CHAPTER I

INTRODUCTION

1.1.Introduction

The company's financial statements are one important part of the company. It is a source of information to find out the company's financial position, changes in the company's financial position, and the condition of the company that aims to help management make corporate decisions in the future. The company's financial position can change depending on various factors, including management systems, sales of continuous loss and natural conditions that cause company assets to be damaged, as well as bad management systems or the current global economic conditions. The worst result of financial problems is bankruptcy which is stated in Law no. 1 of 1998 concerning bankruptcy.

Managers have to make strategies to deal with conditions that cause the company's financial problems and to protect the company's finances so that it does not go bankrupt. In 2007-2008, there was an economic crisis in the United States due to the housing credit crisis (subprime mortgage crisis). The subprime mortgage crisis was due to excessive borrowing because it was not controlled by the financial services authority in the United States. The global crisis in the US would impact other countries, Iceland, Japan, France, United Kingdom, Singapore, Thailand, and Indonesia. The mining company is one of the companies whose economy was disrupted. In 2008, coal prices were the US $ 119.36

per Mt, and in 2009 coal prices fell to the US $ 72.97. so that many coal companies collapsed. According to Tempo (2015), 5 coal companies in Jambi stopped operating. That was due to the decline in the world economy. According to the data, the price of coal in 2015 was only 220 thousand per ton. The price was cheaper than the price in June 2014 reaching 950 thousand per ton. According to Kompas, the results of Pricewaterhouse Coopers (PwC) research in 2016 said that as many as 40 global mining companies suffered the biggest losses in history during 2015. In that year, they suffered 27 billion US dollars or around Rp. 364.5 trillion at an exchange rate of Rp.13,500 per US dollar. In 2016, mining prices fell by 25% compared to the previous year.

Mining industries are one of the industrial sectors that gives a big contribution to national investment and export. According to the 2013 University of Indonesia Institute of Economic and Community Research (LPEM) study in Finance (2017), one of the mining companies in Indonesia, PT Freeport Indonesia, contributed 91% of Mimika Regency's GRDP, 37.5% of Papua Province's GRDP, and 0,8% of Indonesia's GDP. It has a great contribution to the growth of national and international industries. According to available data, one of the causes of a company's bankruptcy is financial distress.

Financial distress is declining in financial condition as shown in negative profit or even bankruptcy. According to Platt and Platt (2002), financial distress is less precise than the legal actions that define proceedings such as bankruptcy or liquidation. Hanifah and Purwanto (2013) stated that Financial distress is the stage of the decline in financial conditions that occur before the occurrence of bankruptcy or liquidation. Financial distress can start from liquidity difficulties (short term) as an indication of the lightest financial distress to bankruptcy statements which are the most severe financial distress. According to Brahmana on Hidayat and Merianto (2014), A company can be categorized as experiencing financial distress when the company has a performance that shows a negative operating profit, negative net income, negative equity book value, and the company that merges. Platt and Platt (2002) stated the condition when financial distress occurs:

1. Giving information to the manager to do forestall problems before financial distress occur
2. The manager can take a merger or takeover for better company conditions. In case financial distress occur
3. The information can give early warning to the manager of possible future bankruptcy

According to Brigham and Daves in Hidayat and Merianto (2014), Financial distress occurs in a series of errors, inadequate decision making and interconnected weaknesses that can contribute directly or indirectly to management and lack of efforts to monitor the company's financial condition so that its use is not following what is needed. To predict financial distress, the company needs corporate governance.

According to the Organization for Economic Corporation and Development (OECD), corporate governance is a structure to setting company goals, for achieving these objectives and determining supervision of company performance. Financial distress is influenced by two factors, internal and external.

Internal factor influencing financial distress is good corporate governance (GCG). There are four indicators of good corporate governance: Institutional ownership, Managerial ownership, Audit committee, Independent commissioner board. Institutional ownership is the proportion of stock owned by an institution. The higher institutional ownership (>5%) shows the ability to control the management and the more efficient the utilization of assets, the more potential of financial distress can be minimized. Triwahyuningtias and Muharam (2012) and Hanifah and Purwanto (2013) stated that institutional ownership gives a significant impact of financial distress, while Fathonah (2016) and Ananto et al (2017) stated that institutional ownership does not give a significant impact of financial distress. Managerial ownership is the proportion of company ownership by management (directors or commissioners). Thus, the greater the responsibility of management in managing the company. The greater ownership by management, potential financial distress can be minimized. Kurniasanti and Musdholifah (2018) stated that managerial ownership does not impact financial distress, while Fathonah (2016) stated managerial ownership give a positive impact on financial distress.

The audit committee has an impact on financial distress. Wolnizer in Fathonah (2016) revealed that the audit committee functions specifically can be identified into three interrelated aspects, namely relating to accounting and financial reporting, auditors and auditing, and company organizations.

According to Bisnis.com (2015), In 2015, PT. ANTAM (Persero) as the best company in the ASEAN Capital Market Forum (ACMF) in the implementation of the Good Corporate Governance Award. According to Kontan (2018), the implementation of Good Corporate Governance in ANTAM is based on several parameters: (1) BUMN Scorecard, (2) OJK Open Corporate Governance, (3) ASEAN Corporate Governance Scorecard, (4) ASX Corporate Governance Principles and Recommendation According to PT. ANTAM website, PT. ANTAM got A (very good) in the mining category and Special award of all categories. Johan NB Nababan as the director of PT. ANTAM realizes that Good Corporate Governance is important in the operation of the company.

1.2.Problem Identification

Financial distress can be experienced by every company, namely small companies and large companies. Financial Distress is caused by several factors as shown in the background above. Financial distress can be influenced by internal factors or external factors.

There have been many studies on financial distress, but because the results are inconsistent in each study and still raises many questions for researchers about what factors affect the occurrence of financial distress in the company.

1.3.Problem Formulation

Therefore, based on the description, the problem taken in this study is to find out whether non-financial variables are institutional ownership, managerial ownership, audit committee, Independent Commissioner Board, firm size, and sales growth. Thus, the issues in this study are stated as follows:

1. Does institutional ownership influence financial distress in mining companies listed in Indonesia Stock Exchange?
2. Does managerial ownership influence financial distress in mining companies listed in Indonesia Stock Exchange?
3. Does audit committee influence financial distress in mining companies listed in Indonesia Stock Exchange?
4. Does independent commissioner board influence financial distress in mining companies listed in Indonesia Stock Exchange?
5. Does firm size influence financial distress in mining companies listed in Indonesia Stock Exchange?
6. Does sales growth influence financial distress in mining companies listed in Indonesia Stock Exchange?

1.4.Research Objectives

The objectives of this study is to:

1. To analyze and examine influence institutional ownership on financial distress
2. To analyze and examine influence managerial ownership on financial distress
3. To analyze and examine influence audit committee on financial distress
4. To analyze and examine influence independent commissioner board on financial distress
5. To analyze and examine influence firm size on financial distress
6. To analyze and examine influence sales growth on financial distress

1.5.Research Contributions

1.5.1. Theoretical Contributions

To contribute and enhance in knowledge especially in accounting behavior sector as a reference for further research. And contributing to companies to be better in understanding about financial distress on how to avoid financial distress. Thus, it is expected that quality of the companies in the future will increasingly understand about avoiding financial distress to keep the financial of company always increased.

1.5.2. Practical Contributions

1. Contribute the improvement theory related to financial distress
2. Contribute additional evidence in the accounting literature, regarding factors affecting the financial distress
3. Contribute as a guidance for management about financial distress. Thus, management understand about the factors which affecting financial distress. So, the companies can avoid financial distress.

1.6. Systematic of Writing

There are five chapters of discussion and added with references and attachments. The systematics of writing are as follows:

CHAPTER I: INTRODUCTION

In this chapter, it is explained the background of the research along with the problem formulation, objectives, research contribution and the systematic of writing.

CHAPTER II: REVIEW OF RELATED LITERATURE

The second chapter explained about theoretical review related with the research previously, hypothesis formulation, and research model.

CHAPTER III: RESEARCH METHOD

The third chapter discussed the population and sample, data collection, data analysis method, and hypothesis testing.

CHAPTER IV: DATA ANALYSIS AND DISCUSSIONS

This chapter explained the results of data analysis used in this study, also described testing of the research hypothesis.

CHAPTER V: CONCLUSION AND RECOMMENDATIONS

The fifth chapter discussed about the conclusion the result of data analysis and testing of research hypotheses, also findings and suggestions.