The Role of the Board of Commissioners: Determinants in Predicting Bankruptcy Financing Company

by Setyani Setyani

The Role of the Board of Commissioners: Determinants in Predicting Bankruptcy Financing Company

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ABSTRACT
The purpose of this study is to determine the role of the board of commissioners in moderating the determinants in predicting the bankruptcy of finance companies listed on the Indonesia Stock Exchange for the 2015-2019 period. The study uses secondary data where the population in this study are all finance companies listed on the Indonesia Stock Exchange for the 2015-2019 period with total 16 companies. The purposive sampling methodis used to collect the data and with certain criteria, only 13 companies are selected. This research model uses logit data regression where the dependent variable is a dummy variable, and there isthe role of the board of commissioners as a moderating variable. The results show that profitability has an effect on bankruptcy prediction, liquidity has an effect on bankruptcy prediction, solvency has an effect on bankruptcy prediction, risk management has no effect on bankruptcy prediction, the role of the board of commissioners is not moderated the effect of profitability on bankruptcy prediction as well as risk management on bankruptcy prediction.
Keywords: *Return on Assets; Current Ratio; Gearing Ratio;Non-Performing Financing; Financial Distress*

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I. INTRODUCTION

The presence of finance companies in Indonesia in the last twenty years has experienced rapid development and has become a non-banking financial institution that can assist the development of the country's economy. A finance company that was initially only engaged in leasing activities has now transformed into a company engaged in the distribution of credit funds, both consumptive and productive (Fauzi, 2018). Data from the OJK shows that in 2019, there were 184 financing companies operating with the highest number in DKI Jakarta province as many as 163 companies. The large number of existing financing companies requires strict supervision to establish regulations related to the financing activities. According to Siregar (2018), supervision is carried out as a means and efforts to prevent irregularities in activities in financing companies amidst competition between finance companies.

The high level of competition in finance companies encourages finance companies to be able to maintain their performance. In 2018 the OJK noted that 17 multi-finance companies were under special supervision status and had the potential to be revoked because they had an average non-performing financing ratio at the threshold. Mardi andFaradila (2016) stated that the high non-performing financing (NPL) illustrates that non-optimal credit management will have an impact on credit risk and can result in companies experiencing financial distress.Financial distress or financial difficulties according to Michalkova et al. (2018) is a statement with a negative connotation that describes the condition of a company that fails to fulfill its financial obligations, due to not achieving good access to capital and leading to bankruptcy. In some studies it is said that financial distress can occur because there are a series of errors related to business and management failures (Brigham &Gapenski, 1996), the decline in the company's financial health (Arnold, 2013), the low level of profitability of a company (Fadrul&Ridawati, 2020).Based on the existing phenomena, this research is motivated to examine what factors can influence the company in terms of predicting bankruptcy. The main factor that must be considered by companies in predicting bankruptcy is financial performance. Dalimunthe and Nofryantisay that the high financial performance achieved proves the higher the success achieved by the

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management in managing the company, but if the financial performance continues to decline it will cause the company to experience financial difficulties (Widhiastuti et al., 2019) and the need for efforts from the company's management to avoid a decline in the company's condition which will have an impact on the profitability to be achieved is not maximized.

II. LITERATURE REVIEW

Profitability Ratio Against Bankruptcy Prediction

Profitability ratios are measured using return on assets (ROA), where the ratio is used to assess the good and bad financial conditions of the company (Sari & Hartono, 2020). Profitability shows the success and accuracy of using company assets by measuring how much the company's ability to earn profits (Utami & Kartika, 2019).According to Ratna&Marwati (2018), companies that earn low profits will affect the condition of the company's fund adequacy. If the condition of the company's fund adequacy decreases, it indicates that the possibility of financial distress occurs in the company.

H1 : Profitability has an effect on bankruptcy prediction

Liquidity Ratio to Bankruptcy Prediction

The liquidity ratio is the ratio used to evaluate the company's performance in paying off current debt (Kasmir, 2015). Based on the trade off theory which explains that the exchange system implemented by adding a number of debts rather than making tax savings costs will increase the potential for not being able to pay debts which can lead to bankruptcy of the company (Eugene & Joel, 2014). Liquidity in finance companies is proxied by the match between current assets and current liabilities. The lower this ratio indicates that the company only has few assets to pay current debts which can result in the potential for not being able to pay debts to be high and can increase the possibility of financial distress.According to Haristyawati (2017), it is stated that liquidity has an effect on financial distress.

H2 : Liquidity has an effect on bankruptcy prediction

Solvency Ratio Against Bankruptcy Prediction

According to Soetiono (2016), the solvency ratio measures how far the company is able to pay off all of its debts with all of its assets. The ratio is total debt divided by total assets. From this ratio, it can also be measured how much of the total assets spent by debt. Finance companies must pay close attention to the movement of this ratio because it will relate to the maximum gearing ratio of 10 times. A high gearing ratio that exceeds the maximum limit has the potential for financial distress.Munawarah&Hayati (2019) stated that the Zmijewski model has a positive and significant influence on the probability of financial distress in finance companies.

H3 : Solvency has an effect on bankruptcy

Risk Management Against Bankruptcy Predictions

Sugiyanto (2019) states that risk management is the risk faced by companies arising from a decrease in credit quality or non-performing financing (NPF). The main goal of the company to increase the NPF is to show improved performance, if the company's performance is healthy, the operating cash flow will increase, so that more funds are held back resulting in financial distress. Pantalone & Platt (2010) state that corporate bankruptcy is caused by poor management, as a result of being too willing to take risks. Excessive lending also has a negative impact, because the higher the systematic risk or market risk, the higher the company will face risk. This has an impact on the occurrence of bad loans, the company will experience financial difficulties resulting in financial distress.

H4 : Risk Management has an effect on bankruptcy prediction

The Board of Commissioners Moderates the Effect of Profitability on Bankruptcy Predictions

Ramdani&Wijaya (2019) stated that with the existence of the board of commissioners as part of the company in charge of conducting general and specific supervision of the board of directors so that they always carry out their functions in fulfilling the wishes of shareholders, namely profitability, the more intensely the board of commissioners conducts joint meetings with the board of directors. problems in the company can be resolved together so that the opportunity to face bankruptcy does not occur. By holding periodic meetings, the board of commissioners can prevent and reduce the possibility of financial difficulties because the company's internal control activities are carried out continuously and in a structured manner so that any problems can be quickly detected and resolved properly by management.

H5 : The Board of Commissioners moderates the effect of profitability on bankruptcy prediction

The Board of Commissioners Moderates Risk Management Against Bankruptcy Predictions

Soetiono (2016) mentions that investors need information about the real performance of capital needs to carry out risk management on the possibility of not returning the invested capital. The information provider is a financial intermediary who is able to screen candidates who need capital on the basis of their performance forecasts. In this case, according to Diamond (1984) there is an information gap between parties who need capital and financial intermediaries and those who provide capital. This information gap is called asymmetric information which in Leland and Pyle is known as friction in the financial system. To reduce the information gap, Diamond believes that there is a need for a supervisory delegation system from the owners of capital to the financial intermediaries to those who need capital. The higher the supervision of the board of commissioners in the company, the abyss of bankruptcy does not occur.

H6 : The Board of Commissioners moderates Risk Management towards bankruptcy prediction.

III. MATERIALS AND METHODS

The population in this study are all finance companies listed on the Indonesia Stock Exchange in 2015-2019. Using purposive sampling method, 13 companies are selected with sample criteria used are finance companies listed on the Indonesia Stock Exchange in 2015-2019 and present complete financial data. The research model presents the independent variables (return on assets, current ratio, gearing ratio, non-performing financing), the dependent variable (financial distress), and the moderating variable (board of commissioners meeting attendance rate) in the form of a mathematical regression equation. The method of analysis used logistic regression. The dependent variable using dummy data is 0 (zero) is a company that does not experience financial distress, and 1 (one) is a company that is experiencing financial distress.

IV. RESULTS AND DISCUSSION

Hosmer and Lemeshow'sGoodnes of Fit

The statistical value of Hosmer and Lemeshow'sGoodnes of Fit Test shows that the Zmijewski model has a Sig value. more than (0.266 > 0.05), it can be said that the model is able to predict the value of the observation or it can be said that the Zmijewski model can be accepted because it matches the observation data.

Overall Model Fit

The results of the overall model assessment test show that there is a decrease in the value between the initial and final -2LL of 33,391 with the Chi-Square value of the table at (0.05) of 11,070. This indicates that by including the independent variables, namely return on assets, current ratio, gearing ratio, non-performing financing, and board of commissioners meeting attendance, the research model is better, according to these criteria, the hypothesized model can be declared fit with the data.

Classification Matrix

The predictive power of the regression model to predict the possibility of a company experiencing financial distress is 65.4%. This shows that by using the regression used there are 17 companies (65.4%) which are predicted to have the possibility of companies experiencing financial distress from a total of 26 companies that have the possibility of companies experiencing financial distress.The predictive power of the model that the company may not experience financial distress is 84.6%, which means that by using the regression used there are 33 companies (84.6%) which predict the possibility of the company not experiencing financial distress from a total of 39 companies that have the possibility of the company not experiencing financial distress. It can be concluded that the predictive power or accuracy of the model in classifying the observations is 76.9%.

Logistics Regression Analysis and t Test (Variables in the Equation)

Table 1. Logistics Regression

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Step 1ᵃ return on assets (X1)	-.251	.117	4.623	1	.032	.778	.619	.978
Current ratio (X2)	-1.456	.541	7.241	1	.007	.233	.081	.673
Gearing ratio (X3)	.711	.218	10.598	1	.001	2.036	1.327	3.124
Non performing financing (X4)	.174	.381	.209	1	.647	1.191	.564	2.515
Board of Commissioners meeting (Z)	-.040	.055	.523	1	.470	.961	.863	1.070
Constant	3.168	5.802	.298	1	.585	23.762		

a. Variable(s) entered on step 1: X1, X2, X3, X4, Z.

Table 1 shows the results of the logistic regression at the significance level of 0.05, while the logistic regression equation model is formed as follows:

Financial Distress (Y) = 3.168 - 0.251*return on assets (X1) - 1.456*current ratio (X2) + 0.711*gearing ratio (X3) + 0.174*non performing financing (X4) + e

The research hypothesis can be explained by using the following variables in the equation test results:

a. The significance value of the independent variable profitability as proxied by return on assets is 0.032, which is smaller than = 0.05, which means that return on assets has an effect on financial distress (prediction of bankruptcy). In other words, it can be concluded that H1 is accepted.

b. The significance value of the independent variable liquidity proxied by the current ratio is 0.007, which is smaller than = 0.05, which means that the current ratio has an effect on financial distress (prediction of bankruptcy). In other words, it can be concluded that H2 is accepted.

c. The significance value of the solvency independent variable as proxied by the gearing ratio is 0.001 which is smaller than = 0.05, which means that the gearing ratio has an effect on financial distress (prediction of bankruptcy). In other words, it can be concluded that H3 is accepted.

d. The significance value of the independent variable risk management proxied by non-performing financing is 0.647, which is greater than = 0.05, which means that non-performing financing has no effect on financial distress (prediction of bankruptcy). In other words, it can be concluded that H4 is rejected.

Moderated Regression Analysis

Table 2. Moderated Regression Analysis

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Step 1ª Return on assets (X1)	.200	.122	2.684	1	.101	1.222	.961	1.553
Current ratio (X2)	1.533	.592	6.707	1	.010	4.631	1.452	14.772
Gearing ratio (X3)	-.711	.215	10.959	1	.001	.491	.322	.748
Non performing financing (X4)	-.150	.460	.107	1	.744	.860	.349	2.118
Board of Commissioners meeting (Z)	.020	.068	.089	1	.766	1.021	.893	1.167
Return on assets*Board of Commissioners meeting(M1)	-.484	.741	.426	1	.514	.616	.144	2.634
Non performing financing*Board of Commissioners meeting(M2)	-.314	.545	.331	1	.565	.731	.251	2.128
Constant	-.493	7.301	.005	1	.946	.611		

Based on the results of the analysis in the table above, it can be explained the following moderating variable interactions:

1. The value of the Wald test on the interaction of return on assets * the level of attendance of the board of commissioners meeting on financial distress is 0.426 with a significance of 0.514 more than a significance of 0.05. This can be interpreted that the level of attendance at the board of commissioners meeting is not able to moderate the effect of return on assets on financial distress. In other words, it can be concluded that H5 is rejected.

2. The value of the Wald test on the interaction of non-performing financing*the level of attendance at the board of commissioners' meeting on financial distress is 0.331 with a significance of 0.565 more than a significance of 0.05. This can be interpreted that the level of attendance at the meeting of the board of commissioners is not able to moderate the effect of non-performing financing on financial distress. In other words, it can be concluded that H6 is rejected.

Implication

Profitability and bankruptcy prediction.

The results of the tests that have been carried out, the profitability variable as proxied by return on assets has an effect on the prediction of bankruptcy (financial distress) in other words that hypothesis 1 (H1) is accepted. The effectiveness of the financing/receivables provided by the company to the community greatly affects the profit generated, this will affect the survival of the finance company as measured by financial distress, in other words that the possibility of the company experiencing bankruptcy is increasingly avoided. The results of this study are in line with Rahma's research (2020) and Khotimah& Yuliana (2020) which state that profitability has a negative effect on financial distress.

Liquidity and bankruptcy prediction

The tests that have been carried out are related to the liquidity variable which is proxied by the current ratio which affects the prediction of bankruptcy (financial distress) in other words that hypothesis 2 (H2) is accepted. The results of this study are in line with research conducted by Oktaviani et al. (2020), Dewi et al. (2019) and Ardian et al. (2017) which states that liquidity has an effect on financial distress. Companies that have a high percentage of the current ratio, the company will be far from financial distress and vice versa if the company has a low percentage then the company can be said to be in a state of financial distress.

Solvency and bankruptcy prediction.

The solvency variable proxied by the gearing ratio has an effect on the prediction of bankruptcy (financial distress) in other words that hypothesis 3 (H3) is accepted.The higher the gearing ratio level of the finance company, the more likely it is that financial distress will occur. The use of debt can increase firm value and reduce financial distress. A positive slope indicates that companies that have high debt will approach an increase in financial distress. The results of this study are in line with the research conducted by Burhanuddin et al. (2019), Opitalia&Zulman (2019) and Masdupi et al. (2018) which states that solvency has an effect on financial distress.

Risk management and bankruptcy prediction.

The risk management variable which is proxied by non-performing financing has no effect on the prediction of bankruptcy (financial distress) in other words that hypothesis 4 (H4) is rejected. The results of this study do not support the previous research conducted by Sout et al. (2020), Sriyanto&Agustina (2020) and Yurivin&Mawardi (2018) which state that risk management has an effect on financial distress. The results of the analysis show that risk management as proxied by NPF is not significant in predicting the probability of financial distress because credit is only one aspect of total assets. Earning assets that are the company's source of income are mostly supported by accounts other than credit.

Board of commissioners, profitability and bankruptcy prediction.

The board of commissioners which is proxied by the level of attendance of the board of commissioners meeting is not able to moderate the effect of profitability on the prediction of bankruptcy (financial distress) in other words that hypothesis 5 (H5) is rejected. The size of the attendance rate of the board of commissioners meeting is not able to moderate the effect of profitability on the prediction of bankruptcy. It can be explained that in providing direction and supervision to the board of directors it does not dominate the discussion of profitability. The majority of companies that do not experience financial difficulties, the agenda for discussing the board of commissioners' meetings include providing recommendations and input on company strategy, company funding strategy, human resource development, company information technology, and analysis of regulations issued by the Financial Services Authority (OJK). The results of this study are in line with research conducted by Andika (2019), and Jailani (2016) which states that the level of attendance at board of commissioners' meetings does not moderate the effect of profitability on financial distress.

Board of commissioners, risk management and bankruptcy prediction.

Based on the moderating test that has been carried out, the board of commissioner's variable which is proxied by the level of attendance of the board of commissioners meeting is not able to moderate the effect of risk management on the prediction of bankruptcy (financial distress) in other words that hypothesis 6 (H6) is rejected. The existence of the board of commissioners meeting in supervising the company's operations at the management level has not been able to moderate the risk management of financial distress. As for the agenda of the meeting that was presented, it focused on evaluating performance in the previous financial year, and discussing business strategies for the coming year. Monitoring of non-performing financing at financing companies has been running systematically in the financing process.

V. CONCLUSION

Based on the results of research and discussions that have been carried out in the previous chapter, the conclusions that can be obtained are as follows:
1. Profitability has an effect on bankruptcy prediction.
2. Liquidity has an effect on bankruptcy prediction.
3. Solvency has an effect on bankruptcy prediction.
4. Risk management has no effect on the prediction of bankruptcy.
5. The board of commissioners did not moderate the effect of profitability on bankruptcy prediction.
6. The board of commissioners did not moderate the influence of risk management on bankruptcy prediction.
Based on the conclusions obtained, the suggestions in this study are as follows:
1. For other finance companies, they must be able to manage all their assets in an effective and productive way, so that they always get profits for the survival of the company. With the higher the profit earned by the company, the gap in the bankruptcy of the finance company will be avoided.
2. The finance company must be able to maintain the liquidity ratio, because the company's short-term bills must be calculated for payment through its current assets so as not to interfere with the operations of the finance company, if it is late in anticipating all its short-term obligations it will affect the company's bankruptcy.
3. The long-term debt of the finance company must be managed properly, the gearing ratio must be maintained so that it is not more than what is required by the Financial Services Authority, which is 10. The company must

be able to manage the debt to capital ratio so that it remains within reasonable limits, because if the ratio The higher the value, the higher the impact on bankruptcy in the long term.

4. Even though risk management as proxied by non-performing financing does not affect the prediction of bankruptcy, so that the company maintains the quality of the disbursed financing so that it is always in a healthy category.

5. The role of the board of commissioners is not able to moderate the effect of profitability on bankruptcy prediction. The high and low level of the board of commissioners' meetings to always include discussions about the condition of the company's profit for the short and long term that has been budgeted by the management.

6. The role of the board of commissioners is not able to moderate the influence of risk management on the prediction of bankruptcy. Discussion on the agenda of the board of commissioners meeting to keep in mind the credit quality of debtors in the company.

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