

Agency costs and corporate governance mechanisms: Evidence for UK firms

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Abstract

In this paper, we aim to extend the empirical literature on the determinants of agency costs by using a large sample of UK listed firms. To do so, we employ two alternative proxies for agency costs: the ratio of total sales to total assets (asset turnover) and the ratio of selling, general and administrative expenses (SG&A) to total sales. In our analysis, we control for the influence of several internal governance mechanisms or devices that were ignored by previous studies. Also, we examine the potential interactions between these mechanisms and firm growth opportunities in determining agency costs. Our results reveal that the capital structure characteristics of firms, namely bank debt and debt maturity, constitute two of the most important corporate governance devices for UK companies. Also, managerial ownership, managerial compensation and ownership concentration seem to play an important role in mitigating agency costs. Finally, our results suggest that the impact exerted by internal governance mechanisms on agency costs varies with firms' growth opportunities.

JEL classification: G3; G32

Keywords: Agency costs; Growth opportunities; Internal Corporate Governance Mechanisms.

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