INFLUENCE OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE, MANAGERIAL OWNERSHIP AND INSTITUTIONAL OWNERSHIP ON FINANCIAL DISTRESS IN COMPANIES

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Abstract

This study aims to determine the influence of the Board of Directors, Audit Committee, Managerial Ownership, and Institutional Ownership on Financial Distress in Basic Industry and Chemical Companies Listed on the Indonesia Stock Exchange for the 2016-2019 Period. The data used is sourced from financial data on the Indonesia Stock Exchange through the website www.idnfinancials.com. And a selection has been made based on predetermined criteria. The population used in this study was 68 companies in the Basic Industry and Chemical Sector. By using purposive sampling, the sample obtained was 11 companies. With this research, it is hoped that it can become a science to help further researchers as well as students or the general public who need a source of information. From this study, it can be seen that the Board of Directors, Audit Committee, Managerial Ownership, Institutional Ownership do not significantly influence financial distress in the Basic Industry and Chemical Sector Companies. But all variables affect simultaneously. The selection of sectors in this study is because these stocks are currently the most popular. The Basic Industry and Chemical sectors represent basic elements used in everyday life. Almost all items that we use every day are products of basic industrial companies and chemicals.

Keywords: Board of Directors, Audit Committee, Managerial Ownership, Institutional Ownership, Financial Distress

INTRODUCTION

Each company has a system of ideas and policies that differ according to the culture of the idea and the objectives set forth by the company itself. The company was set up to get profits, which in turn will be used to maintain the survival of the company. For this reason, the company is required to be able to follow the development of the economic conditions in Indonesia which are often unstable.The unstable economic condition in Indonesia has made it difficult for companies to continue to compete with other companies. The often unstable economy in Indonesia has resulted in a demand for the company to develop innovations and to undertake international expansion to maintain its survival.

In this case, the company that is unable to survive will experience bankruptcy, which is one of the reasons why the bankruptcy is the company that experiences losses continuously and the system is managed by the less good company.

This research was conducted in one of the sectors listed on the Indonesia Stock Exchange (BEI), namely the basic industry and chemical sectors. The basic industrial sector and chemistry is a sector that has basic elements that are often used in daily activities. daily use goods are products of basic and chemical industrial companies, along with the sub-sector of basic and chemical industries which consists of the cement sub-sector; ceramics, porcelain, and glass subsectors; metal sub-sector and the like; chemical subsector; plastics and packaging sub-sector; animal feed sub-sector; wood and processing sub-sector; as well as the pulp and paper sub-sector.

Several methods can be used to detect the bankruptcy of a company (financial distress), one of which is the Altman Z-Score method. Altman Z-Score method is a method for predicting the survival of a company by combining several common financial ratios and giving different weights to one another. This method is used because it is more suitable for predicting the business continuity of companies going public.

This research phenomenon aims to determine the potential for financial distress in the basic industrial sector and chemical companies listed on the Indonesia Stock Exchange in the 2016-2019 period using the Altman Z-Score model. The data used in this study are processed data based on the financial statements of industrial companies listed on the Indonesian Stock Exchange in 2016-2019. The final results of this study indicate that the basic industrial companies and chemical sectors listed on the Indonesia Stock Exchange in the 2016 period -2019 are classified into three categories of companies, namely companies that fall into the distress area, gray area, and nondistress area.

PT. Keramika Indonesia Association Tbk in 2016-2018 was included in the gray area category, PT. Keramika Indonesia Association Tbk in 2019 is included in the distress area category. PT. Asiaplast Industries Tbk in 2016 was consistently included in the nondistress area category, PT. Asiaplast Industries Tbk in 2017-2018 was included in the distress area category. PT. Asiaplast Industries Tbk in 2019 is included in the gray area category. Also,

three companies experienced financial distress in 2016-2019 and have the potential to experience bankruptcy in the future, namely PT. Tirta Mahakam Resources Tbk is included in the distress area category in 2016-2019. PT. Berlina (BRNA) was included in the category of distress area in 2016-2019. PT. Jakarta Kyoei Steel Works Tbk is included in the distress area category in 2016-2019. In this condition, the company's internal parties will be quicker to take actions that can improve the company's financial condition before going bankrupt. External parties, in this case, will also be assisted in the decision-making process whether to invest in the company or not. In this case, the role of corporate governance is important to consider because the role of corporate governance can control and supervise company activities. Corporate governance consists of several variables which include institutional ownership structure, the board of directors, audit committee, and managerial ownership. Institutional ownership is ownership of company shares by institutions such as insurance companies, banks, investment companies, mutual funds, and other institutions. Institutional ownership can reduce agency problems that occur because institutional shareholders will supervise the company so that the actions of company managers are selfish.

The Board of Directors is a corporate governance mechanism whose job is to determine the policies to be taken or the company's strategy in the short and long term. The Board of Directors is responsible for managing the company to generate profit (profitability) and ensure the continuity of the company's business. The function of managing the company by the Board of Directors includes five main tasks, namely management, risk management, internal control, communication.

An audit committee was formed to assist the board of commissioners (in a two-tier system) to oversee the performance of financial reporting activities and conduct internal and external audits within the company. And therefore, to maintain independence, the audit committee consists of independent commissioners and parties outside the company who are independent of daily management activities and have the main responsibility to help. the board of commissioners in carrying out its responsibilities, especially those related to company accounting policies, internal control, and financial reporting systems and responsibilities.
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RESEARCH METHODS

This type of research is to use quantitative research methods. The quantitative data used in this research is secondary data with documentation in the form of financial statements of basic industrial sector companies and chemicals listed on the Indonesia Stock Exchange (IDX) obtained through www.idnfinancials.com. This type of research is descriptive.

Number	Criteria	Total
1.	Basic industrial sector companies and chemic listed on the Indonesia Stock Exchange (ID for the period 2016-1019	68

2.	Basic industrial and chemical sector companies that do not regularly publish financial reports on the Indonesia Stock Exchange (BEI) for the 2016-2019 Period	(36)
3.	Basic industrial and chemical sector companies that experienced losses on the Indonesia Stock Exchange (IDX) for the 2016-2019 period	(21)
	The number of companies that meet the sample criteria	11
	Total sample during the current period (11x4 years)	44

Table 1. Data Sample

Based on the explanation from Wongsosudono and Chrissa (2013), financial distress occurs before bankruptcy. Bankruptcy itself is usually defined as a situation or situation in which the company fails or is no longer able to fulfill the debtor's obligations because the company experiences insufficient and insufficient funds to run its business. Financial distress is measured using a discriminant test (z-score).

$$Z-score = 1,2\,(X1) + 1,4\,(X2) + 3,3\,(X3) + 0,6\,(X4) + 1,0(X5)$$

Information:
X1 I: Working Capital to Total Assets
X2 I: Retained Earnings to Total Assets
X3 I: Earning Before Interest and Tax to Total Assets
X4 I: Book Value of Equity to Book Value of Debt
X5 I: Sales to Total Assets

RESULT

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DD	44	3.00	8.00	4.7273	1.64760
KA	44	3.00	4.00	3.1818	.39015
KM	44	.06	107.21	15.1515	20.10519
KI	44	13.98	119.86	64.9191	26.71870
FD	44	.18	6.19	2.4373	1.42745
Valid N (listwise)	44				

Table 2. Descriptive Static

a. The variable DD has a sample of 44 with a minimum value of 3.00 and a maximum value of 8.00 while the average value is 4.7273 with a standard deviation of 1.64760.
b. The KA variable has a sample of 44 with a minimum value of 3.00 and a maximum value of 4.00 while the average value is 3.1818 with a standard deviation of 0.39015.
c. The KM variable has a sample of 44 with a minimum value of 0.06 and a maximum value of 107.21 while the average value is 15.1515 with a standard deviation of 20.10519.
d. The KI variable has a sample of 44 with a minimum value of 13.98 and a maximum value of 119.86 while the average value is 64.9191 with a standard deviation of 26.71870.
e. The FD variable has a sample of 44 with a minimum value of 0.18 and a maximum value of 6.19 while the average value is 2.4373 with a standard deviation of 1.42745.
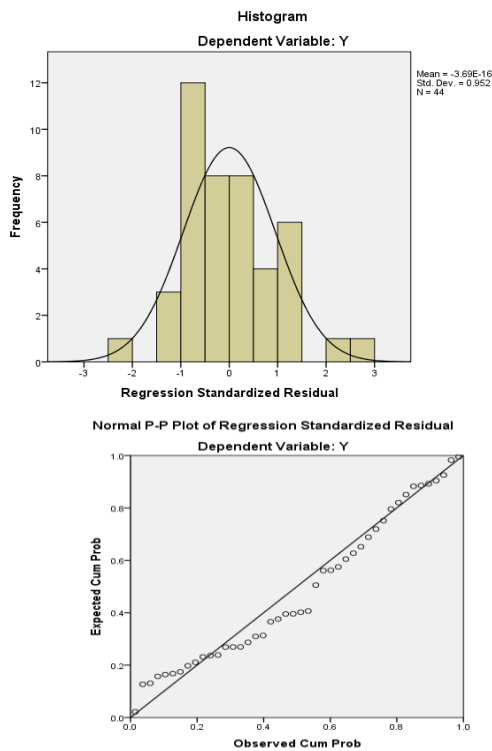
Figure 1. Histogram And Scatterplot

The data spreads around the diagonal line and follows the direction of the diagonal line or the histogram graph shows a normal distribution pattern, so the regression model fulfills the assumption of normality.
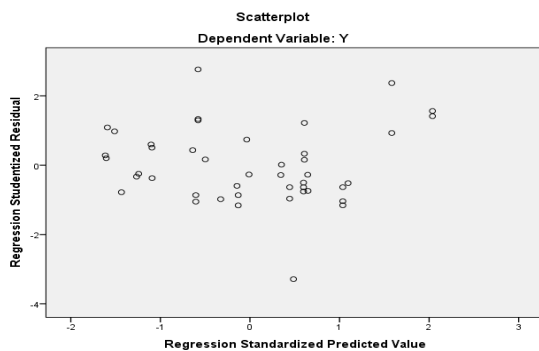

Figure 2. Scatterplot After Research

In the Figure, the Scatterplot Graph above shows the points spread randomly (random) and are scattered both above and below the number 0 on the Y-axis. This can be concluded that there is no heteroscedasticity.

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	7.701	1.478		5.212	.000
	X1	-.534	.089	-.617	-5.995	.000
	X2	-.498	.388	-.136	-1.283	.207
	X3	.009	.008	.130	1.175	.247
	X4	-.020	.006	-.373	-3.309	.002

a. Dependent Variable: Y

Table 3. Regression Test

From the results above, the regression equation is obtained as follows:
$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e$$
$$Y = 7.701 + (-0.534)\,x_1 + (-0.498)\,x_2 + 0.009\,x_3 + (-0.020\,x_4) + e$$

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Table 4. T Test

a. Based on the results of the T-test (partial) above, it shows that the significance value of the Board of

Directors (X) on financial distress (Y) is 0.000 <0.05 and the T value is -5.995 <T table value 2.02269 then Ho is accepted and Ha is rejected. This means that the Board of Directors does not have a significant influence on financial distress.

b. Based on the results of the T-test (partial) above, it shows that the significance value of the Audit Committee (X) on financial distress (Y) is 0.207> 0.05 and the T value is -1.283 <T table value 2.02269, so Ho is accepted and Ha is rejected. This means that the Audit Committee does not have a significant influence on financial distress.

c. Based on the results of the T-test (partial) above, it shows that the significance value of Managerial Ownership (X) on financial distress (Y) is 0.247> 0.05 and the T-value is 1.175 <T-table value of 2.02269. then Ho is accepted and Ha is rejected. This means that Managerial Ownership does not have a significant effect on financial distress.

d. Based on the results of the T-test (partial) above, it shows that the significance value of Institutional Ownership (X) on financial distress (Y) is 0.002 <0.05 and the T value is -3.309 <T table value 2.02269 then Ho is accepted and Ha is rejected. This means that Institutional Ownership does not have a significant effect on financial distress.

CONCLUSION

1. The Board of Directors partially does not have a significant influence on financial distress in the basic industry and chemical sub-sector companies listed on the Indonesia Stock Exchange for the 2016-2019 period.

2. The Audit Committee partially does not have a significant effect on financial distress in the basic and chemical industry sub-sector companies listed on the Indonesia Stock Exchange for the period 2016-2019.

3. Managerial ownership partially does not have a significant effect on financial distress in the basic industry and chemical sub-sector companies listed on the Indonesia Stock Exchange for the period 2016-2019.

4. Institutional ownership partially does not have a significant effect on financial distress in the basic industry and chemical sub-sector companies listed on the Indonesia Stock Exchange for the period 2016-2019

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