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Review Article

Good Corporate Governance and Prediction of Financial Distress to Stock Prices: Atman Z Score Approach

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Abstract - *The long-term goal to be achieved in this research is to analyze stock prices by using the prediction of financial difficulties and good corporate governance in agricultural sector companies in Indonesia. This study uses the Altman Z-Score model as a prediction of bankruptcy and Good Corporate Governance reforms that are proxied through the board of commissioners, the number of independent commissioners, the number of business commissioners, and the number of audit accountants. The stock price used in this study is the stock price one week after the publication date of the 2013-2017 financial statements. The results of the study indicate that good corporate governance and prediction of financial distress have a significant positive effect on stock prices on agricultural sector companies involved in the Exchange Indonesian effect. The results of the research prove that corporate governance rules consider how to regulate accountability to shareholders who support the stock price, while bankruptcy predictions can provide results for investors in choosing companies that need through stock prices.*

Keywords - *Financial Distress, Good Corporate Governance, Independent Commissioners, Audit Committee Competencies, Stock Prices*.

I. INTRODUCTION

The capital market is a financing alternative to get capital at a relatively low cost and also a place for short-term and long-term investment. Fluctuation in stock prices may occur due to the supply and demand forces, but there is no foolproof or perfect system that indicates the exact movement of stock prices (Dhakal, 2019). Changes in stock prices can also provide clues about the excitement and sagging capital market activities as well as financiers in buying and selling shares. (Andromeda Ardian, 2014) said investors have various considerations to decide on a stock investment in the capital market. Erratic fluctuations in share prices that carry risks cause investors to be uncertain in determining their investment decisions.

Stock prices go up and down due to a number of factors that occur from individual business units to the complex environment of the entire economic system. Thus, it is difficult to point out that only one or two factors affect stock prices. There are still several factors that directly affect stock prices. (Samontaray, 2010), his research on the NIFTY 50 Index in India shows that corporate governance, EPS, sales and fixed assets have a relationship to changes in stock prices.

The announcement of accounting information gives a signal that the company has good prospects in the future so that investors are interested in trading shares; thus, the market will react as reflected by changes in stock prices. Thus the relationship between the publication of information, both financial statements, financial conditions or social and political to fluctuations in share prices can be seen from market efficiency (Irama, 2018).

The decline in stock prices can also affect the viability of the company because it allows financial difficulties and bankruptcy against the company. Bankruptcy is a problem that can occur in a company if the company is experiencing difficulties, while financial distress is a stage of decline in the financial condition of a company before bankruptcy or liquidation (Yuliastry & Wirakusuma, 2014).

Financial difficulties have become a well-known topic in the area of finance and corporate financial health as an important indicator for users who are interested in knowing more about company performance. Many stakeholders such as creditors, suppliers, investors, customers and also employees are associated with companies experiencing financial difficulties. (Kazemian et al., 2017) say determining financial levels is important for investors and creditors to know whether a company is financially healthy. They use this knowledge for financial planning and take corrective actions to avoid potential bankruptcy costs. This is important for investors, potential investors and also for the stock market regulator. In other words, knowledge of bankruptcy predictions can be used as an early warning system to avoid or reduce failures; for example, bankers or creditors can use this information to assess potential borrowers or credit risk.

(Moghaddam et al., 2016) said the ability to predict financial and commercial bankruptcy, both from the perspective of private investors and also from a social perspective, is important because it is a clear sign of misallocation of resources. Early warning about possible bankruptcy allows managers and investors to take preventative actions and recognize profitable investment opportunities from unprofitable opportunities. The negative and side effects of bankruptcy not only affect the company and the bankrupt trader but also depend on the scope of the trader or commercial company. Third parties, creditors and also parties in transactions with traders.

In addition to bankruptcy predictions, corporate governance factors can play a role in fluctuating stock prices on the capital market. Governance includes financial and non-financial disclosures to increase transparency for stakeholders, especially shareholders. In agency theory (Jensen & Meckling, 1976), in Good Corporate Governance, shows how management applies accountability to shareholders. This implies that the company system employed is designed to make shareholders truly aware of the company's financial performance and potential.

The results of the study (Mohamed & Elewa, 2016) show that corporate governance has a significant impact on stock prices and trading volume. This makes corporate governance also about making timely and voluntary disclosures about events and factors that can affect the interests of shareholders. Corporate governance overcomes agency problems caused by the separation of ownership and control in modern companies. It can force managers to disclose important information to reduce information asymmetry between managers and shareholders (Siagian et al., 2013).

(Shahwan, 2013) said the GCG score developed based on CG principles is still controversial about the impact of corporate governance on company performance and financial distress, especially in developing countries. Therefore, this study expands the existing literature on corporate governance by examining the quality of corporate governance practices.

Some bankruptcy prediction models that are often used are the analysis of the Z-Score model by Altman. Analysis of the Z-Score model was chosen as a method that can be used in bankruptcy prediction because this model is easy to use with a high level of accuracy offset and uses a ratio that is a combination of internal and external circumstances of the company. The most commonly used financial distress analysis is the Altman Z-Score Analysis because, in addition to the easy method, the accuracy in determining the financial distress prediction is also quite accurate (Manalu et al., 2017). The focus of this study examines good corporate governance and predictions of financial distress in influencing the ups and downs of stock prices.

II. THEORY REVIEW

A. Theory Signaling

The signal is an action taken by the company to guide investors about how management views the company's prospects (Brigham & Houston, 2013). This signal is in the form of information about what has been done by management to realize the owner's wishes. Information released by the company is important because it affects the investment decisions of parties outside the company. This information is important for investors and business people because the information essentially presents information, notes or pictures, both for past, present and future conditions for the survival of the company and how it affects the company.

(Tarmidi, 2019) revealed that due to the asymmetry of information between the company and outsiders, publication of the condition of the company was needed in order to create a good corporate image, and outsiders would be interested in joining as investors.

Some individuals want to convey information, but others hope not to convey information, but overall the facts in signalling theory that the act of conveying information directs people to change their behaviour (Connelly et al., 2011).

B. Stock Prices

(Kamaludin, Indriani, 2012: 235) shares can be defined as a sign of ownership or ownership of a person or entity in a company. Share prices can affect investors' decisions to invest in publishing companies (Endri & Yerianto, 2019).

This study uses stock prices taken one week after the date of publication of the financial statements (the period). Usually, announcements can affect the price of a security, one of which is an announcement related to earnings, so that it will affect investors in making decisions to invest (Hartono, 2010).

C. Good Corporate Governance

The Forum for Corporate Governance in Indonesia (FCGI) (2001) states that corporate governance is a set of regulations governing the relationship between shareholders, management (manager) of the company, creditors, government, employees and other internal and external stakeholders related to rights their rights and obligations, or in other words a system that regulates and controls the company. The purpose of Corporate Governance is to create added value for all interested parties (stakeholders).

(Rahmawati & Handayani, 2017) divides corporate governance mechanisms into two groups, first, in the form of internal mechanisms to control the company using structures and processes such as the structure of the board of directors and managerial ownership. Second, an external mechanism is a way to influence the company in addition to internal mechanisms, such as the market for corporate control, institutional ownership and the level of debt funding. There are two things that are emphasized in the corporate governance mechanism, first, the importance of the rights of shareholders or investors to obtain information correctly and on time, and secondly, the company's obligation to make accurate, timely and transparent disclosures of all company performance information, ownership and stakeholders.

D. Financial Distress

Some studies say there is no fixed term regarding financial distress (Kazemian et al., 2017). Predicting financial distress can be an "early warning" system of the company as a sign of a problem. Companies that have a lot of debt will experience financial distress earlier than companies that have less debt. Corporate downfall events are caused by financial distress such as a reduction in dividends, company closures, losses, dismissals, resignation of directors and falling stock prices.

(Moghaddam & Filsaraei, 2016) said financial distress, known as the financial crisis, financial turbulence, and financial confusion in financial literacy is a term used in conditions where corporations are disabled to fulfil their commitments and pay their debts. Company financial difficulties may be temporal, but if the company's financial condition does not improve, it can cause bankruptcy in the company. Financial difficulties do not always lead to bankruptcy, but without exception, all companies face financial difficulties before bankruptcy. When a company experiences financial difficulties, there is a potential risk to write off shareholders' capital so that it can influence the stock price movements.

There are three approaches to assessing a company's financial vulnerability. (Saji, 2018) said that the three approaches are statistical approaches based on inequality between current assets and short-term liabilities, both functional approaches and third approaches the Z-Score approach. This third approach results from the appropriate integration of various dimensions that are weighed to form a specific performance measure and use the principle of predictive synergy.

This study follows a third approach where we use the score model suggested by Altman (1968). In his research (Altman, 1968) formed 3 ZScore formulas where the three formulas are intended for 3 different categories of companies, namely for publicly traded companies, closed companies, and non-manufacturing public companies. This study uses the Altman score model for open manufacturing companies.

III. RESEARCH METHODS

A. Research Type

This type of research uses the causal research method; causal research is a study that shows the direction of the relationship between independent variables and dependent variables. This study takes the object of agricultural sector companies listed on the Indonesia Stock Exchange (IDX); there are 14 companies, with the observation year 2013-2017, so that a total of 84 data is obtained.

B. Analysis Method

The analytical method used is a quantitative method, which is a data processing approach through statistical or mathematical methods collected from secondary data. The data analysis method in this study used SPSS, 22 for Descriptive Tests and SmartPLS Software version 3.0 to test the influence between variables.

C. Hypothesis

H1: Financial Distress Prediction has a significant effect on Stock Prices

H2: Independent Board of Commissioners has a significant effect on stock prices

H3: Composition of the economic and business capabilities of the board of commissioners has a significant effect on stock prices

H4: Composition of accounting and business capabilities of the audit committee has a significant effect on stock prices

H5: The Board of Commissioners has a significant effect on stock prices

D. Operational Variables

Following are the operational measurements taken in this study:

Table 1. Operational variables

Variable	Measurement
Stock Price (StockPr)	Stock prices took one week after the date of publication of the financial statements
Financial distress prediction (FD)	Z = 1,2 (X1) + 1,4 (X2) + 3,3 (X3) + 0,6 (X4) + 1,0 (X5) Information : Z = Bankruptcy Indeks X1 = Working Capital/Total Assets X2= Retained Earnings/Total Assets X3 = Earning Before Interest and Taxes/Total Assets X4 = Market Value of Equity/Book Value of Debt X5 = Sales/Total Assets The classification : a. Z > 2,99 , *non-bankrupt category* . b. 1,81 < Z < 2,99 , gray area category . c. Z < 1,81 , bankrupt category .
Board of Commissioners (BoC)	Number of commissioners
Independent Board of Commissioners (IndBoC)	Percentage of an independent board of commissioners to the total of all board of commissioners
Composition of the economic and business capabilities of the board of commissioners (CompBoC)	The percentage of the board of commissioners who have economic and business capacity is divided by the number of the board of commissioners. Criteria (1) Have a Bachelor's, Master's, or Doctoral education in accounting or business .
Composition of accounting and business capabilities of audit committee (CompAudC)	Percentage of audit committees with accounting and business skills is divided by the number of audit committees. Criteria: Have S1, S2, or S3 education in accounting or business, have worked in financial institutions, public accounting firms, and banking.

IV. RESULT AND DISCUSSION

A. Descriptive Test.

Table 2 Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
FD	84	-2.88	12.8905	2.156717	2.7076
IndBoC	84	.2500	.6700	.387942	.08981
CompBoC	84	.0000	.8333	. 504819	. 22369
CompAudC	84	.3333	1.0000	. 722222	. 21229
BoC	84	3	9	4.79	1.791
Stockport	84	50.00	25679.3	2210.892	4614.8
Valid N	84				

Sources: SPSS.22

In table 2, the descriptive statistical analysis obtained can be described as follows :

1. The mean value of financial distress (FD) is 2.17, which on average, the agricultural sector companies in 2013-2017 experienced an average grey area. From the total data from the 2013-2017 research year, there were 20 companies that were predicted to be in good health (not bankrupt), 10 companies that were predicted to be in grey condition, and 54 companies that were predicted to be bankrupt. The lowest (minimum) financial distress value of -2.88 was owned by the company PT Central Proteina Prima, Tbk, in 2017. While the highest financial distress value (maximum) of 12.8 was owned by the company PT Bisi International, Tbk in 2016.
2. The independent board of Commissioners has the lowest value of 0.25 and a maximum value of 0.67 with an average of 0.38. This means that the entire agricultural sector companies listed on the Indonesia Stock Exchange in 2013-2017 are in accordance with the provisions contained in POJK 33 and Board of Directors Decree of the Indonesia Stock Exchange No. Kep-00001 / BEI / 01-2014 concerning Amendment to Regulation No. I-A, where public companies must have an Independent Commissioner of at least 30% of the total members of the Board of Commissioners. The 2006 GCG Guidelines state that the number of Independent Commissioners must be able to guarantee that the oversight mechanism is operating effectively and in accordance with statutory regulations.
3. The composition of the economic and business capabilities of the board of commissioners has the lowest value of 0.00 and a maximum value of 0.83 with an average of 0.50. This means that all of the companies, on average that the members of the board of commissioners, had at least 1 person competent in accounting and business. In accordance with the contents of the 2006 GCG guidelines, the Number of Independent Commissioners must be able to guarantee that the supervision mechanism runs effectively and in accordance with laws and regulations. One of the Independent Commissioners must have an accounting or financial background. PT Central Proteina Prima, Tbk obtained does not have a board of commissioners with an economic and business background. This data is continuous with the results of the minimum financial distress indicated to go bankrupt.
4. The composition of accounting and business capabilities of the audit committee has the lowest value of 0.33 and a maximum value of 1 with an average of 0.77. this means that the entire company studied has met the requirements of the 2006 GCG guidelines. Namely, members of the audit committee have at least 1 person

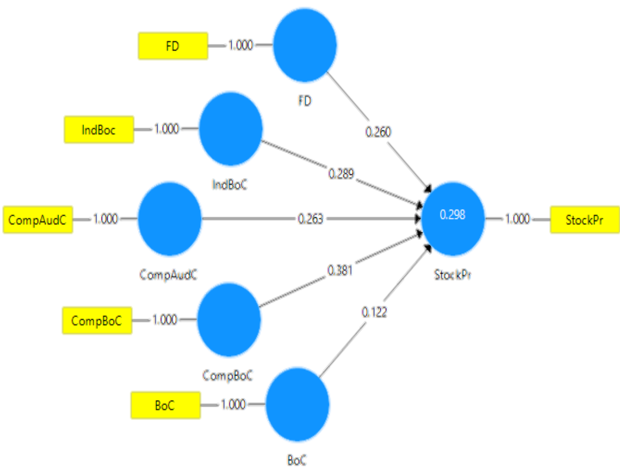
competence in the field of accounting and business.

5. The number of boards of commissioners in agricultural sector companies has a minimum number of 3 people and has a maximum number of 9 people. The 2006 GCG Guidelines say the number of members of the Board of Commissioners must be adjusted to the complexity of the company while taking into account effectiveness in decision making.
6. Stock Prices listed are stock prices one week after the publication of financial statements conducted by agricultural sector companies listed on the Indonesian stock exchange.

B. Evaluation of Measurement Model

In this study, testing the hypothesis using the Partial Least Square (PLS) analysis technique with the SmartPLS 3.0 program, below is the result of the PLS program model scheme:

Figure 1 Schematic Analyst Model



The loading factor illustrates how big the indicators are related to each construct. The path diagram above shows that all indicators have a 1,000 loading factor, which means that all indicators are valid because the loading factor meets the criteria, i.e. the loading factor of the contract must be above 0.70. These results indicate a good relationship between the indicators with each construct.

C. Evaluation of Structural Models

The next is the examination of the structural model. This examination includes the significance of the path relationship and the value of R Square (R2) to see the results of the structural model evaluation. The value of R2 aims to find out how much the independent variable influences the dependent variable.

Tabel 3. Model Struktural

	R Square	R Square Adjusted
StockPr	0.298	0.253

Sources: *SmartPLS 3.0 data*

R Square (R2) value of 0.298 means that the construct of stock price variability can be explained by the construct of the number of the Board of Commissioners, the Number of Independent Commissioners, the number of Audit Committee Competencies, the number of Competencies of the Board of Commissioners, and the Financial Distress of 29.8%. At the same time, 70.2% is explained by other variables not included in this study.

D. Hypothesis test

Table 4. Path Coefficient Values

	Original Sample	Mean (M)	Stand Dev	T Stat	P Values
FD -> Stockpr	0.260	0.26	0.079	3.26	**0.001**
IndBoC -> Stockpr	0.289	0.29	0.080	3.62	**0.000**
CompBoC -> Stockpr	0.381	0.37	0.085	4.47	**0.000**
CompAudC-> Stockpr	0.263	0.25	0.102	2.58	**0.010**
BoC -> Stockpr	0.122	0. 12	0.060	2.04	**0.041**

Sources: *SmartPLS 3.0 data*

Based on the above table, the results can be used to answer the hypotheses in this study. Hypothesis testing is done by looking at the T-Statistic value, and the P-Value value is said to have a significant relationship if the T value > 1.96 and the P-value < 0.05. Based on the results of table 4, it can be concluded that all constructs are positively related, significantly affecting stock prices because of the value of T > 1.96 and the value of P-value < 0.05. So it can be concluded that all hypotheses can be accepted.

E. Discussion

a) Effects of Financial Distress Predictions to Stock Prices

Hypothesis test results in table 4 show the results that financial distress has a significant positive effect on stock prices in agricultural sector companies listed on the Indonesia Stock Exchange (IDX). This result can be said that the more towards the positive financial distress, the stock price will increase and if the more negative financial distress, the stock price will decrease. Theoretically, this research has strengthened as well as the scope of the use of the Altman method in predicting bankruptcy because it is proven that the Altman method can be implemented in detecting the possibility of financial difficulties or bankruptcy in agricultural sector companies, which also indirectly reflects the company's financial performance. The better the financial ratio of the

Altman model for a company, the healthier the company is. This can give investors confidence to own the company's shares so as to increase the company's stock price. (Saji, 2018) said that good governance and audit practices can identify credit risk, regular company performance and falling stock prices.

b) The effect of Independent board of commissioners on Stock Prices

Hypothesis test results in table 4 show the results that the number of independent commissioners has a significant positive effect on stock prices in agricultural sector companies listed on the Indonesia Stock Exchange (IDX). These results indicate that the existence of an independent board of commissioners in the agricultural company sector is able to carry out effective supervision of company managers so that the company's performance is improved, which is reflected in share prices.

In accordance with agency theory, an independent commissioner is a member of the board of commissioners who do not have a relationship that can affect his ability to act independently so that the existence of an independent board of commissioners is expected to be able to carry out effective supervision of company managers.

c) The effect Composition of the economic and business capabilities of the board of commissioners on Stock Prices.

Hypothesis test results in table 4 show the results that the business competency of the board of commissioners has a significant positive effect on share prices in agricultural sector companies listed on the Indonesia Stock Exchange (IDX). These results indicate that the capacity and integrity of members of the board of commissioners are able to provide oversight and input to managers for the benefit of the company, which can be implemented properly. Therefore, an increasing proportion of the board of commissioners who have a business, accountant, and economic capabilities are able to attract the eyes of investors, as reflected in the stock price.

In accordance with the 2006 GCG guidelines on the capacity and integrity of the members of the board of commissioners, it is stated that the members of the board of commissioners must have a condition of capability and integrity so that the implementation of supervisory and advisory functions for the benefit of the company can be implemented properly.

d) The effect Composition of accounting and business capabilities of the audit committee on Stock Prices

Hypothesis test results in table 4 show the results that the competence of accountants possessed by the audit committee has a significant positive effect on share prices in agricultural sector companies listed on the Indonesia Stock Exchange (IDX). These results indicate that the audit committee will work more effectively if the proportion of audit committee members has expertise in accounting, auditing, internal control and finance. The resulting effect is an increase in the level of company compliance with applicable regulations and recommendations regarding the most appropriate accounting policies with the company, which of course will cause the company to disclose additional information in the annual report as an explanation of the new policy carried out by the company which leads to an increase in value company reflected in stock prices.

According to (Man & Wong, 2013), financial problems will rarely occur if the company has members of the audit committee who are experts in finance, so the company will disclose more information. Thus the quality of financial statements will be better so that investor confidence in the company increases in accordance with the 2006 GCG guidelines that the audit committee must have adequate competence, which can be seen from their educational background and experience. At least one member of the audit committee must have an educational background in accounting and finance because an audit committee is required to have the ability to read and understand the company's financial statements.

e) The effect of Board of Commissioners on Stock Prices

Hypothesis test results in table 4 show results that the composition of the board of commissioners has a significant positive effect on share prices in agricultural sector companies listed on the Indonesia Stock Exchange (IDX). These results indicate that the composition of the board of commissioners is quite effective in creating good corporate governance so that the performance of the board of commissioners is able to increase the credibility of the agricultural sector companies in the eyes of investors, which lead to an increase in the value of the company which is reflected in share prices.

Similarly, according to (Fadila & Rahadian, 2013), the effectiveness of the board of commissioners can be seen from four characteristics, including independence, activity number of members, and member competencies. If all four characteristics are fulfilled, the board of commissioners can carry out their duties effectively. The effectiveness will drive up the company's stock price.

V. CONCLUSION AND SUGGESTIONS

A. Conclusion

Good Corporate Governance, which is proxied through the number of board of commissioners, the proportion of independent board of commissioners, the proportion of business competencies owned by the board of commissioners and the proportion of accountant competencies held by the audit committee in agricultural sector companies, has a significant positive effect on stock prices. Corporate governance includes financial and non-financial disclosures to increase transparency for stakeholders, especially shareholders. The results of this study can be said that corporate governance reflects how management applies accountability to shareholders, which is reflected in stock prices.

The financial distress used through the Altman Z-Score analysis produces a positive effect on stock prices in agricultural sector companies. These results can be said that the better the financial ratios of the Altman model for a company, the healthier the company is. This can give investors a decision in choosing a company that is reflected through the stock price.

B. Suggestions

For investors and creditors, the results of this study are expected to be able to provide investment decisions, namely by paying attention to non-financial ratios and financial distress prediction in a company. For management, this result is expected to be an input for corporate accountability, especially for companies that do not meet the established GCG guidelines, that each company must have a board of commissioners with economic and business backgrounds

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