

# The impact of managerial ownership, institutional ownership, proportion of independent commissioner, and intellectual capital on financial distress

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## ABSTRACT

Financial distress is a phase of the decline in the financial condition experienced by a company before the bankruptcy or liquidation occurs. One of the causes of financial distress is the company's operating losses, caused its operating cash flow to be negative. During 2014-2016, there was 24 percent of manufacturing companies listed in Indonesia Stock Exchange (BEI) that has a negative pre-tax profit. The purpose of this study was to obtain empirical evidence of the effect of managerial ownership, institutional ownership, the proportion of independent commissioner board, and intellectual capital on financial distress. The population of this research is all of manufacturing companies listed on Indonesian Stock Exchange (IDX) on 2014-2016. The sample was taken using a non-probability sampling with a saturated sample technique. The numbers of samples analyzed were 423 financial reports of manufacturing companies published on IDX during 2014--2016. The analysis technique used in this research is multinomial logistic regression. It was found that managerial ownership has a negative effect on financial distress, institutional ownership has a negative effect on financial distress, proportion of independent commissioner has a positive effect on financial distress, and intellectual capital has a negative effect on financial distress.

## ABSTRAK

Financial distress adalah tahap penurunan kondisi keuangan yang dialami oleh suatu perusahaan sebelum kebangkrutan ataupun likuidasi. Salah satu faktor penyebab kondisi financial distress adalah kerugian operasional perusahaan yang menyebabkan arus kas operasional perusahaan bernilai negatif. Selama periode 2014--2016 terdapat sebanyak 24 persen perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) memperoleh laba sebelum pajak negatif. Penelitian ini bertujuan untuk memperoleh bukti empiris pengaruh kepemilikan manajerial, kepemilikan institusional, proporsi dewan komisaris independen, dan intellectual capital pada financial distress. Populasi dalam penelitian ini adalah seluruh perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) periode 2014--2016. Metode penentuan sampel yang digunakan dalam penelitian ini adalah non-probability sampling dengan teknik sampel jenuh. Jumlah sampel yang dianalisis sebanyak 423 laporan keuangan perusahaan manufaktur yang dipublikasikan di BEI selama periode 2014--2016. Teknik analisis yang digunakan dalam penelitian ini adalah regresi logistik multinomial. Berdasarkan hasil analisis ditemukan bahwa kepemilikan manajerial berpengaruh negatif pada financial distress, kepemilikan institusional berpengaruh negatif pada financial distress, proporsi dewan komisaris independen berpengaruh positif pada financial distress, dan intellectual capital berpengaruh negatif pada financial distress.

## 1. INTRODUCTION:

Investors decide to invest for consideration of going concern of an entity. Business sustainability of an entity is related to the management of the com-

pany, both from financial factors and non-financial factors. Management maintains business sustainability by avoiding the possibility of financial distress. Financial distress is a phase of the decline in

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the financial condition experienced by a company before the occurrence of bankruptcy or liquidation (Platt and Platt, 2002). Damoran (2001), in Agusti (2013) states that one of the causes of financial distress is the company's operating losses which causes its operating cash flow to be negative. During 2014-2016, there was 24 percent of manufacturing companies listed in Indonesia Stock Exchange (BEI) has a negative pre-tax profit.

The success or failure of a company can be caused by their strategy (Porter, 1991 in Wardhani, 2007). Positive accounting theory tries to understand and predict the policy options that used by the company. General policy is determined by the company's organizational structure, which influenced by the environment in which the company is located. The selection of policies to be used is part of the whole process of corporate governance (Scott, 2009 in Setijaningsih, 2012). The manager of the company must have the flexibility to respond the change in the corporate environment to choose the right accounting policies for their company.

Positive accounting theory assumes that humans have a single superordinate goal, namely utility maximization (Januarti, 2004). This characteristic can cause a difference of interests between managers and shareholders. The difference of interests between manager and shareholders is called agency conflict (Jensen, 1986). The conflict between the manager and shareholders can occur because the manager has more information than shareholders (Fadhilah and Syafruddin, 2013). To supervise and monitor manager's behavior, shareholders must be willing to pay a supervision fee called an agency cost (Yudiana and Yadnyana, 2016). The way to minimize the agency cost is done by the manager to increase the shareholding (Jensen and Merklung, 1976).

Managerial ownership is ownership by the corporate managers including that by the board of directors and commissioners. Agency theory states incentive is needed to encourage managers to act in accordance with the shareholders' interest (Fadhilah and Syafruddin, 2013). The existence of managerial ownership causes managers to be more careful in the decision-making process because they will share the consequences of the decision. Md-Rus et al. (2013) states that managerial ownership negatively affects the condition of financial distress. The results showed when the percentage of managerial ownership in a company increases, will

decrease the likelihood of financial distress in the company.

In addition, the supervision of the managers' opportunistic behavior can also be maximized by their ownership of parties outside the company, that of the institution. The percentage of shares held by institutional investors, such as insurance companies, investment companies, and banks, is called institutional ownership (Moradi et al., 2012). Institutional investors are more effective than individual investors in monitoring the performance of company management. This is because the institutional investors having more shares (Ozkan, 2004 in Al-Najjar, 2010), wider information (Tong and Ning, 2004 in Al-Najjar, 2010), and having better skills and knowledge related with investment (Chung et al., 2012).

Agency theory states that institutional ownership will reduce agency conflict because institutional shareholders will help oversee the company so that managers do not act to the detriment of shareholders (Laurenzia and Sufiyati, 2015). Moghaddam and Filsaraei (2016) state that the health level of a company increases in companies that have a greater percentage of institutional ownership. This shows that there is a negative relationship between institutional ownership and financial distress. Increasing the percentage of institutional ownership will cause the smaller potential of financial distress experienced by the company.

Problems in applying the principles of corporate governance can also occur due to the weak role of commissioners in controlling the company management (Sutojo and Aldridge, 2008:32). One of the problems in the implementation of corporate governance is the CEO who has greater power than the commissioners. The level of independence of the board of commissioners greatly influences the effectiveness of the board of commissioners in balancing the power of the CEO (Lorsch, 1989; Mizruchi, 1983; Zahra and Pearce, 1989 in Wardhani, 2006).

Agency theory assesses that independent commissioners are needed for the board of commissioners to supervise and control manager's actions in relation to their opportunistic behavior (Jensen and Merklung, 1976). Agency theory also states that the ability of the board of commissioners, in an effective oversight mechanism, depends on its independence to management (Beasley, 1996 in Fadhilah and Syafruddin, 2013). Li et al. (2008) found a negative

influence between the proportion of independent commissioners and financial distress. The results of the study indicate that if there is an increase in the proportion of independent commissioners in the company, it will cause the declining potential of financial distress experienced by the company.

In the modern era that has rapid economic development, a company must pay attention to corporate governance. In addition, a company must also pay attention to the management of its resources. In order to keep up with the times so that they are not eliminated from the global market, they can avoid the possibility of financial distress. According to Sawarjuwono and Kadir (2003), in order to survive, companies must change their business from labor-based business to knowledge-based business. The application of knowledge-based business aims to increase competitive advantage. In addition, they also provide value added in the products and services offered by the company (Oktari et al., 2016).

Businessmen began to realize that the ability to compete not only in the possession of tangible assets, but also on innovation, information systems, organizational management, and organizational resources held (Agnes 2008 in Widarjo, 2011). To achieve the competitive advantage, company resources must have four important criteria such as valuable, rare, irreplaceable, and uirreplaceable (Barney, 1991). In this case, the heterogeneity of resources is the key role in creating competitive advantage and improving company performance (Peteraf, 1993 in Jang, 2013). The success of the company is much determined by the resources possessed and the capability of the company in transforming resources into an economic benefit (Ferreira et al., 2011).

Intellectual capital is a knowledge-based resource that contributes to the creation of a company's competitive advantage (Jafar et al., 2016). In addition, intellectual capital is identified as a set of intangible assets (resources, capabilities, and competencies) that drives organizational performance and value creation (Bontis et al., 1999). Companies that are able to manage their knowledge and intellectual resources are believed to be able to create value added. In addition, it is also able to create a competitive advantage in innovation, research and development which will lead to an increase in the company's financial performance (Entika and Ardiyanto, 2012). Shehzad et al. (2014) state that intellectual capital has a positive effect on company performance. This shows that companies that have high intellectual

capital will be able to help companies improve their performance. Performance improvement indicates that the company is in a healthy state so that the company can avoid the possibility of financial distress.

This study examines the effect of managerial ownership, institutional ownership, the proportion of independent board of commissioners, and intellectual capital on financial distress. This study examines intellectual capital variables because there was relatively a few previous studies concerning the intellectual capital towards financial distress. This study also uses firm size as a control variable. The use of firm size as a control variable is that because large companies generally have better resistance and tend to have a high commitment to continuously improve its performance. By doing so, they can minimize the likelihood of financial distress. In addition, large companies will find it easier to get funding through the capital market and have greater power in financial contract transactions.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESES**

### **Positive Accounting Theory**

Positive accounting theory (PAT) is an established accounting theory that has a goal to explain and predict accounting practices. Explaining accounting practices means giving reasons to accounting practices that observed and predict means that the theory predicts phenomena that have not been observed (Watts and Zimmerman, 1986 in Astika, 2007). Positive accounting theory tries to understand and predict the policy choices used by the companies. Policies are determined by the organizational structure of the company, which is influenced by the company's environment. The selection of policies to be used is part of the corporate governance process (Scott, 2009 in Setijaningsih, 2012). Companies that have good corporate governance will be able to choose policies that can minimize the costs of capital and contract.

### **Agency Theory**

Agency theory is a theory that explains the separation of interests between company owners and the company's managers (Bodroastuti, 2009). Agency theory uses three assumptions of human nature (Eisenhardt, 1989), namely (1) human beings are generally self-interested, (2) human beings have limited thinking about the future, and (3) human beings always avoid risk (risk averse). These three traits allow humans to act opportunistically with

self-centeredness. Therefore, to monitor manager behavior, shareholders must pay for monitoring called agency cost (Yudiana and Yadnyana, 2016). The mistake in making decision by managers is not impossible can lead to big losses for companies that end up in financial distress (Ariesta and Chariri, 2013).

### **Corporate Governance**

Corporate governance is a system used to direct and control the company's business activities (OECD, 2004 in Sutojo and Aldridge, 2008:3). The importance of corporate governance arises as a result of differences in interests between managers and shareholders (Al-Najjar, 2010). Corporate governance is expected to reduce agency conflicts that occur between managers and shareholders (Purwaningtyas, 2011). If implementation of corporate governance is better, it makes the company good in monitoring management. Thus, will improve the performance of the company and reduce the tendency of financial distress (Deviacita and Achmad, 2012).

### **Resource Based View**

Resource-Based View (RBV) is an organizational perspective in a strategic field that focuses on the level of organizational resources, to have outstanding resources, and maximizes the overall resources of the organization compared to competitors (Rengkung, 2015). The RBV theory tries to explain why in the same industry there are successful companies while on the other hand are not successful (Mulyono, 2013). The company's success or failure is determined by the strengths and weaknesses that exist within the company's internal, not based on its external environment. The company that builds its own resources and can control it will have the ability to maintain its superiority. It compared to the company which buy and obtain the resources from the outside of organization (Widyaningdyah and Aryani, 2013).

### **Intellectual Capital**

Intellectual capital is a group of knowledge assets that are an organizational attribute and contribute significantly to enhancing the positions in competition by adding value to stakeholders. By using science and technology will be obtained how to use other resources efficiently and economically, which will provide competitive advantage. In general, practitioners state that intellectual capital consists of three elements, namely human capital, structural capital, and customer capital.

### **Financial Distress**

Financial distress is a stage of declining financial condition experienced by a company before the bankruptcy or liquidation (Platt and Platt, 2002). Financial distress can be started from liquidity difficulty (in short term) as the lightest indication of financial distress to bankruptcy statement by company which is the most severe financial distress (Triwahyuningtias, 2012). The first signals of companies experiencing financial distress associated with violations of debt payment commitments. Then followed by the elimination or reduction of dividend payments to shareholders (Baldwin and Scott, 1983 in Fadhilah and Syafruddin, 2013).

### **The Effect of Managerial Ownership on Financial Distress**

Agency theory states a company needs incentive mechanism to encourage managers to act appropriate with the stakeholders' interest. Managers will not act as a shareholder if they are not a shareholder. The managerial ownership existence can make the position between shareholders and managers aligned (Fadhilah and Syafruddin, 2013). The results of research by Md-Rus et al. (2013), Fadhilah and Syafruddin (2013), Hanifah and Purwanto (2013), Yudha and Fuad (2014) stated that managerial ownership has a negative effect on financial distress. Based on these reasons, the hypothesis that can be developed in this study is as follows.

H<sub>1</sub>: Managerial ownership has a negative effect on financial distress.

### **The Effect of Institutional Ownership on Financial Distress**

Agency theory says institutional ownership will reduce agency conflicts because institutional shareholders will help oversee the company so managers will not act harming the shareholders (Laurenzia and Sufiyati, 2015). Large institutional ownership (over 5%) makes monitoring process more effectively control the manager's performance. Increasing institutional ownership will have an impact on the efficient utilization of company assets so that the potential for financial distress can be minimized. The results of research conducted Hanifah and Purwanto (2013), Cinantya and Merkusiwati (2015), Fathonah (2016) stated that institutional ownership has a negative effect on financial distress. Based on these reasons, the hypothesis that can be developed in this study is as follows.

H<sub>2</sub>: Institutional ownership has a negative effect on

financial distress.

### **The Effect of Proportion of Independent Commissioners on Financial Distress**

Agency theory states the ability of the board of commissioners in an effective monitoring mechanism depends on its independence on management (Beasley, 1996 in Fadhilah and Syafruddin, 2013). Agency theory considers that independent commissioners are required on the board of commissioners to monitor and control the act of managers opportunistic behavior (Jensen and Meckling, 1976). Independent commissioner is a board who can act as supervisor of manager in implementing corporate governance system. Independent commissioners on the board of commissioners are considered as a mechanism of review and balancing in improving the effectiveness of the board of commissioners. The results of research by Fadhilah and Syafruddin (2013), Yudha and Fuad (2014), Septivani and Agoes (2014) stated that the proportion of independent commissioners has a negative effect on financial distress. Based on these reasons, the hypothesis that can be developed in this study is as follows.

H<sub>3</sub>: Proportion of independent board of commissioners has a negative effect on financial distress.

### **The Effect of Intellectual Capital on Financial Distress**

Theory of resource-based view states that company that builds its own resources and can control it will have the ability to maintain its superiority. It compared to the company which buys or obtains its resources from the outside of organization (Widyaningdyah and Aryani, 2013). Companies that are able to manage their knowledge and intellectual resources are believed to be able to create value added and competitive advantage by innovating, researching, and developing. This can lead to the improvement of the company's financial performance (Entika and Ardiyanto, 2012).

Shehzad et al. (2014) stated that intellectual capital has a positive effect on company performance. This shows that companies with high intellectual capital can assist the companies to improve their performance. The increased performance indicates that the company is in a healthy state so that they can avoid the possibility of a financial distress. Septivani and Agoes (2014) states that intellectual capital has a negative effect on financial distress. Based on these reasons, the hypothesis that can be developed in this study is as follows.

H<sub>4</sub>: Intellectual capital has a negative effect on financial distress.

### **3. RESEARCH METHOD:**

The population in this study consists of all manufacturing companies listed on the Indonesian Stock Exchange period 2014 - 2016. Sampling method used in this research is nonprobability sampling method with saturated sample technique. The sample of this study is all manufacturing companies listed on the Indonesian Stock Exchange and financial statements for the period 2014 - 2016.

#### **Operational of Variables**

##### **Dependent Variable**

*Financial distress in this study was measured by the Altman model (2000). Research conducted by Alkhatib and Bzour (2011), Puspitaningrum and Purnamasari (2016), Rahmadini (2016) stated that the Altman model is the best predictor in predicting bankruptcy. Here is an Altman model used in this study.*

$$Z\text{-score} = 1,2X_1 + 1,4X_2 + 3,3X_3 + 0,6X_4 + 1,0X_5$$

Information :

X<sub>1</sub> = working capital/total assets

X<sub>2</sub> = retained earning/total assets

X<sub>3</sub> = earning before interest and tax/total assets

X<sub>4</sub> = market value of equity/book value of debt

X<sub>5</sub> = sales/total assets

The criteria for the Altman model equation is that if the Z-score value <1.81, the firm is in financial distress, if the value is  $1.81 \leq Z\text{-score} \leq 2.99$ , the firm is in a zone of ignorance or gray area, and if Z-score > 2.99, the company is in a non-financial distress.

##### **Independent Variables**

Managerial ownership in this study is measured by the percentage of total shares held by management of total shares (Ratnadi and Ulupui, 2016). The institutional ownership is measured by the percentage of total shares owned by institution of total shares (Ratnadi and Ulupui, 2016). The proportion of independent board of commissioners is measured by the percentage of the number of independent commissioners by total members of the commissioners (Ariesta and Chariri, 2013). Intellectual capital in this research is measured by Value Added Intellectual Coefficient (VAIC™) method developed by Pulic (1997) in Permasari and Rismadi (2013). Company size in this research is used as control variable. Company size is measured by total assets of the company at the end of the accounting period (Ratnadi and Ulupui, 2016).

#### 4. DATA ANALYSIS & DISCUSSION:

##### Data Analysis

The data were analyzed using multinomial logistic regression analysis model. The research model is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Information:

$Y$	= probability of financial distress
$a$	= constant value
$\beta_{1-5}$	= regression coefficient
$X_1$	= managerial ownership
$X_2$	= institutional ownership
$X_3$	= proportion of independent commissioners
$X_4$	= intellectual capital
$X_5$	= company size
$e$	= default error

The financial statements of manufacturing companies published in 2014 - 2016 are 423 financial statements. Of these, 162 companies are in financial distress, 80 in gray area, and 181 in non-financial distress. Descriptive statistics provide information on the characteristics of research variables consisting of the number of observations, minimum values, maximum values, mean values, and standard deviations. Table 1 shows the results of descriptive statistical tests.

Table 1 shows that the average value of total shares owned by the board of commissioners and directors within a company is 4.078 percent of the total shares. The average of total shares owned by institutional investors are such as insurance companies, investment companies, and banks in a company amounted to 66.659 percent of the total shares. The average number of independent commissioners within a company is 40.055 percent of the total members of the company commissioner. The average of total value of human capital, structural capital, and customer capital owned by a

company is 2,043 rupiah. The average of total end-of-year assets owned by a company amounted to 7,866,043 million rupiah.

This study used multinomial logistic regression analysis for testing the hypotheses. There are five stages in hypothesis testing using multinomial logistic regression. First, the multicollinearity test used to test whether in the regression model there is correlation between the independent variables. Multicollinearity test results show the correlation between independent variables is still below 0.90. Since the correlation is still below 0.90, it can be said that there is no serious multicollinearity. Second, overall fit model aims to assess the overall regression model. Overall fit model test results showed a decrease of log-2 likelihood from 884,715 to 791,830. This means that models with independent variables provide better accuracy to predict financial distress risks.

Third, goodness of fit that aims to see the suitability of the model hypothesized with the data. The result of goodness of fit test shows a significant value of 0.849. This means that the model is able to predict the observation because it corresponds to the data used. Fourth step is coefficient of determination analysis. The value of Nagelkerke R-Square of 0.225 means that 22.5 percent of variation in financial distress is influenced by variations of managerial ownership, institutional ownership, proportion of independent board of commissioners, intellectual capital, and firm size. While 77.5 percent is influenced by the other factors outside the research. Fifth step is multinomial logistic regression coefficient test. Table 2 shows the results of multinomial logistic regression testing with a significance of 5%.

Based on Table 2 we get the following regression equation.

$$Y = 1,231 - 0,037X_1 - 0,018X_2 + 0,040X_3 - 0,300X_4 - 0,008X_5$$

**Table 1**  
Result of Descriptive Statistical Tests

Variable	Number of Samples	Minimum Value	Maximum Value	Average value	Standard Deviation
Financial Distress	423	1,000	3,000	2,040	0,900
Managerial Ownership	423	0,000	89,450	4,078	11,784
Institutional Ownership	423	0,000	99,760	66,659	25,490
Proportion of Independent Commissioners	423	0,000	80,000	40,055	10,363
Intellectual Capital	423	-14,812	20,266	2,043	2,801
Company Size (in millions of rupiah)	423	7.648	261.855.000	7.866.043	23.940.129

Source: Data processed, 2017

**Table 2**



### Hypothesis Test Results

Information	Beta Value	Significance
Constants	1,231	0,680
Managerial Ownership ( $X_1$ )	-0,037	0,011
Institutional Ownership ( $X_2$ )	-0,018	0,013
Proportion of Independent Commissioners ( $X_3$ )	0,040	0,009
<i>Intellectual Capital</i> ( $X_4$ )	-0,300	0,001
Company Size ( $X_5$ )	-0,008	0,938

Source: Data processed, 2017

#### Discussion

##### The Effect of Managerial Ownership on Financial Distress

Hypothesis 1 ( $H_1$ ) states that managerial ownership has a negative effect on financial distress. The result of the analysis shows the significance value less than 0.05 with the direction of regression coefficient is negative. This indicates that the greater the percentage of board of commissioners and directors' shares in a company will cause the financial distress decreases.

The results of this study support agency theory which states that managers will not think like shareholders if they are not. Agency theory states the incentive mechanisms is needed to encourage managers to act in appropriate with the interest of shareholders (Fadhilah and Syafruddin, 2013). The results of this study reinforce the results of research conducted by Fadhilah and Syafruddin (2013), Hanifah and Purwanto (2013), Yudha and Fuad (2014) stating that managerial ownership negatively affect financial distress.

##### The Effect of Institutional Ownership on Financial Distress

Hypothesis 2 ( $H_2$ ) states that institutional ownership has a negative effect on financial distress. The result of the analysis shows the significance value is less than 0.05 with the direction of regression coefficient that is negative. This indicates that the greater percentage of institutional shares, such as insurance companies, investment companies, and banks in a company will cause the financial distress decreases.

The results of this study support agency theory stating that institutional ownership will reduce agency conflicts because institutional shareholders can help oversee the company so managers will not act harming the shareholders (Laurenzia and Sufiyati, 2015). Institutional ownership makes monitoring process more effectively controls the manager's performance. The results of this study reinforce the results of research conducted by Hanifah and Purwanto (2013), Cinantya and Merkusiwati (2015), Fathonah (2016) stating that institutional

ownership has a negative effect on financial distress.

##### The Effect of Proportion of Independent Board of Commissioners on Financial Distress

Hypothesis 3 ( $H_3$ ) states that the proportion of independent board of commissioners has a negative effect on financial distress. The results of the analysis show a significance value less than 0.05 with the direction of regression coefficient is positive. This shows that the greater percentage of the number of independent commissioners in a company will cause the financial distress increases. Therefore, the analysis results reject the hypothesis 3.

The results of this study do not support agency theory which assumes that independent commissioners are required on the board of commissioners to supervise and control manager actions in relation to their opportunistic behavior (Jensen and Merklung, 1976). This study does not support agency theory which states that the ability of the board of commissioners in an effective oversight mechanism depends on its independence on management (Beasley, 1996 in Fadhilah and Syafruddin, 2013). The results of this study do not support research conducted by Fadhilah and Syafruddin (2013), Yudha and Fuad (2014).

##### The Intellectual Capital Effect on Financial Distress

Hypothesis 4 ( $H_4$ ) states that intellectual capital has a negative effect on financial distress. The result of the analysis shows the significance value less than 0.05 with the direction of regression coefficient is negative. This shows that the greater the value of intellectual capital owned by a company will cause the condition of financial distress to decrease.

The results of this study support the theory of resource based view which states the company that builds its own resources and can control it will have the ability to maintain its superiority. It compared to the company which buying or obtaining its resources from the outside of organization (Widyaningdyah and Aryani, 2013). The results of

this study strengthen the results of research conducted by Septivani and Agoes (2014) which states that intellectual capital negatively affect the financial distress.

### The Influence of Control Variables on Financial Distress

The results of the analysis show that firm size has no effect on financial distress. Overall, both small and large companies have the possibility to experience financial distress. The results of this study do not support the prediction that the size of a large company will be able to minimize the potential financial distress. Therefore, firm size cannot control the causality relationship between managerial ownership, institutional ownership, the proportion of independent board of commissioners, and intellectual capital on financial distress.

### 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

There are some conclusion as the following: (1) managerial ownership has a negative affect the financial distress; (2) institutional ownership has a negative effect on financial distress; (3) proportion independent board of commissioners has a positive effect on financial distress; and (4) intellectual capital has a negative effect on financial distress.

Based on the results of the analysis, there are several suggestions that can be submitted for further research. First, this research only uses the manufacturing companies as the scope of the research. This is caused by the Z-Score Altman model that has various types of variants whose use is categorized by type of company. Therefore, the results of this study cannot be generalized for all companies listed on the Indonesia Stock Exchange. Further research is suggested to use the scope of other sectors, such as banking sector.

Second, this study uses only three types of corporate governance components, namely managerial ownership, institutional ownership, and the proportion of independent board of commissioners. This is because the three variables are related to the conflict of interest issues that occur between shareholders and managers. Subsequent research is suggested to use corporate governance components from the other side, such as Corporate Social Responsibility (CSR).

Third, this study only examines the internal factors of companies in predicting financial distress. The result of determination coefficient analysis shows that 77,5% variance from financial distress is influenced by other factors outside the research. There

are another factors outside the research that influences financial distress suggests. The possibility of financial distress is also influenced by external factors. Further research is also suggested to examine the external factors of companies, such as interest rates.

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