THE EFFECT OF EMPLOYEE STOCK OWNERSHIP PROGRAM (ESOP) TO THE COST OF CAPITAL WITH QUALITY OF EARNINGS AS AN INTERVENING VARIABLE

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ABSTRACT

The current study aimed to examine the empirical evidence related to the employee stock ownership program (ESOP) towards the cost of capital of the company with the quality of earnings as mediation. ESOP is expected to align the interests of management with the owners of the company. ESOP is expected to improve the performance of agents that will be reflected in the quality of corporate profits. Companies that implement ESOP have placed employees, management, or executive, on a par with their principals. Employees will enjoy results like other shareholders, if the company has increased earnings. Thus the risk faced by the company can be minimized. Confidence of investors and creditors will guarantee their funds and it will make the cost of capital has decreased. The data in the study were obtained from the Indonesia Stock Exchange. Nineteen sample companies are implementing ESOP program during 2008 through 2014. The number of observations obtained during this period were 60 observations. This is because the period of implementation of the ESOP of each company is different. The research hypothesis testing used a test path analysis using software SmartPLS 2.0 M3. The empirical results of the study indicated that the ESOP significantly and negatively affected the cost of capital. ESOP also positively and significantly affect discretionary accruals of the company. Earnings quality did not affect the cost of capital. Tests of the capital cost component showed that ESOP and earnings quality affected the cost of debt. While for the cost of equity of ESOP is not a factor affecting. In testing of the intervening variables, earnings quality did not mediate between the effect of ESOP and the cost of capital.

Keywords: agency theory, employee stock ownership program (ESOP), earnings quality, the cost of capital

INTRODUCTION

The relationship between management and the employer is a principal and agent relationship paradigm. Owner of the company as a principal giving credence in the form of a contract of employment to the management as an agent who gave his managerial services (Astika, 2003). That relationship led to a conflict of interests in companies between managers and shareholders, managers with creditors or between shareholders, creditors, and managers due to their agency relationships (agency relationship) Fun (2007). One of the strategies applied by the company to reduce the agency conflict is their stock ownership program for employees, management and executives.

ESOP gives the right / option to employees to be able to buy / acquire shares of the company at the appointed time, a certain amount and a certain price (hereinafter called the exercise price), which has been determined at the time of adoption of the program (Astika, 2012). The exercise price is the exercise price of stock options at the stage of execution. The exercise price is generally not much different from the company's stock price at the time of the announcement of stock options (Astika, 2012). The program was implemented to reward long-term performance of employees (in the broad sense) of the company (Astika, 2007). According to Anwar and Baridwan (2006) granting an option to be able to buy shares of the company in accordance with the number and exercise price of which has been determined, it could motivate the employees to perform better over time. Granting the option to be able to purchase company stock at an exercise price that is generally lower than the market price of shares of the company, becomes a more effective motivator than cash bonus. Option rights granted to employees can bind them for maximum performance over time, because that option continually serves as an incentive that the actual value will be determined by the performance of the company in the future. ESOP is also able to anticipate the possibility of transfer of ownership and enhance shareholder value through stock returns (Anwar and Baridwan 2006 and Dhiman, 2009).

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The idea of granting employee stock options is primarily to align incentives (align of interest) earned by the employees to the wishes of the shareholders of the company (Kedia and Mozumdar, 2002). The shareholders desirous that stock prices improved, so that the companies give incentives to employees in the form of employee stock options (OSK) will spur employees to work more optimally so that the company's performance, the better the impact on the company's stock price increases. The expected result is ultimately this will increase the amount of incentives earned by the employees of the results of the implementation of the OSK-owned (Joy, 2006). As a form of business strategy and applied as a policy in order to create value for the company (firm values) stock option program may be the company's expectations. The reason underlying is that, both the stock options and the company's shares owned by executives, providing incentives for them to perform the function of internal monitoring (Chen and Steiner, 2000). Stock options can also be used as a tool to retain key employee to improve the performance of the company and it is associated with positively abnormal returns (Kedia and Mozumdar, 2002).

Compensation packages given to executives and employees of the company in the form of stock options are expected to increase the value of company (Akindayomi and Warsame, 2009). ESOP is expected to improve the performance of agents that will be reflected in earnings information that is often called the accounting profit. Expectations are not excessive because theoretically equity-based compensation will indirectly distill the existence of labor so that in the long run the company will have employees who are generally qualified and holds a proprietary concept in performing the duties of the company. (Astika, 2008).Jiraporn (2007) found evidence that the application of the income generated ESOP make the company more qualified. ESOP can motivate employees to maintain the sustainability of the company, as a long-term strategy. ESOP is not only useful to improve the productivity of employees and agency cost, but also to improve the quality of corporate profits, reducing opportunistic behavior management for financial reporting, and minimizing the damage to the company due to lack of confidence of shareholders and creditors in the amount of reported earnings. (Daneshfar, 2015).

Research on the effect of ESOP cost of capital made by Ivanov and Zaima (2011) examined the effect of ESOP in the form of leverage, and non-leveraged towards the cost of capital. The capital costs were tested over the cost of equity, cost of debt and average cost of capital by using weight average cost of capital (WACC). Results of univariate analysis showed that companies adopt leveraged and non-leveraged ESOP decreased cost of equity capital and debt as well as the decline in their WACC. Furthermore, multivariate analysis showed that only non-leveraged ESOP were negatively correlated with the cost of equity, cost of debt, and WACC. Robustness test results indicate that the reduction in the cost of equity capital encourages reduction in WACC.

This study will examine more deeply the effect of ESOP company with a capital cost of the quality of earnings as an intervening variable. The purpose of this study was to obtain empirical evidence on the effect of ESOP earnings quality, earnings quality influence to cost of capital, and the effect of ESOP towards the cost of capital, with quality of earnings to be a mediator between the ESOP and the cost of capital. The results of this study showed positive influence on diskresioneri ESOP accruals as a proxy for earnings quality, which means that the ESOP has a negative effect on the quality of earnings. Earnings quality does not affect the cost of capital. ESOP positivelyaffect on the cost of capital. Earnings quality is not a mediator between the ESOP and capital cost.

LITERATURE AND DEVELOPMENT HYPOTHESIS

Employee Stock Ownership Program (ESOP)

Employee Stock Ownership Program (ESOP) is an employee stock ownership program over the shares of the company where the employee works (Bapepam, 2002). There are many approaches that are usually used by companies to implement this program, namely: Delivery of Shares (Stock Grants), Program Stock Purchase By Employee (Direct Employee Stock Purchase Plans) Stock Option Plan (Stock Option Plans), Employee Stock Ownership Plans (ESOPs). While the common form of ESOP given in Indonesia is in the form of stock options.

Quality of Earnings

Earnings quality is said to be high if the reported income can explain the company's financial performance used by the users to make the best decisions, and can be used to predict a price or stock returns (Dechow et al., 2010). In this study, quality of earnings proxied by discretionary accruals.When discretionary accruals is high, then the earnings quality is low because income is heavily influenced by management policy. Thus the quality of earnings and discretionary accruals is inversely.

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Cost of Capital

The concept of cost of capital for the purpose of determining the real costs (real) from use and from each source of funds. The individual cost of capital used to determine with the average cost of capital (weighted average cost of capital). The cost of capital (cost of capital) of a company is the sum of the cost of equity (cost of equity) and debt costs (cost of debt) weighted with a certain value. Finance company continuity with external funding, by issuing shares and issue bonds (debt), and internal funding, by reinvesting the spider before.

ESOP on the quality of earnings

Application of executive compensation in the form of stock options will increase its profit (Akindayomi and Warsame, 2009). According to Hanlon et al. (2003) each execution price of ESO affect the company's future earnings. ESOP is expected to improve the performance of agents that will be reflected in earnings information that is often called the accounting profit. Expectations are not excessive because theoretically equity-based compensation will indirectly distill the existence of labor so that in the long run the company will have employees who are generally qualified and holds a proprietary concept in performing the duties of the company. (Astika, 2008).

H 1a: The exercise price of ESOP has a positive influence on the quality of corporate profits.
H 1b: Proportion of ESOP has a positive influence on the quality of corporate profits.

The Influence of quality of profit to the cost of capital

Triningtyas and Siregar (2014) found that the quality of accruals had a negative effect on the cost of equity, because the worse the quality of accruals, the higher risk information in financial reporting. It caused the required return of investors increased, and the cost of equity increased. Triningtyas and Siregar (2014) found that the quality of accruals had a negative effect on the cost of equity, because the worse the quality of accruals, the higher the risk information in financial reporting. It caused the required return of investors increased, and the cost of equity increased. The study found that if the quality of accruals in financial reporting is getting low, due to the risk of enterprise information that is increasingly high, it can cause the cost of capital be higher. Conversely, high quality accruals will lead to lower capital costs, due to the lower risk that information from the company. Therefore, operational hypothesis in the form of the alternative hypothesis are developed as follows:

H2: The quality of the company's profits has a negative effect on the cost of capital.

ESOP effect of the application of the cost of capital

The company's capital costs are directly linked to the company's value, and the lower cost of capital, the higher the value of the company (Akindayomi and Warsame, 2009). With the implementation of ESOP, it can reduce the risk, so that the cost of capital decrease (Ivanov and Zaima, 2011). Therefore, operational hypotheses in the form of the alternative hypothesis are developed as follows:

H 3a: The exercise price of ESOP has a negative effect on the cost of capital.
H 3b : Proportion of ESOP has a positive influence on the cost of capital

RESEARCH METHOD

Population and Sample

The population of this research are companies that implement the employee stock option program and listed on the Indonesia Stock Exchange (BEI). Sample is only limited to companies that implement ESOP and publish financial statements per December 31 for the years 2008 to 2014 measurement variable :

1. Estimated capital costs do with the approach of weighted average cost of capital (WACC). Started by calculating the cost of equity, cost of debt, then used to calculate the average cost of capital.
WACC = [Wd (Kd (1-T))] + [Ws * Ks]
2. ESOP is also proxied by Ln exercise prices (LnHE) and the proportion of stock options, which is obtained by comparing the number of stock options included in the ESOP program with the overall number of shares owned by the company (Joy, 2007). More specifically, the formula proportion of stock options, namely:
Opit = (Number of share option program ESOP) / (total amount of shares outstanding)
3. The quality of earnings, which is proxied by discretionary accruals. DAT = ((TAC t) / (A t-1)) –NDAt

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RESULTS AND DISCUSSION

Company samples showed that as many as 21 companies listed on the Stock Exchange implement the ESOP during 2008 through 2014. After the search of financial statements and annual reports, from 21 companies to 19 companies that the research sample, this is because there is one company that is not found reports finances, namely Sorini Agro Asia Corporindo (SOBI) in 2008. in addition, there is one company that started applying the ESOP in 2014 but has not provided shares during the year, namely PT Bank Pembangunan Daerah JawaTimurTbk (BJTM). ESOP implementation period for each company is different. There are seven years, five years, four years, two years, and some have only a year. It depends on company policy.

Table 1
List Application ESOP During2008 – 2014

No	Code ofEmiten	Name of Company
1	AKRA	PT AKR CorporindoTbk
2	BBRI	PT Bank Rakyat Indonesia (Persero) Tbk.
3	BDMN	PT Bank DanamonTbk.
4	BMRI	PT Bank Mandiri (Persero) Tbk.
5	BMTR	PT Global Mediacom Tbk.
6	SCMA	PT Surya Citra Media Tbk.
7	SOBI	PT Sorini Agro Asia CorporindoTbk.
8	BHIT	PT MNC InvestamaTbk.
9	BNGA	PT Bank NiagaTbk.
10	WIKA	PT WijayaKarya (Persero) Tbk
11	BWPT	PT BW Plantation Tbk.
12	KPIG	PT MNC Land Tbk.
13	MTDL	PT Metrodata Electronics Tbk.
14	APLN	PT AgungPodomoro Land Tbk
15	CTBN	PT Citra TubindoTbk.
16	WINS	PT Wintermar Offshore Marine Tbk.
17	WSKT	PT WaskitaKarya (Persero) Tbk.
18	SDRA	PT Bank HimpunanSaudara 1906, Tbk
19	BCAP	PT MNC Securities Tbk

Source: Processed Secondary data, 2015

Statistical analysis of data and related descriptive study variables are presented as follows:

Table 2
Descriptive Statistics Variable Research

Variable	N	Mi Nimum	Mak Simum	Mean	Standard deviation
OPit	0	.0028	.0273	.007463	.00493
LnHE	0	4.762	8.551	6.52769	.98176
WACC	0	.010	.157	.06264	.02900
DACt	0	.008	.717	.09866	.12229
Size	0	26.249	33.740	30.07934	1.61651
ROA	0	.002	3.634	.12405	.46655

Source: Processed Secondary data, 2015

The variables studied were exogenous variables, ESOP,proxied by the proportion of stock options (opit) and the exercise price of stock options (LnHE), an intervening variable, earnings quality,proxied bydiskresioneri accrual (DACt) and endogenous variables, capital costs, are proxied by weight average cost of capital (WACC), as well as control variables, firm size and Return on assets (ROA). ESOP as an exogenous variable is proxied by stock options of companies included in the

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ESOP company, symbolized by opit. ESOP second proxy is the exercise price of stock option program ESOP company, symbolized by LnHE. The exercise price for the stock is showing the average value (mean) of 6.528. The value of the lowest exercise price is $ 4.76, while the highest value of the exercise price is 8.55. The proportion of stock options shows the average value (mean) of 0.0079. These results illustrate that the company's stock options were allocated to the ESOP an average of 0.8%. Allocation of employee stock options are mostly delivered by PT Bank HimpunanSaudara 1906 Tbk in 2011. Instead allocation of employee stock options fewest given by PT Bank Rakyat Indonesia (Persero) Tbk. The standard deviation (standard deviation) for the variable of employee stock options amounted to 0.0056 which means that the degree of variation in the data group or standard deviation data is at 0.0056 from its average value.

The cost of capital with the symbol WACC has an average (mean) of 0.063. The capital cost of the value of which reached 0.16, while its lowest value was 0.01. The standard deviation (standard deviation) for the variable cost of capital is 0.29 which means that the degree of variation in the data group or the size of the data standard deviation is 0.29 of the average value.

Earnings quality (DACt) had an average (mean) of 0.98. The value of the lowest capital cost and highest value 0.717 0.0085.DACt average value of 0.09 and a standard deviation of 0.12, which means that the degree of variation in the data group or the size of the data standard deviation of 0.12 of the average value.

Furthermore, the control variables in this study include firm size (Size), and ROA. Size indicates the minimum value of 26.25 with asset value of 251.122.855.00 rupiahs, - owned by PT Surya Citra Media Tbk 2011. The maximum value of 33.7 with actual asset value of Rp. 449,774,551,000,000, - owned by PT Bank Mandiri (Persero) Tbk 2010. Return on assets (ROA) has a minimum value of 0.02 and a maximum value of 3.6. While the average value is 0.12 and standard deviation is 0.46.

Data Analysis

This study uses data processing techniques using SEM-based Partial Least Square (PLS). It requires two stages to assess Fit Model of a research model.

This research analyzes the path (Path Analysis) to determine whether there is influence of exogenous variables on endogenous variables. Equation of path analysis used in this study is:

DACt = $\alpha 1 + \beta 1$ HE + $\beta 1$ opit e1 .... (I)

WACC = $\alpha 2 + \beta 2$ DACtopit + + $\beta 2$ $\beta 2$ $\beta 2$ Size + e2 ROA .... (II)

Evaluation model (inner model) then made to see the value of the significance and influence between variables through bootstrapping procedure (Ghozali, 2012). In this study, the significant value that is used (two-tailed) t-value> 1.96 (significance level = 5%). Table 4.11 below illustrates the output of t-statistics using Smart PLS 3.0 M3:

Table 3
Path Coefficients (Mean, STDEV, T-Values)

	Original Sample	Sample Mean	Standard Deviation	Standard Error	T Statistics
DACt -> WACC	-0,0035	-0,0184	0,0945	0,0945	0,0376
HE ->DACt	0,2077	0,2138	0,0525	0,0525	3,9668
HE -> WACC	-0,3373	-0,3496	0,0704	0,0704	4,8832
OPit ->DACt	0,2721	0,2844	0,0826	0,0826	3,2673
OPit -> WACC	-0,1818	-0,17260	0,0779	0,0779	2,4048
ROA -> WACC	0,0534	0,087735	0,098857	0,0988	0,5299
Size -> WACC	-0,0559	-0,02926	0,106629	0,1066	0,4991

Source: Output Smartpls 2.0 M3 (2015)

HYPOTHESIS TESTING AND DISCUSSION

Hypothesis Testing

The significance of this research can be seen from the t-statistic values of the exogenous variables. Values of significance used (two-tailed) with t-value of 1.65 at the 10% significance level, t-value of 1.96 at the 5% significance level, and the t-value of 2.58 at 1% significance level. Limits to support or not support the hypothesis in this study was 1.96. So, if the value of t-statistic is less than 1.96 then the hypothesis is rejected, while if the value of t-statistic is greater than 1.96 then the hypothesis is supported.

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Testing the Effect of Employee Stock Ownership Program (ESOP) on the Quality of Company Earnings

The first hypothesis (H1) stated that there is positive and significant correlation between ESOP (ESOP) to the quality of corporate profits (DACt). ESOP represented by proxy of variable exercise prices (HE) and the proportion of stock options (opit). Variable earnings quality isproxied with diskresioneri accrual (DACt), has the opposite direction, when DACtis low, then the profit will be high.

Based on the results of the path coefficients in Table 4.8, it is known that the variable exercise price of ESOP positively and significantlyaffect on discretionary accruals. It can be seen from the value of the t-statistic, HE influences on DACt of 3.96 that is greater than 1.96 with a coefficient of 0.20. Similarly, the proportion proxy of ESOP (opit), has a value of 3.26 t-statistic that is greater than 1.96 with a coefficient of 0.27.

Table 4.8 shows the positive effect of ESOP against DACt. It means the quality of the earnings declining. This happens because the higher DACt, the lower the quality of earnings. Therefore the expected results on the hypothesis isthat there is negative effect of ESOP against DACt. The test results showed the opposite, therefore, the first hypothesis **(H1) is not supported.**

Earnings Quality Impact Testing Against Corporate Capital Cost

The second hypothesis (H2) states that earnings quality (DACt) significantly affect the cost of capital (WACC). Table 4.8, show that the quality of earnings does not affect on the cost of capital. It can be seen from the value of the t-statistics of 0,037 that is smaller than 1.96 with a coefficient of -0.035. Therefore, the second hypothesis **(H2) was rejected.**

Testing the Effect of Employee Stock Ownership Program (ESOP) to The Cost of Capital

The third hypothesis (H3) states there is negatively andsignificanty impact on the cost of capital between ESOP companies. ESOP represented by proxy of variable exercise prices (HE) and the proportion of stock options (opit), while the cost of capital is proxied by WACC. Results of path coefficients in Table 4.8, shows that ESOP significantly and negatively affect on the cost of capital, both for the proxy or proxies of proportion of the exercise price of stock options. It can be seen from the value of t-statistic of 4.88 HE that is greater than 1.96 with a coefficient of -0.33. Value t-statistic opit at 2.40 which is greater than 1.96 with a coefficient of -0.18. Therefore, the third hypothesis (H3) is supported.

Here is a summary of the results of research hypothesis testing based on the regression results statistically using Smart PLS 2.0 M3 as follows:

Table 4
Hypotheses Testing Results Summary

No.	Hypotheses Formulation	Description	Result
H1a	The exercise price of ESOP positivelyaffect on earnings quality.	Rejected	significant positive
H1b	The proportion of ESOP positivelyaffect on earnings quality.	Rejected	significant positive
H2	Quality of earnings negatively affect the cost of capital.	Rejected	Negative, not significant
H3a	The exercise price of ESOP negatively affect the cost of capital.	supported	significant negative
H3b	The proportion of ESOP negatively affect the cost of capital.	supported	significant negative

Source: Processed Secondary data (2016)

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DISCUSSION

Effect of Employee Stock Ownership Program (ESOP) on the Quality

The first hypothesis (H1) stated that there is a positive and significant impact on the quality of earnings between ESOP companies. Diskresioneri accrual (DACt) as a proxy for earnings quality opposite directions with the quality of earnings, when DACt low, then the profit generated more qualified.

Based on the results of the path coefficients in Table 4.8, shows that the variable exercise price of ESOP positive and significant effect on discretionary accruals. It can be seen from the value of t-statistic HE influence on DACt of 3.96 that is greater than 1.96 with a coefficient of 0.20. Similarly, the proportion proxy ESOP (opit), has a value of 3.26 t-statistic that is greater than 1.96 with a coefficient of 0.27.

ESOP is expected to be one way of incentive alignment (align of interest) between shareholders and management. Keagenen assumed that the problem will be lost if a manager is also as an owner. As a form of business strategy and applied as a policy in order to create value for the company (firm values) stock option program may be the company's expectations. Theoretically when the employee stock ownership is high, then the incentives given to them not only in the form of cash, and incentives in the form of stock options to be enjoyed in the long term, so that both employees and executive management are motivated to improve their performance continuously. But the opposite happened, ESOP causes opportunistic behavior of management.

The results of this study are consistent with studies of Alves (2012), which indicates that earnings management practices of listed companies in Portuguese influenced by the company's compensation structure. This study shows that executive stock options increase the scope of managerial opportunism.

Therefore, these findings suggest that executive stock options negatively affect the quality of earnings information, and consequently reduce the quality and value relevance of financial data published.

The results of this study are not consistent with the research ofJiraporn (2007). The study found an inverse relationship between the employee stock ownership with earnings management by discretionary accruals as the proxy. Companies with a larger proportion of ESOP ownership will reduce earnings management, thereby increasing the quality of the resulting profit. ESOP as aligning of the interests of employees with shareholders, so that employees and management have more incentives, so that more careful management, as well as reducing the attitude of managerial opportunism in the form of earnings management. Additionally ESOP makes the manager's job safer and thus, allowing managers to concentrate on the long-term prosperity of the company, with respect to the period of their stock options.

Earnings Quality Impact Against Capital Cost Companies

The second hypothesis (H2) states there is a negative and significant effect between earnings quality (DACt) against the cost of capital (WACC). Based on the results of the path coefficients in Table 4.8, show that the quality of earnings but did not affect on the cost of capital. It can be seen from the value of the t-statistics of 0,037 that is smaller than 1.96 with a coefficient of -0.035. Therefore, the second hypothesis (H2) was rejected.

Earnings quality does not affect the cost of debt. Earnings quality proxies used in this study is seen from the earnings quality factor discretionary accruals. The test results in this study found no effect of earnings quality by proxy discretionary accruals against keselurhan cost of capital (WACC).

The results of this study are not consistent with research aboody et al. (2005). The results of this study is the quality of accruals related to the risk of information. The risk that information could affect the cost of capital resulting asymmetry of information through systematic asymmetry components that influence stock prices and losses due to the emerging information privately that affect the potential profits that hit the market when the asymmetry of information becomes a critical note.

Testing the Effect of Employee Stock Ownership Program (ESOP) The Cost of Capital

The third hypothesis (H3) states there is negative and significant impact on the cost of capital between ESOP companies. ESOP represented by proxy variable exercise prices (HE) and the proportion of stock options (opit), while the cost of capital is proxied by WACC. Results of path coefficients in Table 4.8, shows that ESOP significant negative effect on the cost of capital, both for the proxy or proxies proportion of the exercise price of stock options. It can be seen from the

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Analysis of Quality of Earnings as an intervening variable

Testing the effect of intervening / mediation between exogenous variables on the endogenous variables ESOP company with variable capital costs liaison earnings quality, earnings quality show that not be an intervening variable between ESOP with the cost of capital. It can be seen from the three stages of testing the mediating effect that can not be met from the results of this study.

The test results are summarized in Table 4.8, a significant result between ESOP towards the cost of capital. But when testing the effect of the quality of earnings towards the cost of capital, showed no significant results. There are three stages to test the effect of mediation or intervening by using smart PLS. The first stage is carried out in this study to test the effect of exogenous ESOP against endogenous variable cost of capital. ESOP results show a significant and negative effect on the cost of capital. The second stage examines the effect of the exogenous variablesof ESOP mediating variable quality of earnings, based on the statistical t seen. ESOP positively and significantly affect on the quality of earnings. The third stage simultaneously examine the effect of exogenous variables mediating variables ESOP and earnings quality of the endogenous variable cost of debt. At the final stage of testing is expected influence of exogenous variables on endogenous insignificant, while the influence of mediating variables on the endogenous variables to be significant. But the test results in this study showed that the effect of ESOP is significantto capital cost, so the quality of earnings does not mediate between ESOP cost of capital.

CONCLUSION

Based on the results of research and discussion that have been done on the effect of employee stock ownership program (ESOP) towards the cost of capital of the company with the quality of earnings as an intervening variable, and in order to assess the implications of the theory of agency in the Indonesian capital market as well as the basis of the objectives of this study, the detailed some conclusions, Employee stock ownership program (ESOP) positive and significant impact on diskresioneri accrual.

These results demonstrate the application of ESOP that would make the quality of earnings is low. This suggests that one purpose of applying the ESOP, the alignment of interests between principals and agents are not achieved. Earnings quality does not have a negative and significant impact on the cost of capital. Earnings quality is proxied by discretionary accruals.

The quality of the resulting profits resulting from the company is not only discretionary factor, but also factors beyond the control of management in the establishment of such profits, that innate factors. The results of this study indicate discretionary factors do not affect the required rate of return that investors expected. ESOP negatively and significantlyaffect on the cost of capital. With the implementation of ESOP employees, executive management will provide better performance, because they also feel the direct impact on their performance. Thus the risks faced by the company can be minimized. Earnings quality does not give effect to mediation or not an intervening variable in the effect of ESOP against the cost of capital. This is due to the finding of a statistically significant effect in the test variable quality of earnings as an intervening variable in this research model. Tests separately the components of the cost of capital, the cost of equity and cost of debt, some of the results of ESOP found a significant negative effect on the cost of debt, as well as earnings quality and significant negative effect on the cost of debt.

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SUGGESTION

Based on the limitations of the study, the advice can be given to further research are:

1. Future studies may use a longer study period and if possible use companiesthat are not listed on the Indonesia Stock Exchange (BEI).
2. Researchers can then try to use the primary data on the benefits of applying the ESOP when viewed from the perspective of the recipient's employees ESOP.
3. Researchers can then try to examine the possibility of a reciprocal relationship between earnings quality and application of the ESOP.
4. Researchers can then test the other variables that can explain the effect of the application of other compensation packages to the cost of capital.

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