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Corporate Governance Mechanism and Financial Distress: Evidence from Indonesia

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Abstract: *This study aims to examine whether corporate governance mechanism affects financial distress. The corporate governance mechanism in this study is proxied by managerial ownership, institutional ownership, size of the board of directors, size of the board of commissioners, the proportion of independent commissioners, and the frequency of audit committee meetings. The population of this study is the trading, service, and investment sector companies listed on the Indonesia Stock Exchange in 2017-2020. The sample size obtained based on the non-random sampling method, purposive sampling, was 216. Data analysis used the multiple linear regression method. The results of the study concluded that managerial ownership, the size of the board of directors, and the frequency of audit committee meetings have a negative effect on financial distress. In contrast, institutional ownership, the size of the board of commissioners, and the proportion of independent commissioners do not affect financial distress. The existence of several companies that do not include the frequency of audit meetings is a limitation of this study. This research is expected to have a theoretical contribution in the form of additional references regarding corporate governance mechanisms that affect financial distress and practical contributions to management to anticipate factors related to corporate governance mechanisms that can cause financial distress.*

Keywords: *financial distress, frequency of audit committee meetings*, *managerial ownership, size of the board of directors, and the proportion of independent commissioners.*

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I. Introduction

One sign for a company that has the potential to go bankrupt is financial distress. According to Platt & Platt (2002), financial distress is a stage of decline in financial condition that occurs in a company prior to bankruptcy or liquidation (Almilia, 2006). Beaver (2010) in Dwijayanti (2020) defines financial distress as a company's inability to pay due financial obligations. The definition of financial distress can also be associated with insolvency (Ross et al., 2010). There are two types of insolvency, namely stock-based insolvency and flow-based insolvency. Stock-based insolvency is a condition when a company has a negative equity value (asset value is lower than debt value), while flow-based insolvency is a condition when operating cash flow is insufficient to meet the company's current liabilities.

Based on this understanding, financial distress can be concluded as a company experiencing a decline in financial condition, negative equity value, and inability to pay due debts. When a company has difficulty paying its debts, it can apply for a postponement of debt payment obligations and for bankruptcy. These provisions are regulated in (Law of the Republic of Indonesia Number 37 of 2004 Concerning Bankruptcy and Suspension of Obligations for Payment of Debt, 2020).

In December 2018, the Indonesia Stock Exchange (IDX) issued a circular letter number: SE-00001/BEI/12-2018 regarding the addition of displaying special notation information to listed company codes. A special notation is a warning given to investors with the intention of protecting stock investors. By looking at this special notation, the IDX tries to notify investors if there is a special condition that investors need to pay attention to the companies on the list. The special notation is shown in Table 1 as follows.

Table 1. IDX Special Notation

Notation	Description
B	There is an application for a Bankruptcy Declaration
M	There is a request for the Postponement of Debt Payment Obligations (PKPU)
E	The latest financial statements show negative equity
S	The latest financial statements show no operating income
A	There is an Adverse Opinion from a Public Accountant
D	There is a Disclaimer of Opinion from a Public Accountant

Notation	Description
L	The Listed Company has not submitted financial statements

Source: www.idx.co.id

Based on the definition of financial distress, it can be concluded that companies that experience financial distress get notations B, M, E, and S, while the notations A, D, and L are not certain to be included in the classification of financial distress. Data as of November 5 2020 from the IDX website, there are 65 companies that are given a special notation. Based on the 65 companies that were given this special notation, there were 52 companies that were included in the financial distress criteria. Companies that receive a special notation are classified based on the 9 company sectors shown in Table 2 as follows.

Table 2. Companies Experiencing Financial Distress

Sector	Number of Companies Obtaining Special Notation	Number of Companies Obtaining Special Notation Financial distress	Special Notation
Various Industrie	6	6	B, E, M, L
Consumer Goods Industry	2	2	E, D, S
Basic Industry and Chemicals	7	6	E, L, S
Infrastructure, Utilities and Transportation	9	8	E, D, L
Finance	1	1	E
Trade, Services and Investment	24	18	A, B, E, D, L, M, S
Agriculture	2	2	B, L, E
Property, Housing and Building Construction	11	7	B, D, L, M, S
Mining	3	2	L
Total	65	52	

Source: www.idx.co.id

Based on Table 2 above, it can be seen that the sectors with the highest number experiencing financial distress are the trade, service, and investment sectors, namely 18 companies. The next sector with the highest number is the infrastructure, utilities, and transportation sector, namely 8 companies. Furthermore, the property, housing, and building construction sectors totaled 7 companies. Based on the phenomenon of financial distress, the companies that the authors examined were companies from the trade, service, and investment sectors because they were the sectors that experienced the most financial distress.

IDX can provide more than one notation to companies experiencing these special conditions. Data on the IDX website shows companies that are included in the financial distress criteria with the highest number marked with the notation E, namely 32 companies. This amount was obtained from 24 companies E, D notations, 2 companies E, D, S notations 1 company, E, L notations 3 companies, and E, S notations 2 companies.

Research on the factors that lead to financial distress has been carried out, among others by Bodroastuti (2009), Deviacita and Achmad (2012), Pembayun and Januarti (2012), Widyasaputri (2012), Aritonang (2013), Nuresa and Hadiprajitno (2013) , Satria (2013), Hanifah and Purwanto (2013), Hastuti (2014). Based on these studies, it is known that the factors that influence financial distress are managerial ownership, institutional ownership, the size of the board of directors, size of the board of commissioners, the proportion of independent commissioners, and the frequency of audit committee meetings with results indicating a mix of results among the researchers. Therefore, the factors that affect financial distress are still interesting topics for governance in this study proxied by managerial ownership, institutional ownership, the board size, the board size, the proportion of independent commissioners, and the frequency of audit committee meetings.

II. Theoritical Framework

This study uses the Agency Theory of Jensen & Meckling (1976) as its basis. Jensen and Meckling (1976) explain that an agency relationship is a contract in which one or more people (principals) instruct another person (agent) to perform a service on behalf of the principal and authorize the agent to make the best decisions for the principal. Agency relationships contain potential conflicts due to information asymmetry. This can affect management's performance in managing the company which in turn can create the possibility of financial distress. Thus a control mechanism is needed that can align the different interests between the two parties. The corporate governance mechanism aims to create added value for all interested parties so that conflicts do not occur between agents and principals which has an impact on reducing agency costs (Bodroastuti, 2009).

Financial Distress

Financial distress according to Platt and Platt (2002) is "a late stage of corporate defined as a stage of corporate decline that precedes more cataclysmic events such as bankruptcy or liquidation". Meanwhile, according to Ross et al. (2010) “financial distress can be expanded somewhat by linking it to insolvency. This definition has two general themes: stocks and flows. Stock-based insolvency occurs when a firm has a negative net worth, so the value of its assets is less than the value of its debts. Flow-based insolvency occurs when operating cash flow is insufficient to meet current obligations. Flow-based insolvency refers to the inability to pay one's debts. Insolvency may lead to bankruptcy”. Financial distress in this study is measured using the Altman Z-Score model. The Z-Score is a score determined from a standard count multiplied by financial ratios that will indicate a company's bankruptcy level. This model basically looks for a "Z" value, namely a value that indicates the condition of the company which also reflects the company's prospects in the future (Altman, 1995 in Harahap, 2017).

Corporate Governance Mechanism

According to Sutedi (2012) in Pratiwi (2019), corporate governance mechanisms can be divided into internal mechanisms and external mechanisms. Internal mechanisms are influenced by internal company factors which include institutional ownership, managerial ownership, independent commissioners, and audit committees. The external mechanism is influenced by the company's external factors which include investors, public accountants, lenders and institutions that certify legality. According to Damak (2013) in Pratiwi (2019), the corporate governance mechanism is divided into two, namely internal mechanisms and external mechanisms. An internal mechanism is an internal means within the company that can encourage managers to maximize the value of the company. Internal mechanisms include the board of directors, audit committee, auditors, ownership structure, supervisory board, and co-supervisors. External mechanisms are company external means that influence potential conflicts that arise between shareholders and managers. External mechanisms include financial markets, market goods and services, and labor market managers. In corporate governance, the board structure within the company is divided into two, namely the one-tier system and the two-tier system. According to IFC (2018), it is explained that: 1) One-tier system or unitary board characterized by a board of directors that governs the company including executive and non-executive members. Apart from carrying out executive activities, directors in a one-tier system carry out non-executive activities which supervise managers to reduce agency costs. Some countries that implement a one-tier system are the United Kingdom, Unites States, and Australia. 2) The two-tier system is characterized by the existence of different supervisory and management bodies. In Indonesia, the supervisory board is called the board of commissioners while the executive board is called the board of directors. The Board of Directors is responsible for the day-to-day management of the company and will be overseen by a supervisory board/board of commissioners. Several countries that use a two-tier system are the Netherlands and Germany.

Managerial Ownership

One of the corporate governance mechanisms that can be used to reduce agency costs is to increase share ownership by management (Pratiwi et al, 2016). This is related to a high sense of ownership of these shares so it is expected to reduce financial difficulties (Fathonah, 2016). According to Pratiwi et al (2016), managerial ownership is the number of shares owned by company management. Managerial ownership is measured by calculating the percentage of shares owned by company management with the total number of outstanding company shares. One of the corporate governance mechanisms that can be used to reduce agency costs is to increase share ownership by management.

Institutional Ownership

According to Pratiwi et al (2016), institutional ownership is ownership of company shares by the government, financial institutions, legal entity institutions, foreign institutions, trust funds and other institutions. The existence of institutional ownership in a company will encourage increased monitoring of management performance. The greater the institutional ownership, the greater the power of voice and encouragement from these financial institutions to oversee management and consequently will provide greater impetus for management to optimize company performance and align the interests of management with shareholders or stakeholders. Cornett et al., (2006) in Pratiwi et al (2016), stated that supervisory actions carried out by a company and institutional investors can limit manager behavior.

Size of the Board of Directors

Article 1 paragraph (5) of the Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies states that the meaning of board of directors is an organ of the Company that is authorized and fully responsible for managing the company for the benefit of the Company, in accordance with the aims and objectives of the company and represents the Company, both in inside or outside the court in accordance with the

provisions of the articles of association. According to Fiadicha and Hanny (2016), the size of the board of directors is the number of directors in the company, the more boards in the company will provide a better form of oversight of the company's performance. Based on the Financial Services Authority Regulation Number 33 of 2014 (2015), Article 2 Paragraph (1) and (2), the Board of Directors of an Issuer or Public Company consists of at least 2 members of the Board of Directors. 1 of the members of the Board of Directors is appointed as the main director or presidential director.

Size of the Board of Commissioners

Article 1 paragraph (6) of the Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies (2007) states that the definition of a board of commissioners is a Company Organ whose job is to carry out general and/or special supervision in accordance with the articles of association and provide advice to the directors. The size of the board of commissioners is the number of members of the board of commissioners in a company (Fiadicha and Hanny, 2016). Based on the Financial Services Authority Regulation Number 33 of 2014 (2015), Article 20 paragraphs (1) and (2), the Board of Commissioners consists of at least 2 (two) members of the Board of Commissioners. In the event that the Board of Commissioners consists of 2 (two) members of the Board of Commissioners, 1 (one) of them is an Independent Commissioner.

The proportion of Independent Commissioners

According to the Financial Services Authority Regulation Number 33 of 2014 (2015), article 1 paragraph (4), an independent commissioner is a member of the board of commissioners who comes from outside the issuer or public company and fulfills the requirements as an independent commissioner. The proportion of independent commissioners is calculated by comparing the number of independent commissioners with the total number of commissioners in the company (Maryam and Yuyetta, 2019). The number of independent commissioners is regulated in the Financial Services Authority Regulation Number 33 of 2014 (2015) concerning the Directors and Board of Commissioners of Issuers or Public Companies, that the number of independent commissioners must be at least 30% (thirty percent) of the total number of members of the board of commissioners.

Frequency of Audit Committee Meetings

According to the Financial Services Authority Regulation Number 55 of 2015 concerning the Establishment and Guidelines for the Implementation of Audit Committee Work (2015) concerning the Formation and Guidelines for the Implementation of Audit Committee Work, article 1 paragraph (1), an audit committee is a committee formed by and is responsible to the board of commissioners in assisting carry out the duties and functions of the board of commissioners. The holding of audit committee meetings has been regulated in the Financial Services Authority Regulation Number 55 of 2015 Concerning the Establishment and Guidelines for the Implementation of Audit Committee Work (2015), Article 13 states that the audit committee holds regular meetings at least 1 (one) time in 3 (three) month. Therefore, the measurement of the frequency of audit committee meetings according to Gunawijaya (2015), Masak and Noviyanti (2019), and Pembayun and Januarti (2012), is measured by the number of meetings held by the audit committee in one year.

Research Design

Population and Sample

The population in this study are companies in the trade, service, and investment sectors listed on the Indonesia Stock Exchange from 2017 to 2020. The sampling technique was carried out by purposive sampling. Purposive sampling is a sampling technique based on the availability of information and conformity with predetermined criteria. The criteria for taking samples in this study are as follows.

Table 3
Sampling Technique

No	Population	Amount
1	Companies in the trade, service and investment sectors listed on the Indonesia Stock Exchange in 2017 - 2020	620
2	**Criterias**	
	• Companies that are not consecutively listed on the Indonesia Stock Exchange from 2017 to 2020	(332)
	• There is no information on the frequency of audit committee meetings in the annual report	(72)
	Sample size for 4 periods (2017-2020)	216

Source: www.idx.co.id

Data Collection Sources and Techniques

The data source used in this study is secondary data in the form of financial statements of companies in the trade, service, and investment sectors for 2017-2020 obtained from the IDX website (www.idx.co.id). The data collection technique is carried out using the archival method, namely by searching for data from archival records, in this case in the form of annual reports of companies in the trade, service, and investment sectors which are available on the IDX website.

Definition of Variable Operations

This study uses six independent variables and one dependent variable. The dependent variable in this study is financial distress. The independent variables in this study are managerial ownership (X1), institutional ownership (X2), size of the board of directors (X3), size of the board of commissioners (X4), the proportion of independent commissioners (X5), and frequency of audit committee meetings (X6).

Financial Distress

Measurement of financial distress in this study uses the Altman Z-Score model which has been modified and can be used for all types of companies. The modified Altman Z-Score model Altman (1995) in Harahap (2017) can be seen below:

Z = 6.56 (X1) + 3.26 (X2) + 6.72 (X3) + 1.05 (X4)

Information:

X1 = Working Capital to Total Assets (Working Capital/Total Assets)

X2 = Retained Earnings / Total Assets

X3 = Income before tax and interest on Total Assets (Earnings Before Interest and Taxes/Total Assets)

X4 = book value of equity to book value of debt (book value of equity/book value of total debt)

Based on the calculation results of the Altman Model, the Z-Score values are obtained which are divided into three categories as follows:

a. If the Z value > 2.60, then the company is in a healthy financial condition.
b. If the value is 1.10 < Z < 2.60 then the company is included in the gray area category or is likely to experience financial difficulties.
c. If the Z value < 1.10 indicates that the company is experiencing financial difficulties and is at high risk.

Managerial Ownership

According to Maryam and Yuyetta (2019), managerial ownership (MO) is measured by the percentage of shares owned by company management of all outstanding shares with the following formula:

$$MO = \frac{The\ number\ of\ shares\ owned\ by\ management}{The\ number\ of\ shares\ outstanding}\ x\ 100\%$$

Institutional Ownership

According to Pratiwi et al (2016), institutional ownership (IO) is ownership of company shares by the government, financial institutions, legal entity institutions, foreign institutions, trust funds, and other institutions. The institutional ownership variable is measured by calculating the percentage of company share ownership by institutions from all outstanding shares (Maryam and Yuyetta, 2019) with the following formula.

$$IO = \frac{The\ number\ of\ shares\ owned\ by\ institution}{The\ number\ of\ shares\ outstanding}\ x\ 100\%$$

Size of the Board of Directors

According to Fiadicha and Hanny (2016), the size of the board of directors (SBoD) is the number of directors in the company. The variable size of the board of directors is formulated as follows:

$$SBoD = Number\ of\ directors\ in\ the\ company$$

Size of the Board of Commissioners

The size of the Board of Commissioners (SBoC) is the number of members of the board of commissioners in a company (Fiadicha and Hanny, 2016). The Board of commissioners size variable is formulated as follows:

$$SBoC = Number\ of\ commissiobers\ in\ the\ company$$

The Proportion of Independent Commissioners

The proportion of independent commissioners (PIC) is calculated by comparing the number of independent commissioners with the total number of commissioners in the company (Maryam & Yuyetta, 2019). The proportion of independent commissioners is formulated as follows:

$$PIC = \frac{The\ number\ of\ independent\ commissioners}{The\ number\ of\ commissioners}\ x\ 100\%$$

Frequency of Audit Meetings

According to Masak and Noviyanti (2019) the measurement of the frequency of audit committee meetings (FAMM) is measured by the number of meetings held by the audit committee for one year. With the following formula:

$$FAMM = Number\ of\ audit\ committee\ meetings\ in\ one\ year$$

Research Methods

Test the hypothesis in this study using multiple linear regression analysis. The equation of the multiple linear regression model in this study can be formulated as follows:

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \varepsilon$

Information:

Y = Financial Distress

α = Constant

β1, β2, β3, β4, β5, β6 = Regression coefficient of each independent variable

X_1 = Managerial Ownership

X_2 = Institutional Ownership

X_3 = Size of the Board of Directors

X_4 = Size of the Board of Commissioners

X_5 = Proportion of Independent Commissioners

X_6 = Frequency of Audit Committee Meetings

E = errors

The criteria for the hypothesis are carried out by comparing the p-value with the alpha value (α) = 5%, with the following conditions:

a. If $p < 0.05$, then Ha is accepted, meaning that the independent variables individually affect the dependent variable.
b. If $p > 0.05$, then Ha is rejected, meaning that the independent variables individually do not affect the dependent variable.

Before testing the hypothesis, a classic assumption test is carried out which consists of a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The normality test uses the One-Sample Kolmogorov-Smirnov test with the condition that if the significance value is above 5% or 0.05 then the data has a normal distribution. Meanwhile, if the results of the One-Sample Kolmogorov-Smirnov test produce a significance value below 5% or 0.05, then the data does not have a normal distribution. The multicollinearity test was carried out by means of a regression test, with the standard Variance Inflation Factor (VIF) and tolerance values. The criteria used are if the VIF value is around 1-10 and if the Tolerance value is ≥ 0.10, then there is no multicollinearity problem. The heteroscedasticity test in this study used the Glejser test. The Gleiser test is performed by regressing the residual absolute values to the independent variables. If the value of Sig. > 0.05, there is no symptom of heteroscedasticity. Conversely, if the value of Sig. <0.05 then there is heteroscedasticity. The detection of autocorrelation is done by using the Durbin-Watson (DW) statistical test. According to Sujarweni (2019), to detect whether or not autocorrelation is carried out the Durbin-Watson Test. The Durbin-Watson decision-making criterion is if the Durbin-Watson number is below -2, it means that there is a positive autocorrelation; if the Durbin-Watson number is between -2 and +2, there is no autocorrelation; and if the Durbin-Watson number is above +2, it means that there is a negative autocorrelation.

Research Model

Based on the hypothesis that has been developed, a research model can be presented to describe the effect of the independent variable (corporate governance mechanism) on financial distress). The mechanism of corporate governance is proxied by managerial ownership, institutional ownership, size of the board of directors, size of the board of commissioners, the proportion of independent commissioners, and frequency of audit committee meetings. The research model is shown in Figure 1 below.

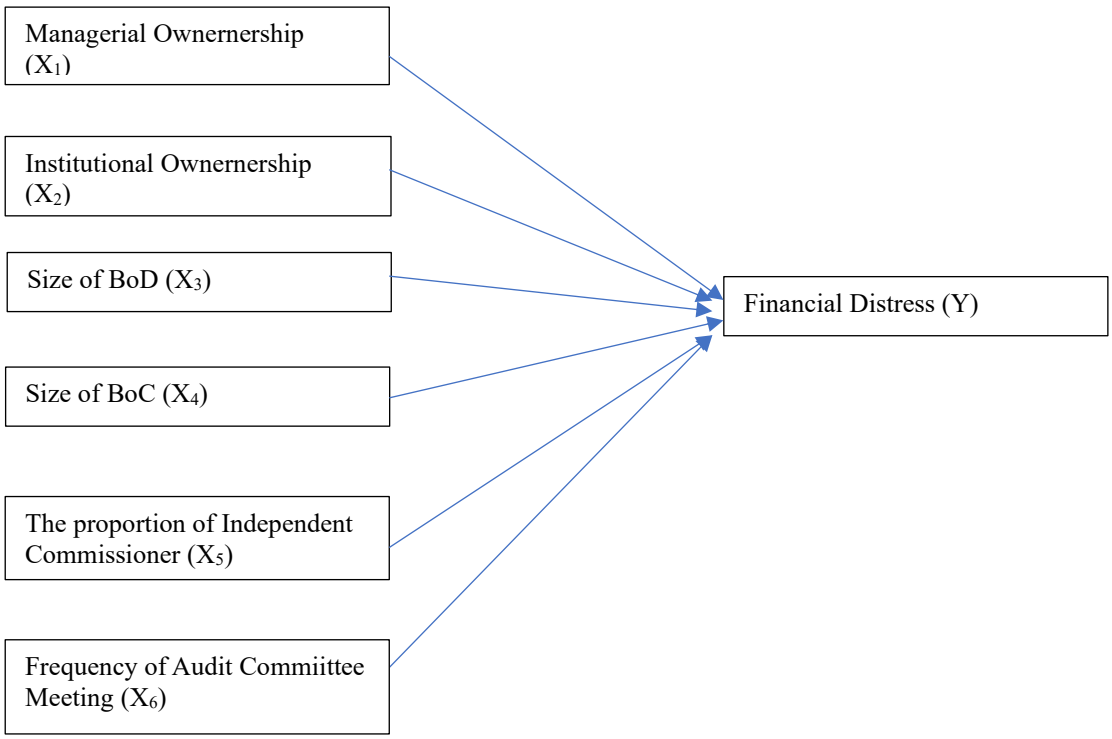

Figure 1. Research Model

III. Results

Descriptive Statistics

The dependent variable in this study is financial distress (FD), while the independent variables in this study are managerial ownership (MO), institutional ownership (IO), size of the board of directors (SBD), size of the board of commissioners (SBC), the proportion of independent commissioners (PIC) and frequency of audit committee meetings (FAMM). The results of the descriptive statistical test can be seen in Table 4 below.

Table 4. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MO	212	.00	.44	.0370	.09023
IO	212	.18	.98	.7192	.18668
SBD	212	2	9	4.59	1.705
SBC	212	2	9	3.95	1.647
PIC	212	.25	1.00	.4176	.12083
PIC	212	2	14	5.43	2.393
FAM[i]	212	-7.78	13.71	3.3655	3.72908
Valid N (listwise)	212				

Source: SPSS data processing result

Based on Table 4 above, it can be seen that the average value of managerial ownership is 0.0370 indicating that the managerial ownership of sample companies is on average small because it is close to a minimum value of 0. The average value of institutional ownership is 71.92% indicating that the institutional ownership of sample companies is average. -the average is large because it is close to the maximum value. The average value of the size of the board of directors is 4.59 indicating that the size of the board of directors of the sample companies is average because it is between the minimum and maximum values with relatively the same distance. The average value of the size of the board of commissioners is 3.95 indicating that the size of the board of commissioners of the sample companies is on average small because it is close to the minimum value of 2. The average value of the proportion of independent commissioners is 41.76% indicating that the proportion of independent commissioners in the average sample company is small because it is close to the minimum value of 25%. The average value of audit committee meeting frequency is 5.43 indicating that the average sample company audit meeting frequency complies with POJK provisions No. 55 of 2015, Article 13, which is 4 times a year. The average financial distress

value of 3.2996 indicates that the sample company's financial distress is on average in a healthy financial condition.

Test Results of Classical Assumptions and Hypotheses

The results of the classic assumption test show that the data passes all classic assumption tests consisting of the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The results of the classical assumption test can be seen in Appendix 2 to Appendix 8. The results of hypothesis testing using multiple linear regression analysis can be seen in Table 5 as follows.

Tabel 5. Multiple Linear Analysis Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.146	1.775		-.082	.935
	MO	-8.194	3.079	.198	2.661	.008
	IO	2.911	1.495	-.146	-1.947	.053
	SBoD	-.340	.151	.155	2.250	.026
	SBoC	-.166	.156	.073	1.067	.287
	PIC	-3.706	2.108	.120	1.758	.080
	FAMM	-.282	.102	.182	2.759	.006
R^2 = 19,3 %						
Adjusted R^2 =16,90%						

a. Dependent Variable: FD

Source: SPSS data processing result

Based on Table 5 above, the multiple linear regression equation in this study is:

Y = 0,146 – 8,194MO + 2,911IO – 0,340SBoD - 0,166SBoC – 3,706PIC – 0,282FAMM + e

Where:

Y:	Financial Distress
A:	Constant
β1, β2, β3, β4, β5, β6:	Regression coefficient of each independent variable
MO:	Managerial Ownership
IO:	Institutional Ownership
SBoD:	Size of the Board of Directors
SBoC:	Size of the Board of Commissioners
PIC:	Proportion of Independent Commissioners
FAMM:	Frequency of Audit Committee Meetings
E:	errors

Based on the Results of Multiple Linear Regression Tests in Table 5 above, it can be seen that managerial ownership has a negative effect on financial distress, institutional ownership has no effect on financial distress, the size of the board of directors has a negative effect on financial distress, the size of the board of commissioners has no effect on financial distress, the proportion of independent commissioners has no effect on financial distress, and The frequency of audit committee meetings has a negative effect on financial distress.

IV. Discussion

Effect of Managerial Ownership on Financial Distress

The first hypothesis states that managerial ownership has a negative effect on financial distress. Based on the results of hypothesis testing using multiple linear regression analysis, it is known that managerial ownership has a negative effect on financial distress. This means that the greater the managerial ownership, the lower the financial distress, conversely, the smaller the managerial ownership, the higher the financial distress. Based on these results it can be concluded that H_0 is rejected and H_{a1} is accepted. The results of this study are in accordance with Agency Theory by Jensen and Meckling (1976), that agents do not always act in the best interests of principals. With shared ownership by management, management will be motivated to improve performance and be responsible for increasing the prosperity of shareholders, so that they will also directly feel the benefits of the decisions taken and share in the consequences of the decisions taken. The results of this study are in accordance with the results of Fathonah's research (2016); Nasiroh (2018); Khairuddin et al (2019); Maryam and Yuyetta

(2019) and Hasniati et al (2017) which show managerial ownership has a negative effect on financial distress. However, the results of this study are not in accordance with the results of research by Aritonang (2013) and Hastuti (2014) which show managerial ownership has a positive effect on financial distress, as well as the results of research by Damayanti and Kusumaningtias (2020); Widyasaputri (2012); Hope (2017); and Satria (2013) which shows managerial ownership has no effect on financial distress.

Effect of Institutional Ownership on Financial Distress

The second hypothesis states that institutional ownership has a negative effect on financial distress. Based on the results of hypothesis testing using multiple linear regression analysis, it is known that institutional ownership has no effect on financial distress. This means that the size of institutional ownership does not determine the level of financial distress. Based on these results it can be concluded that H0 is accepted and Ha1 is rejected. The reason that can explain that institutional ownership has no effect on financial distress is that institutional ownership in companies experiencing financial distress is owned by investment companies so they have many business units or ownership in several companies. This causes supervision of the company is not very active. The results of this study are not in accordance with the Agency Theory by Jensen and Meckling (1976), that there are different goals between principals and agents, causing agency problems due to information asymmetry. The results of this study are in accordance with the results of Harahap's research (2017); Hasniati et al (2017); Hastuti (2014); and Munawar et al (2018) which show institutional ownership has no effect on financial distress. However, the results of this study are not in accordance with the results of Khairuddin et al's research (2019) which show that institutional ownership has a positive effect on financial distress, then the results of research by Fathonah (2016); Helena and Saifi (2018); Maryam and Yuyetta (2019), and Nasiroh (2018) which shows institutional ownership has a negative effect on financial distress.

Effect of The Size of The Board of Directors on Financial Distress

The third hypothesis states that the size of the board of directors has a negative effect on financial distress. Based on the results of hypothesis testing using multiple linear regression analysis, it is known that the size of the board of directors has a negative effect on financial distress. This means that the larger the size of the board of directors, the lower the financial distress, conversely, the smaller the size of the board of directors, the higher the financial distress. Based on these results it can be concluded that H0 is rejected and Ha3 is accepted. The results of this study are in accordance with the Agency Theory by Jensen and Meckling (1976), that there are differences in objectives between principals and agents, causing agency problems due to information asymmetry. The existence of a high board size will reduce agency problems. A larger board of directors size will be able to monitor the financial reporting process more effectively and create a network with outsiders to ensure the availability of resources. The results of this study are in line with the results of Harahap's research (2017); Hasniati et al (2017); Maryam and Yuyetta (2019); Wijayanti (2019); and Satria (2013) which shows the size of the board of directors has a negative effect on financial distress. However, the results of this study are not in line with the results of Helena and Saifi's research (2018); Khairuddin et al (2019), and Widyasaputri (2012) which show the size of the board of directors has a positive effect on financial distress, as well as the results of research by Nasiroh (2018) which shows the size of the board of directors has no effect on financial distress.

Effect of The Size of The Board of Commissioners on Financial Distress

The fourth hypothesis states that the size of the board of commissioners has a negative effect on financial distress. Based on the results of hypothesis testing using multiple linear regression analysis, it is known that the size of the board of commissioners has no effect on financial distress. This means that the size of the board of commissioners does not determine the level of financial distress. Based on these results it can be concluded that H0 is accepted and Ha4 is rejected. The number of the Board of Commissioners in the sample companies has complied with the Financial Services Authority regulation Number 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies, namely at least 2 members of the board of commissioners, but the results of the study show that the size of the board of commissioners has no effect on the possibility of financial distress. The reason that can explain the lack of effect on the size of the board of commissioners on financial distress is that several of the Board of Commissioners in the sample company were found to have concurrent positions or held other positions outside of their duties as the Board of Commissioners in that company so that their supervisory function was not optimal. The results of this study are not in accordance with the Agency Theory by Jensen and Meckling (1976), that there are different goals between the principal and the agent, causing agency problems in the form of information asymmetry. Information asymmetry occurs because the agent knows more information about his work than the principal. The board of commissioners is one of the corporate governance mechanisms needed to reduce agency problems between owners and managers so that there is an alignment of interests between company owners and managers. The results of this study are in accordance with the results of Harahap's research (2017); Widyasaputri (2012); Yudha (2014); and Wijayanti (2019) which

shows the size of the board of commissioners has no effect on financial distress. However, the results of this study are not in accordance with the results of Maryam and Yuyetta's research (2019); Nasiroh (2018) and Bodroastuti (2009) which show the size of the board of commissioners has a positive effect on financial distress and the results of Wardhani's (2007) study which shows the size of the board of commissioners has a negative effect on financial distress.

Effect of The Proportion of Independent Commissioners on Financial Distress

The fifth hypothesis states that the proportion of independent commissioners has a negative effect on financial distress. Based on the results of hypothesis testing using multiple linear regression analysis, it is known that the proportion of independent commissioners has no effect on financial distress. This means that the size of the proportion of independent commissioners does not determine the level of financial distress. Based on these results it can be concluded that H0 is accepted and Ha5 is rejected. This study failed to prove the effect of an independent commissioner on the possibility of financial distress. This is because one of the requirements for becoming an independent commissioner is not having shares, either directly or indirectly, in a public company. Supervision of management is not optimal because independent commissioners do not directly experience the benefits/disadvantages of weak supervision of managers. In addition, there are independent commissioners in the sample companies who have positions in other companies. The results of this study are not in accordance with the Agency Theory by Jensen and Meckling (1976), that there are different goals between the principal and the agent, causing agency problems in the form of information asymmetry. Information asymmetry occurs because the agent knows more information about his work than the principal. Information asymmetry opens up opportunities for agents not to act in the best interest of the principal. The existence of an independent commissioner to oversee the actions of agents and control financial problems so that an action does not occur that causes financial distress. The Independent Commissioner is an independent (neutral) mechanism that oversees and provides guidance and direction to company managers. The results of this study are in accordance with the results of research by Deviacita and Achmad (2012); Hanifah and Purwanto (2013); Helena and Saifi (2018) and Khairuddin et al (2019) which show the proportion of independent commissioners have no effect on financial distress. However, the results of this study are not in accordance with the research results of Hasniati et al (2017) which show that the proportion of independent commissioners has a positive effect on financial distress as well as the results of research, as well as the results of research by Fathonah (2016); Yudha (2014); and Aritonang (2013) which shows the proportion of independent commissioners has a negative effect on financial distress.

Effect of The Frequency of Audit Committee Meetings on Financial Distress

The sixth hypothesis states that the frequency of audit committee meetings has a negative effect on financial distress. Based on the results of hypothesis testing using multiple linear regression analysis, it is known that the frequency of audit committee meetings has a negative effect on financial distress. This means that the greater the frequency of audit committee meetings, the lower the financial distress, conversely, the smaller the frequency of audit committee meetings, the higher the financial distress. Based on these results it can be concluded that H0 is rejected and Ha6 is accepted. The results of this study are in accordance with the Agency Theory by Jensen and Meckling (1976), that there are differences in objectives between principals and agents, causing agency problems in the form of information asymmetry. Information asymmetry occurs because the agent knows more information about his work than the principal. Information asymmetry opens up opportunities for agents not to act in the best interest of the principal. Good supervisory quality can reduce opportunistic behavior by managers as agents. Routine audit committee meetings are able to increase the effectiveness of the audit committee in carrying out its oversight role over the company's financial reporting process and internal control (Vafeas, 1999 in Cook and Noviyanti, 2019). The results of this study are in line with the results of Nuresa and Hadiprajitno's research (2013); Haziro et al (2017); and Purba and Laksito (2016) which show the frequency of audit committee meetings has a negative effect on financial distress. However, the results of this study are not in line with the results of Pembayun and Januarti (2012); Cook and Noviyanti (2019); and Revitasari (2016) which shows the frequency of audit committee meetings has no effect on financial distress, as well as the results of Gunawijaya's research (2015) which shows the frequency of audit committee meetings has a positive effect on financial distress.

V. Conclusion

Based on the results and discussion, the conclusions of this study are: (1) managerial ownership has a negative effect on financial distress. This means that the greater the managerial ownership, the lower the financial distress, conversely, the smaller the managerial ownership, the higher the financial distress; (2) institutional ownership has no effect on financial distress. This means that the size of institutional ownership does not determine the level of financial distress. This is because institutional ownership of companies experiencing financial distress are owned by investment companies from within and outside the country so they have many business units or ownership in several companies. This causes supervision of the company to be not very active;

(3) the size of the Board of Directors has a negative effect on financial distress. This means that the larger the size of the board of directors, the lower the financial distress, conversely, the smaller the size of the board of directors, the higher the financial distress; (4) the size of the Board of Commissioners has no effect on financial distress. This means that the size of the board of commissioners does not determine the level of financial distress. This is because some of the Board of Commissioners at the sample companies were found to hold concurrent positions or have other positions outside of their duties as the Board of Commissioners at that company; (5) the proportion of Independent Commissioners has no effect on financial distress. This means that the size of the proportion of independent commissioners does not determine the level of financial distress. This is because the independent commissioners in the sample companies have positions in other companies; and (6) the frequency of audit committee meetings has a negative effect on financial distress. This means that the greater the frequency of audit committee meetings, the lower the financial distress, conversely, the smaller the frequency of audit committee meetings, the higher the financial distress.

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Appendix:

Appendix 1: Descriptive Statistical Test Results after outlier removal

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MO	212	.00	.44	.0370	.09023
IO	212	.18	.98	.7192	.18668
SBoD	212	2	9	4.59	1.705
SBoC	212	2	9	3.95	1.647
PIC	212	.25	1.00	.4176	.12083
FAMM	212	2	14	5.43	2.393
FD	212	-7.78	13.71	3.3655	3.72908
Valid N (listwise)	212				

Appendix 2: First Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		216
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	4.75838808
Most Extreme Differences	Absolute	.113
	Positive	.113
	Negative	-.087
Test Statistic		.113
Asymp. Sig. (2-tailed)		.000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Appendix 3: Second Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		216
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.26776699
Most Extreme Differences	Absolute	.231
	Positive	.213
	Negative	-.231
Test Statistic		.231
Asymp. Sig. (2-tailed)		.000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Appendix 4: Third Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		212
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	3.35095972
Most Extreme Differences	Absolute	.050
	Positive	.050
	Negative	-.039
Test Statistic		.050
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Appendix 5: Multicollinearity Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	.146	1.775		-.082	.935		
	MO	-8.194	3.079	.198	2.661	.008	.710	1.409
	IO	2.911	1.495	-.146	-1.947	.053	.703	1.422
	SBoD	-.340	.151	.155	2.250	.026	.826	1.210
	SBoC	-.166	.156	.073	1.067	.287	.832	1.202
	PIC	-3.706	2.108	.120	1.758	.080	.844	1.184
	FAMM	-.282	.102	.182	2.759	.006	.907	1.103

a. Dependent Variable: FD

Appendix 6: Glejser Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.391	1.091		4.025	.000
	MO	-.620	1.893	-.026	-.327	.744
	IO	-2.033	.919	-.179	-2.212	.028
	SBoD	-.183	.093	-.148	-1.974	.050
	SBoC	.171	.096	.133	1.785	.076
	PIC	.421	1.295	.024	.325	.745
	FAMM	-.059	.063	-.067	-.944	.346

a. Dependent Variable: ABS_RES_1

Appendix 7: White Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.374[a]	.140	.008	16.28611

Appendix 8: Durbin Watson Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.439[a]	.193	.169	3.39964	.930

a. Predictors: (Constant), FAMM, SBoD, MO, PIC, SBoC, IO
b. Dependent Variable: FD

Appendix 9: Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.146	1.775		-.082	.935
	MO	-8.194	3.079	.198	2.661	.008
	IO	2.911	1.495	-.146	-1.947	.053
	SBoD	-.340	.151	.155	2.250	.026
	SBoC	-.166	.156	.073	1.067	.287
	PIC	-3.706	2.108	.120	1.758	.080
	FAMM	-.282	.102	.182	2.759	.006

a. Dependent Variable: FD