

Financial Information In The Context Of Financial Distress Antecedents With The Independent Board Of Commissioners As Moderator

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ABSTRACT

The primary objective of this study was to examine the impact of funding decisions, investment choices, managerial ownership, and institutional ownership on financial distress. Additionally, we aimed to assess the moderating role of an independent board of commissioners about these independent variables and their effects on financial distress. This research employed a quantitative approach and utilized WarpPLS for analysis. Data collection was carried out through purposive sampling, focusing on a population of 53 companies listed on the IDX, with a sample size of 46 companies. The findings of the research indicated that investment decisions had a significant positive influence on financial distress, whereas funding decisions had no significant impact. Managerial ownership also showed no significant effect, while institutional ownership had a notable negative impact on financial distress. Notably, the independent board of commissioners did not moderate the effect of investment decisions on financial distress but did moderate the impact of funding decisions, managerial ownership (fully), and institutional ownership (partially) on financial distress. The implications of this study are valuable for improving financial management practices in manufacturing companies.

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1. Introduction

The manufacturing industry sector is one of the pillars of the national economy because this sector makes a significant contribution to Indonesia's economic growth. The traditional pattern of a subsistence economy heavily reliant on the primary sector has gradually transitioned into an economy that is now bolstered by the manufacturing sector. The manufacturing industry, known for its stability, has emerged as a cornerstone of the country's economy, providing a source of strength and positive growth in the face of global economic uncertainties. One of them is the food and beverage (F&B) industry which has experienced quite rapid development lately.

The F&B industry is a company involved in the processing of food ingredients, packaging, how to distribute, and how to present it to the hands of consumers. restaurants, cafeterias, cafes, fast food joints, pubs, delicatessens, catering businesses, food transportation services, and more.

The government has determined the F&B sector as one of the prioritized business sectors in the Making Indonesia 4.0 project. This is due to the large positive impact of the F&B business on the country's economy. The contribution of the F&B business to the GDP of the non-oil and gas industry in 2018 was 35.73% (BPS, 2019). The trend is predicted to increase. Therefore, the government must always pay attention to the development of the F&B industry. In 2020 there was a

very drastic decline in growth, this was the impact of the pandemic that hit the whole world. Based on data from BPS (2021) it is explained that the growth of F&B companies is from 2018 to 2020.

There are many causes for negative growth, one of which is not running the company's operations. Therefore, this negative growth needs serious attention, because if it is not properly attended to, the company may experience difficulties or experience financial distress.

Financial distress is the condition of a company that is unable to fulfill its short-term obligations, if not paid attention to it is possible that bankruptcy will occur and will harm investors. Financial distress can arise from a combination of internal and external factors. Internally, it may be attributed to elements related to ownership, corporate governance structure, operational risk within the company, and the level of leverage the company maintains. Some internal factors that can influence the occurrence of financial distress are the existence of policies that must be carried out by companies including investment decisions, funding decisions, and dividend decisions [1].

In several studies, the factors that influence these three financial decisions differ depending on the policies adopted by the company. Several studies explain that investment decisions, funding decisions, and industry performance have a significant effect on FD [2]. While investment decisions do not demonstrate a significant impact on financial distress (FD), it is noteworthy that funding decisions do exert a significant effect on FD [3]. External factors contributing to financial distress can stem from the industrial environment, including factors such as heightened competition among companies within the industry and the effects of industrial deregulation. Additionally, macro-level factors, as highlighted [4], can also play a role. The company's growth and governance can be influenced by investor and shareholder intervention, whether they hold a majority or minority stake. Conflicting interests among shareholders, stakeholders, and management, all of whom have a vested interest in corporate objectives, frequently give rise to issues and challenges.

Agency problems can be influenced by the ownership structure (managerial ownership and institutional ownership). Security conflicts arise when management does not control 100% of the shares, or in other words, when there is a composition of company ownership outside of management, agency problems will occur. Managerial ownership is often believed to have the potential to mitigate agency problems within a company. These agency problems, if left unaddressed, can lead to financial distress in the company, as suggested by Tjeleni (2013). However, it's important to note that not all studies agree on the impact of ownership structures on financial distress. Some studies, such as the one conducted by Widiyanti (2019), have found that both institutional ownership and managerial ownership do not have a significant impact on financial distress. In other words, they may not be effective in preventing or reducing financial difficulties within a company. On the other hand, research by Nurzahara & Pratomo (2021) suggests a different perspective. According to their findings, managerial ownership has a significant negative effect on financial distress, indicating that a higher degree of managerial ownership can help alleviate financial problems. Additionally, an independent board of commissioners is found to have a significant positive effect, potentially contributing to reducing financial distress, while the audit committee's role appears to have a significant positive effect as well. These studies highlight that the relationship between ownership structures, corporate governance mechanisms, and financial distress is a complex and multifaceted issue. The effectiveness of managerial ownership and other governance factors in mitigating financial distress can vary, and it may depend on the specific context and circumstances of the company in question.

Many factors will have an impact on the financial distress condition of a company, therefore the company must carry out an analysis of the company's condition by taking into account internal and external factors. The expected findings from this study are an analysis that influences the company's financial distress condition so that it can be used as a basis for consideration by companies to develop the F&B industry and so as not to enter into a condition of financial distress. This study will analyze the moderation of the board of independent commissioners on the variables that need to be considered by the company so that financial distress does not occur.

2. Method

Sample Selection and Data Collection

The research population consisted of 56 F&B companies registered in Bei for the 2018-2021 period, using a purposive sampling method with criteria. The sampling method uses the criteria for companies that are still registered and the required data is available from 2018-2021. With these criteria, a sample of 48 F&B companies was obtained.

Operational Variables

The independent variables in this study are funding decisions, investment decisions, managerial ownership, and institutional ownership. The dependent variable in this study is financial distress. While the moderating variable in this study is the independent board of commissioners. Operational variables can be seen in table 1.

Analysis Method

The analysis method uses WarpPLS. Parameter estimates obtained from WarpPLS can be grouped into three, namely (1) weight estimate; (2) reflects the path estimate that connects latent variables and their indicators (loading); (3) means and parameters (regression constant values) as indicators and latent variables.

To obtain these three estimates, there are three stages of the iteration process used by WarpPLS where each iteration will produce estimates, where the first stage produces weight estimates, the second stage produces estimates for the inner and outer models, and then the third stage produces means and location estimates [50].

Table 1. Operational Variable

Variable	Formula	Reference
Variabel Independen		
Funding Decision	$DER = \frac{\text{Total Amount of Debt}}{\text{Total Equity}}$	Brigham & Gapenski, 1997
	$BDA = \frac{\text{Total Amount of Debt}}{\text{Total assets}}$	Brigham & Houston, 2011
	$LDE = \frac{\text{Total long - term debt}}{\text{Total Equity}}$	
	$MDE = \frac{\text{Total Amount of Deby}}{\sum \text{Outstanding Shares} \times \text{Closing Price}}$	
Investment Decision	$\text{Ratio} \left(\frac{PPE}{BVA} \right) = \frac{PPE}{BVA}$	Brigham & Houston, 2011
	$\text{Ratio} \left(\frac{MVE}{BVE} \right) = \frac{MVE}{BVE}$	Kallapur & Trombley, 1999
	$\text{Ratio} \left(\frac{MVA}{BVA} \right) = \frac{MVA}{BVA}$	Smith & Watts, 1992
	$\text{Ratio} \left(\frac{CAP}{BVA} \right) = \frac{CAP}{BVA}$	
	$\text{Ratio} \left(\frac{CAP}{MVA} \right) = \frac{CAP}{MVA}$	
	$PER = \frac{\text{Closing Price}}{EPS}$	
	$FATA = \frac{\text{Fixed Assets}}{\text{Total Assets}}$	
Managerial Ownership	$\text{Managerial Ownership} = \frac{\sum \text{Manajerial Share}}{\sum \text{Outstanding Share}}$	Boediono, 2005
Institusional Ownership	$\text{Institusional Ownership} = \frac{\sum \text{Institusional Share}}{\sum \text{Outstanding Share}}$	Wahidahwati, 2002
Variabel Dependen		
Financial Distress	Altman Zscore $Z = 1.2 X_1 + 1.4 X_2 + 3.3 X_3 + 0.6 X_4 + 1.0 X_5$	Hutauruk et al., 2021; Giovanni et al., 2020
Variabel Moderasi		

Independent Board of
Commissioners

$$DKI = \frac{\sum \text{Member of the Board of Commissioners}}{\sum \text{Independent Board of Commissioners}}$$

Rachmad, 2013

The measurement model uses the convergent validity of the measurement model with the reflective indicator model assessed based on the correlation between the item score/component score with the construct score calculated by PLS and discriminant validity by comparing the square root of Average Variance Extracted (AVE) value of each construct with the correlation between other constructs in models. If the AVE root value of each construct is greater than the correlation value between constructs and other constructs in the model, then it is said to have good discriminant validity. This measurement can be used to measure the reliability of latent variable component scores and the results are more conservative than composite reliability

3. Results and Discussion

Analysis of research results through the following stages:

1. Outer Model Analysis. Outer analysis of the research model between research variables is shown in table 2.
2. Inner Model Analysis. The reflective measure is said to be high if it has a correlation of more than 0.70 with the construct to be measured. This study uses a reflective size of 0.7. The results of the inner model analysis are shown in table 3.
3. Latent Variable Research Coefficient. The latent research coefficient variable which describes the results is shown in table 4.

Path Coefficient and P Value Research. The results of this study can be seen in table 5 and table 6 regarding the path coefficient and p-value research.

Table 2. Outer Model Analysis

	KP	KI	KM	Kins	DKI	FD	DKI*K ins	DKI*K M	DKI* KI	DKI* KP	Type(As defined)	SE	PValu es
DER	(0.48 7)	0.134	1.350	1.425	0.104	0.198	2.402	2.523	0.166	-0.170	Reflecti ve	0.06 2	<0.00 1
BDA	(0.68 1)	- 0.081	0.779	0.681	0.176	0.025	2.392	2.341	-0.052	0.457	Reflecti ve	0.06 4	<0.00 1
LDE	(0.75 1)	0.071	0.592	0.504	- 0.136	0.115	-3.108	-3.147	0.060	-0.523	Reflecti ve	0.06 3	<0.00 1
MDE	(0.61 8)	- 0.182	- 3.436	- 3.323	- 0.168	0.441	-2.009	-2.160	-0.243	0.374	Reflecti ve	0.06 5	<0.00 1
MVA/B VA	- 0.127	(0.96 5)	1.216	1.211	0.067	0.017	2.346	2.404	0.021	-0.103	Reflecti ve	0.06 1	<0.00 1
PPE/BV A	0.734	(0.28 5)	- 6.194	- 6.151	- 0.490	0.128	-8.784	-9.192	-0.541	0.677	Reflecti ve	0.07 0	<0.00 1
MVE/B VE	- 0.280	(0.34 7)	1.737	1.663	0.224	0.018	5.119	5.309	1.449	-0.242	Reflecti ve	0.06 9	<0.00 1
CAP/B VA	0.363	(- 0.350)	- 2.581	- 2.552	- 0.332	0.231	-0.800	-1.085	-0.496	0.408	Reflecti ve	0.06 9	<0.00 1
CAP/M VA	0.387	(- 0.091)	- 2.676	- 2.612	- 0.329	0.213	-1.391	-1.646	-0.650	0.388	Reflecti ve	0.07 2	<0.00 1
FATA	0.183	(0.92 4)	- 1.224	- 1.187	- 0.159	0.042	-2.078	-2.213	-0.645	0.178	Reflecti ve	0.06 1	<0.00 1
KM	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	Reflecti ve	0.06 0	<0.00 1
KI	0.000	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	0.000	0.000	Reflecti ve	0.06 0	<0.00 1
DKI	0.000	0.000	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	0.000	Reflecti ve	0.06 0	<0.00 1
Tobin's Q	0.000	0.000	0.000	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	Reflecti ve	0.06 0	<0.00 1
DKI*Ki ns	0.000	0.000	0.000	0.000	0.000	0.000	(1.000)	0.000	0.000	0.000	Reflecti ve	0.06 0	<0.00 1

DKI*K M	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(1.000)	0.000	0.000	Reflecti ve	0.06	<0.00 1
DKI*KI	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(1.000	0.000	Reflecti ve	0.06	<0.00 1
DKI*K P	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(1.000)	Reflecti ve	0.06	<0.00 1

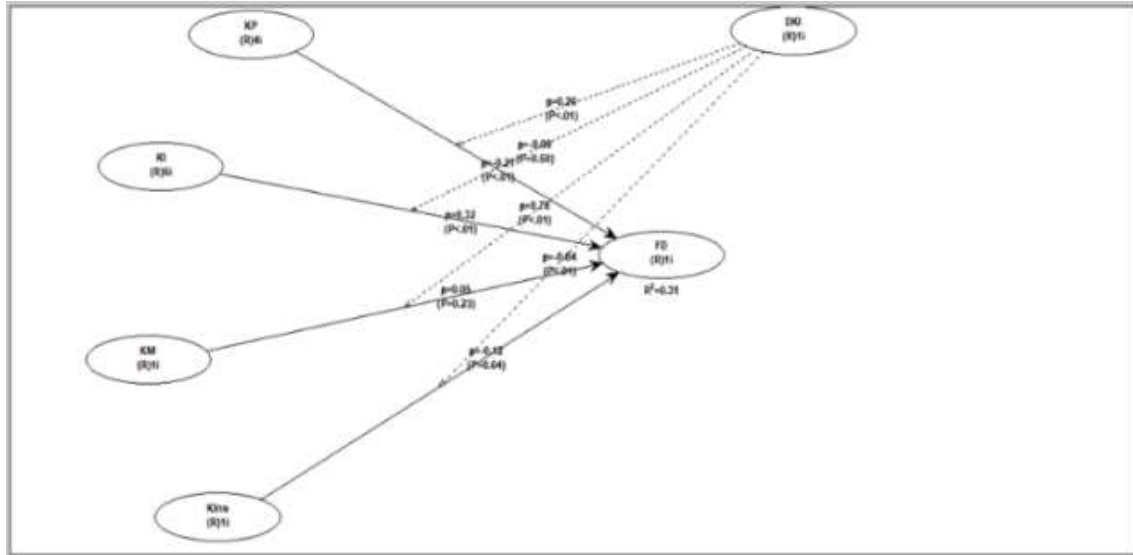


Fig. 1. Outer Research Model

Table 3. Inner Model Analysis

	KP	KI	KM	Kins	DKI	FD	DKI*K ins	DKI*K M	DKI* KI	DKI* KP	Type(As defined)	SE	PValu es
DER	(0.91 6)	0.252	0.881	0.955	0.143	0.019	3.313	3.371	0.274	0.211	Reflecti ve	0.06	<0.00 1
LDE	(0.91 6)	-	-	-	-	-	-3.313	-3.371	-0.274	-0.211	Reflecti ve	0.06	<0.00 1
FATA	0.091	(0.97 1)	-	-	-	0.004	-0.388	-0.429	-0.517	0.085	Reflecti ve	0.06	<0.00 1
MVA/B VA	-	(0.97 1)	0.271	0.265	0.088	-	0.388	0.429	0.517	-0.085	Reflecti ve	0.06	<0.00 1
KM	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	Reflecti ve	0.06	<0.00 1
KI	0.000	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	0.000	0.000	Reflecti ve	0.06	<0.00 1
DKI	0.000	0.000	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	0.000	Reflecti ve	0.06	<0.00 1
Tobin's Q	0.000	0.000	0.000	0.000	0.000	(1.00 0)	0.000	0.000	0.000	0.000	Reflecti ve	0.06	<0.00 1
DKI*Ki ns	0.000	0.000	0.000	0.000	0.000	0.000	(1.000)	0.000	0.000	0.000	Reflecti ve	0.06	<0.00 1
DKI*K M	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(1.000)	0.000	0.000	Reflecti ve	0.06	<0.00 1
DKI*KI	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(1.000	0.000	Reflecti ve	0.06	<0.00 1
DKI*K P	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(1.000)	Reflecti ve	0.06	<0.00 1

KP								
KI								
KM								
KIns								
DKI								
FD	0.085	<0.001	0.285	0.016	<0.001	<0.001	0.458	0.002
DKI*Kins								
DKI*KM								
DKI*KI								
DKI*KP								

Based on table 6 and by using $\alpha=5\%$, the results of the research analysis show that:

1. Funding decisions do not have a significant effect on financial distress, this is shown by the significant level of $0.085 > 0.05$.
2. Investment decisions have a significant positive effect on financial distress, this is shown by the significant level of $0.0001 < 0.05$.
3. Managerial ownership has no significant effect on financial distress, this is shown by the significant level of $0.285 > 0.05$.
4. Institutional ownership has a significant negative effect on financial distress, this is shown by the significant level of $0.015 > 0.05$ with a negative path coefficient.
5. The board of independent commissioners does not moderate the effect of investment decisions on financial distress, indicated by a significant level of $0.485 < 0.05$.
6. The board of independent commissioners moderates the effect of funding decisions on financial distress, indicated by a significant level of $0.002 < 0.05$.
7. The board of independent commissioners moderates the effect of managerial ownership on financial distress, indicated by a significant level of $0.001 < 0.05$, with the direction of the moderating effect in the direction of full moderation.
8. The independent board of commissioners moderates the influence of institutional ownership on financial distress, indicated by a significant level of $0.001 < 0.05$, with unidirectional moderation and partial moderation

Discussion

Funding decisions have a significant effect on financial distress

Based on the test results, it states that funding decisions have no significant effect on financial distress, this is indicated by a significant value of $0.085 > 0.05$. which means that funding management as measured by DER, LDE, and FATA does not have an impact on the company's financial distress. These results do not support previous research which stated that funding decisions had a significant effect on financial distress in the opposite direction [2], while other studies stated that funding decisions had a significant positive effect on financial distress [3].

It is still possible for the company's debt to be financed by equity and capital owned by the company and is money that will be returned to shareholders if all of the company's assets are liquidated and all company debt is paid off. This means that during the research period which entered the pandemic period, the use of the company's operational funds could still be met from long-term debt and the funds obtained were more focused on company operational costs compared to investment costs for company development. The use of long-term debt for the payment period is in accordance with the indicators used in this study so that the company still has time to fulfill its obligations.

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in accordance with the indicators used in this study so that the company still has time to fulfill its obligations.

Funding decisions have a significant effect on financial distress

Investment decisions are measured using the Market Value to Book Value of Assets Ratio (MVA/BVA) indicator [25], which describes the company's growth prospects as reflected in stock prices which have a significant positive effect on financial distress. Reflection of growth will provide a picture of the company to the public. Conditions at the time of data collection which were still in economic conditions that did not allow companies to develop companies by investing would have a big impact on the greater the company's inability to fulfill its obligations.

The results of this study support the theory which states that investment decisions have a positive effect on financial distress. The research results support research conducted by [2]. But it does not support research by [3] which states that investment decisions have a significant negative effect on financial distress.

This occurs because, according to theory, a higher CAP/BVA value indicates that investment decisions become less suitable, resulting in a decreased availability of operational funds for the company and an increased risk of the company's inability to meet its financial obligations, potentially leading to financial distress. Inaccurate investment decisions can elevate the company's risk of being unable to fulfill its obligations. This situation aligns with the concept in agency theory, which posits that managerial ownership can foster alignment of goals between management and shareholders.

Managerial ownership has a significant effect on financial distress

Managerial ownership has no significant effect on financial distress, this is shown by the significant level of $0.285 > 0.05$. Agency theory states that, the greater ownership by managerial ownership/inside directors will lead to a conformity of objectives between management and shareholders [48].

If related to the context of conservatism, the role of managerial ownership can be a monitoring function in the financial reporting process. However, even in economic conditions that do not support company operations due to the pandemic, the supervisory function will not affect financial distress, so it is possible that the company will experience an inability to fulfill its obligations. This will also become information for shareholders so that agency conflicts can be minimized by aligning the goals of the owners or shareholders with management through a managerial ownership mechanism.

Institutional ownership has a significant effect on financial distress

Institutional ownership has a significant negative effect on financial distress, this is shown by the significant level of $0.015 > 0.05$ with a negative path coefficient. Institutional ownership is one tool that can be used to reduce agency conflict. The higher the level of institutional ownership, the stronger the level of supervision and control carried out by external parties to suppress opportunistic management behavior. Eriandani (2013) states that institutional investors usually control a large number of shares so that they can influence decision making.

Through a large proportion of institutional ownership, the owner can direct management actions to apply conservative accounting principles with the aim of avoiding management's opportunistic actions to manipulate company performance. Making the right decisions will be the basis for determining the company's operations, so that the company will survive and will be better able to manage its finances and be able to fulfill its obligations.

The independent board of commissioners moderates the relationship between funding decisions and financial distress

The independent board of commissioners does not moderate the effect of investment decisions on financial distress, indicated by a significant level of $0.485 < 0.05$. As explained in Article 120 paragraph (2) UUPT which states that Independent Commissioners are appointed from parties that are not affiliated with major shareholders, members of the board of directors and/or other members of the board of commissioners, so that decisions taken are independent decisions.

The results of the research analysis show that investment directly has a significant positive effect on financial distress, but the existence of an independent board of commissioners does not change the condition that the company will not experience financial distress, which means that the board of independent commissioners does not play a role in financial distress. The condition of the pandemic has greatly impacted the company's development. It can be seen that determining investment policies even without the intervention of an independent board of commissioners will greatly affect the company's financial distress. This is a signal for the independent board of commissioners that the company's development is highly dependent on how the company operates.

The independent board of commissioners moderates the relationship between investment decisions and financial distress

The board of independent commissioners moderates the effect of funding decisions on financial distress, indicated by a significant level of $0.002 < 0.05$. As explained above, independent commissioners are appointed from parties that are not affiliated with major shareholders, members of the Board of Directors and/or other members of the board of commissioners whose decisions are independent decisions, but in the use and management of funds, especially company operations.

The condition of the pandemic has greatly impacted the development of the company. It can be seen that in determining policies in deciding the use of funds used for company operations, the independent board of commissioners plays a very important role in making decisions in managing funds, especially in the company's operational funds. This is a signal for the independent board of commissioners that the company's development is highly dependent on how the company operates. Even though the independent board of commissioners is a commissioner who is not affiliated with other shareholders or directors.

The independent board of commissioners moderates the relationship between managerial ownership and financial distress

The board of independent commissioners moderates the effect of managerial ownership on financial distress, indicated by a significant level of $0.001 < 0.05$, with the direction of the moderating effect in the direction of full moderation. Managerial ownership does not directly have a significant effect on financial distress, but with an independent board of commissioners it plays a very important role in moderating the effect of managerial decisions on financial distress. Even though it is in accordance with Article 120 paragraph 2 of the UPTT which states that it is not affiliated with other shareholders and directors, the results of the study state that the Independent Board of Commissioners plays a very important role in directing the alignment of objectives between management and shareholders with full moderation.

The board of independent commissioners moderates the relationship between institutional ownership and financial distress

The board of independent commissioners moderates the effect of institutional ownership on financial distress, indicated by a significant level of $0.001 < 0.05$, with unidirectional moderation and partial moderation. Institutional ownership is share ownership by other institutions, namely ownership by companies or other institutions or the amount of share ownership held by institutional investors such as financial institutions, insurance companies, pension fund securities companies and others.

Institutional ownership is a factor that will improve more optimal monitoring of management performance, because share ownership represents a source of power that can be used to support or otherwise support management decisions. When associated with firm value, institutional ownership does not succeed in increasing firm value, namely institutional ownership decreases firm value (Jennings, 2002). This is because institutional investors are not the majority owners, so they are unable to properly monitor the performance of managers. The Board of Independent commissioners who are not affiliated with shareholders and other directors in accordance with Article 120 paragraph 2 UPTT, will influence and play a role in increasing the ability of financial distress conditions so that the company's conditions will be better and more sustainable

4. Conclusion

Investment decisions have a significant positive effect on financial distress, meaning that the larger the company is in making investment decisions, the greater the chance the company will experience financial distress. Funding decisions do not have a significant effect on financial distress. Managerial ownership has no significant effect on financial distress. Institutional ownership has a significant negative effect on financial distress, this is shown by the significant level of $0.015 > 0.05$ in the opposite direction, meaning that more managerial share ownership allows the company to enter a state of financial distress.

The board of independent commissioners does not moderate the effect of investment decisions on financial distress, which means that the existence of an independent board of commissioners does not play a significant role in the relationship between investment decisions and financial distress. The independent board of commissioners moderates the effect of funding decisions on financial distress, which means that the independent board of commissioners has a very significant role in the relationship between funding decisions and financial distress.

The board of independent commissioners moderates the effect of managerial ownership on financial distress, has a very significant role in the relationship between funding decisions and financial distress with the direction of moderating influence in the direction of full moderation. or full moderation. The board of independent commissioners moderates the effect of institutional ownership on financial distress, has a very significant role in the relationship between funding decisions and financial distress, with unidirectional moderation and partial moderation.

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