’s market share in the banks listed in the ASE. But the results have revealed that agency costs are not affected by the bank’s size in the banks listed in the ASE.

This results are consistent with Zureikat et al (2016) study, which found that agency costs increase when the board of directors size is large and decrease when the board of directors size is small, but it differ with this study which found that an inverse relationship between ratio of debt financing and agency costs, and agency costs decrease when the company size is large and rise when the company size is small, also the results are consistent with Yegon, et al (2014) study, which indicated that agency costs decrease with smaller board of directors, also this results are differ with McKnight and Weir (2009) study which indicated that the change in the structure of the company’s board of directors does not affect agency costs, and Firth, et al (2008) study, which showed that boards of directors with a majority of external directors are not associated with lower agency costs.

2- The results of the study, as per the operating expenses index, have showed that agency costs increase with the increase of debt financing. But the results have showed that the agency costs decrease with the increase of the board of directors’ size, and agency costs are not affected by the independent members ratio, the number of audit committee meetings, the bank’s market share and the bank’s size in the banks listed in the ASE.

This results are consistent with Zureikat et al (2016) study, which found that agency costs decrease when the size of the company is large and rise when the size of the company is small, but it differ with this study which found that agency costs increase when the size of the board of directors is large and decrease when the size of the board of directors is small, and there is an inverse relationship between ratio of debt financing and agency costs, and also the results are differ with Yegon, et al (2014) study, which indicated that agency costs decrease with smaller board of directors, also this results are differ with McKnight and Weir (2009) study which indicated that the change in the structure of the company’s board of directors does not affect agency costs, and Firth, et al (2008) study, which showed that boards of directors with a majority of external directors are not associated with lower agency costs.

3- The results of the study, as per the free cash flow index, have showed that agency costs increase with the increase in the size of the board of directors in banks listed in ASE. But the results have showed that agency costs are not affected by the independent members ratio, the number of audit committee meetings, the bank’s market share and the bank’s size in the banks listed in the ASE.

This results are consistent with Zureikat et al (2016) study, which found that agency costs increase when the board of directors size is large and decrease when the board of directors size is small, but it differ with this study which found that an inverse relationship between ratio of debt financing and agency costs, and agency costs decrease when the
company size is large and rise when the company size is small, also the results are consistent with Yegon, et al (2014) study, which indicated that agency costs decrease with smaller board of directors.

7. Recommendations
Finally, the researcher proposes the following recommendations:

The need to raise awareness among shareholders and investors of the importance of the agency costs issue.

The necessity of passing legislations which allow increasing the size of the board of directors as well as in the independent members ratio in companies due to their role in reducing agency costs.

The need to expand the study population in future studies, and not limit it to the banking sector in Jordan. It should cover other sectors in the country, including (industrial sector, universities, hospitals, insurance, and communications sectors, and other).

Increased attention to the rights of minority shareholders through adherence from the part of the majority to selecting accounting policies that serve their interests.

8. Future Directions
The study suggests future studies can focus on the impact of company dividends on agency costs.

Acknowledgement
This research is funded by the Deanship of Research in Zarqa University, Jordan.

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