

Prediction Bankruptcy of Retail Company: Based on Financial Ratios and Corporate Governance

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

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ABSTRACT

Aims: The purpose of this study was to determine the effect of financial ratios and corporate governance on the dependent variable, namely financial distress. Financial distress is measured using the Altman Zscore approach in 1995.

Study Design: The design used in this research is causal research.

Place and Duration of Study: The object of this research is companies in the retail sector listed on the Indonesia Stock Exchange in 2017-2019. The research sample was 22 samples using the purposive sampling method. So the total data was 66 companies.

Methodology: The analytical method used is quantitative, namely the approach to data processing through statistical or mathematical methods collected from secondary data. It is hoped that the conclusions obtained in a study will be more measurable and comprehensive.

Results: The results obtained that the financial ratios proxied through the current ratio and debt-equity ratio influence predicting the bankruptcy of the company, while the Total Assets Turn Over variable, good corporate governance variables such as the number of independent commissioners and the frequency of audit committee meetings are not able to provide an influence in predicting corporate bankruptcy.

Keywords: Current ratio; DER; financial distress; GCG; TATO.

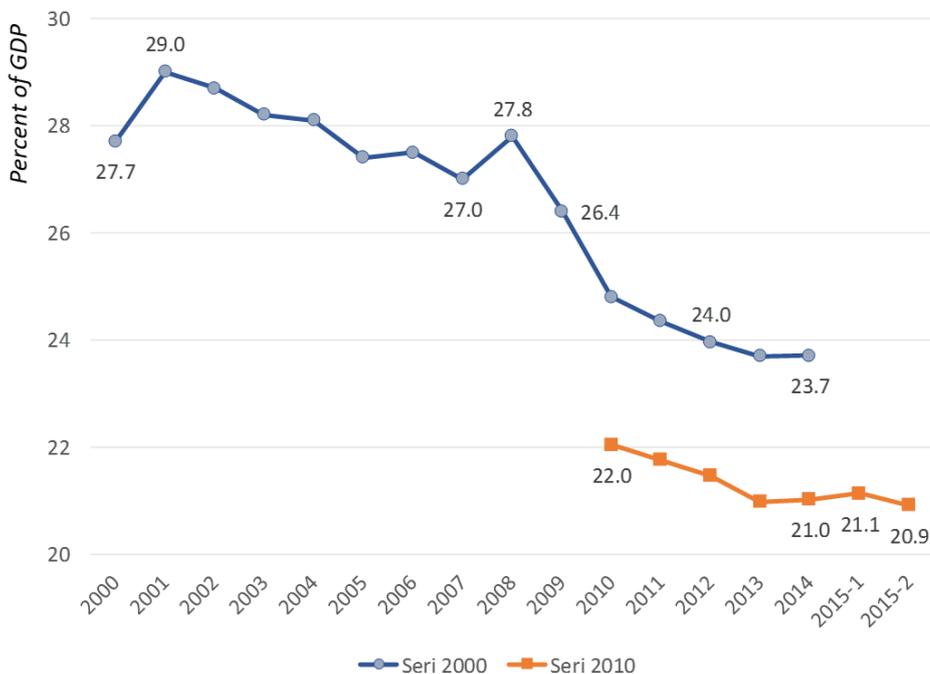
1. INTRODUCTION

Financial distress has become a well-known topic in the field of corporate finance and financial health as an important indicator for users interested in knowing more about the company's performance. Many stakeholders such as creditors, suppliers, investors, customers, and also employees are associated with companies experiencing financial difficulties. [1] said determining the financial level is important for investors and creditors to find out whether a company is financially healthy. This knowledge they put to use financial planning and take corrective action to avoid potential bankruptcy costs. This is important for investors, potential investors as well as stock market regulators. In other words, knowledge of bankruptcy predictions or financial distress can be used as an early warning system to avoid, or reduce failure, for example, bankers or creditors can use this information to assess potential borrowers or credit risk [2].

The financial condition, for example, is viewed from the composition of the balance sheet, namely the comparison of the number of assets and liabilities where when the assets are

insufficient or smaller than the amount owed, the working capital is negative so that there is an imbalance in the capital owned by the company with the accounts payable owned and it has an impact on the activities of the company where the company is. Unable to finance all operational costs, such as raw material costs, overhead costs, compensation payments for employees, overdue debts, and other costs, reviewed from the income statement if the company continues to lose, and from the cash flow statement if cash flows entry is less than cash outflow. Therefore, to overcome and minimize the occurrence of financial distress, companies can monitor their financial condition in terms of balance sheets and income statements in the company's financial statements by using financial statement analysis techniques.

The slowdown in the manufacturing industry was largely influenced by the decline in the property sector and its impact on slowing global growth. The decrease in revenue could be because the company has a lot of debt which can indicate bankruptcy. The following is a graph of the decline in revenue receipts from the manufacturing industry in Indonesia in the last 5 years:



Source: BPS.

The consumption industry sub-sector is part of the manufacturing industry sector, where this sub-sector plays a role in declining state revenue, this is because the industry itself is disruptive, which is heading towards industry 4.0 which is being pursued by many countries and even some countries in the world have started 5.0 is personalization.

Moghaddam, et al, [3] said the ability to predict financial and commercial bankruptcies, 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 of possible bankruptcy enables managers and investors to take precautions and recognize profitable investment opportunities from unprofitable ones. The side effects and negatives of bankruptcy do not only affect the bankrupt companies and traders but also depend on the scope of the merchant or commercial company. Third parties, creditors as well as parties to transactions with traders are affected by it.

Financial ratio factors that can predict bankruptcy are the liquidity ratio, the bigger the company's liquidity ratio will make the company healthier and better manage it [4]. Next is the solvency ratio, one of which is leverage. A high debt to asset ratio indicates that the higher the debt used to finance the company's assets, the higher the financial risk. Another ratio is the cash activity ratio, where cash flow turnover can predict the company's ability to generate cashback which the company receives in each period.

In addition to financial ratios, corporate governance factors can play a role in predicting company bankruptcy. Governance includes financial and non-financial disclosures to increase transparency for stakeholders, especially shareholders. In agency theory [5], Good Corporate Governance shows how management applies accountability and transparency to financial reporting policies, this implies that the company system employed is designed for management to be truly aware of the company's financial performance and potential.

The results of the study [6] show that corporate governance has a significant impact in predicting financial statements. This makes corporate governance also about making timely and voluntary disclosures about events and factors that may affect shareholder interests. Corporate

governance addresses the 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 [7]. In most articles, in predicting bankruptcy, they only look at the elements of the financial statements presented by the company, but in this article, investors can see the role of the function of corporate governance in supervising the management of the company. The novelty of this study is that in testing bankruptcy predictions, it does not only look at the financial ratio factors attached to the company's financial statements but can also be a supervisory function of corporate governance, in this case, the independent commissioner and the audit committee.

1.1 Literature

1.1.1 Signalling theory

Signal theory was first coined by Spence (1973) in his research entitled Job Market Signaling. This theory involves two parties, namely an insider such as management who acts as a party providing a signal and an outside party such as an investor who acts as a party receiving the signal. Spence said that by providing a signal or signal, management tries to provide relevant information that can be used by investors. Then, the investor will adjust his decision according to his understanding of the signal.

Meanwhile, according to Brigham & Houston [8], a signal is an action taken by a company to provide guidance to investors about how management views the company's prospects. This signal is in the form of information about what management has done 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 information essentially provides information, notes or descriptions, both for the past, present and future conditions for the survival of the company and how it affects the company.

Information is an important element for investors and business people because information essentially provides information, notes or descriptions for the past, present and future conditions for the survival of a company and how the securities market is. (Tarmidi, 2019) revealed

that due to the asymmetry of information between the company and outside parties, the publication of the company's conditions is needed to create a good corporate image and outsiders will be interested in joining as investors. Complete, relevant, accurate and timely information is needed by investors in the capital market as an analytical tool for making investment decisions. [9] revealed that some individuals want to convey existing information, but others hope not to convey information, but overall the fact is in signaling theory that the act of conveying information leads people to change their behavior.

1.1.2 Agency theory

Agency theory states that there is an agency relationship as a contract between management as an agent and ownership as a corporate preliminary, a working relationship between the party that gives authority (preliminary), namely the shareholders and the recipient authority (agent) of the company in the form of cooperation, called the nexus of contract preliminary giving authority and authority to the agent to run the company in the interests of the owner and the principal, [5]. The agent has more information about his capacity, work environment and the company as a whole. This has resulted in an imbalance of information between the principal and the agent, which is called information asymmetry. This information asymmetry and conflict of interest encourage agents to present false information to the principal, especially if the information is related to the agent's performance.

1.1.3 Financial distress

Financial distress is a situation where a company has difficulty fulfilling its obligations, a situation where the company's revenue cannot cover the total costs and incurs a loss [10]. Financial distress can also be interpreted as a stage of decline in financial conditions that occurred before bankruptcy or liquidity. One of the indicators used to find out a company that is experiencing financial difficulties is the company's inability to meet its long-term debt [11] In addition, financial distress can be defined as the final stage of a company's decline or as an early warning for financial health, which is used to predict bankruptcy or company liquidation problems [12]. The company's fall was caused by financial difficulties such as dividend reduction, company closure, losses, dismissal,

director resignation and decline in share price [13].

This study uses the Altman zscore model to measure the company's bankruptcy index. Why use the Altman model to measure the bankruptcy index, because the Altman model has undergone several modifications. What Altman did in the first model is the adjustments made so that this bankruptcy prediction model is not only for manufacturing companies that go public but can also be applied to companies in the private sector.

1.1.4 Current ratio

Current ratio (CR) is included in the liquidity ratio. The liquidity ratio is the ability of an entity to pay off the company's current liabilities by utilizing its current assets. The company's current liabilities can be in the form of debt that will mature in the near term, labor wages, debt for materials purchased, payment of electricity bills, drinking water needed in the production process, and so on [14].

[15] Said the Current Ratio is a ratio that compares the current assets owned by a company with short-term debt or debt that matures immediately when collected as a whole. In practice, it is often used that the standard current ratio of 200% (2: 1) is sometimes considered a fairly good or satisfactory measure for a company.

1.1.5 Leverage

Debt policy can be represented through the leverage ratio. The leverage ratio describes the source of operating funds used by the company. The leverage ratio also shows the risks a company faces. The greater the risk faced by the company, the greater the uncertainty to generate profits in the future, [16]. The consequence of using leverage according to [17] is if the use of debt turns out that the rate of return on assets (return) is greater than the cost of debt, the leverage is profitable and the return on capital with the use of this leverage also increases, vice versa on assets less than the cost of debt, leverage will reduce the rate of return on capital.

[18] Said that DER is a measure of the leverage ratio which can be defined as the level of debt use as a source of corporate financing. From the perspective of the ability to pay long-term obligations, the lower the DER will have an

impact on the increase in stock prices and the company will be better at paying long-term obligations. Information about an increase in DER will be accepted by the market as a bad signal that will provide negative input to investors in making decisions to buy stocks. This causes the share price and demand to fall.

1.1.6 Total asset turn over (TATO)

TATO is included in one Operating capacity or activity ratio, where the ratio is used to measure the company's ability to use its assets effectively. On the use of company assets for operating activities, it will increase the production produced by the company. The increased production is expected to increase sales which will have an impact on increasing company profits, thereby providing cash inflows for the company [19]. According to [20], a relatively large increase in sales compared to an increase in assets will make this ratio higher, otherwise this ratio will be lower if the increase in sales is relatively smaller than the increase in assets. If the use of company assets cannot be maximized, then the company's revenue cannot be maximized, and as a result, the possibility of the company experiencing financial difficulties or financial distress is getting bigger [19]. The high operating capacity shows the company is able to generate income from the use of their assets for operating activities. Therefore, it is expected that there is a negative relationship between operating capacity and financial distress [19].

1.1.7 Corporate governance

This study uses the characteristics of a commissioner consisting of an independent board of commissioners and the frequency of audit committee meetings. According to POJK NO. 33 / PJOK.04 / 2014 article 20, concerning the Board of Directors and Board of Commissioners of Issuers or public companies, states that in the event the Board of Commissioners consists of more than 2 (two) members of the Board of Commissioners, the number of Independent Commissioners is at least 30% (thirty percent) of the number of members of the Board of Commissioners.

Financial Services Authority Regulation (POJK) No.33 / POJK.04 / 2014, [21], regarding audit committee. The audit committee must hold a meeting at least once every 4 (four) months. Meetings of the board of commissioners and audit committee that are scheduled and known

together are considered to be committed to building good governance.

Based on agency theory, the size of the board of commissioners, the proportion of the independent board of commissioners, and the number of audit committee meetings can reflect the level of independence, ability, and quality of the company's management supervision.

1.2 Hypothesis Development

1.2.1 Effect of current ratio (CR) in predicting company bankruptcy

Liquidity is the ability of a company to fulfill its obligations that are due, both obligations to external parties and internal companies [15]. A company that has the ability to pay its short-term debt means that the company has good financial performance in fulfilling its current debt. [4] found that liquidity has an effect on financial distress. According to him, the more liquid a company is, the greater the probability that the company will avoid the threat of financial distress.

H1 = Current Ratio has a significant effect in predicting company bankruptcy

1.2.2 Effect of debt to equity ratio (DER) in predicting company bankruptcy

DER is a measure of the leverage ratio which can be defined as the level of debt use as a source of corporate financing. From the perspective of the ability to pay long-term obligations, the lower the DER will have an impact on increasing share prices and also the company will be better at paying long-term obligations [18]. Information about a continuous increase in DER can signal bankruptcy. Research [22] shows that a high Debt to asset ratio shows that the higher the debt used to finance company assets, the higher the financial risk. If the total debt owned by the company is getting bigger, it will result in the possibility of the company experiencing greater financial distress. However, according to research results [23], it is stated that companies with high DER are not necessarily categorized as companies experiencing financial distress, as well as companies with lower DER values are not necessarily categorized as non-financial distress companies. because the amount of the company's liabilities is high but the total assets owned by the company are also high, so the company can pay its obligations with the assets it has.

H2 = Debt to Equity Ratio has a significant effect in predicting company bankruptcy

1.2.3 The effect of total asset turn over (TATO) in predicting company bankruptcy

The higher the total asset turnover, the more effective the company's total assets are in generating sales (total asset turnover). This can create a signal for investors and creditors to invest and credit in the company because the company has been assessed well in company management [20]. If the actors in company management activities cannot maximize the use of company assets, the company's sales cannot be maximized, so that the possibility of a company experiencing financial distress will be even greater. The high operating capacity shows the company is able to generate income from the use of their assets for operating activities. Therefore, it is expected that there is a negative relationship between operating capacity and financial distress [19].

H3 = Total Asset Turn Over has a significant effect in predicting company bankruptcy

1.2.4 The effect of independent commissioners in predicting company bankruptcy

The presence of a board of commissioners in a company is expected to be able to carry out more effective supervision of company managers so that the company's performance will increase.

The board of commissioners as part of corporate governance is a board formed to improve company performance through supervision or monitoring of management performance to ensure management accountability to shareholders and stakeholders [24].

H4 = The number of Independent Commissioners has a significant effect in predicting company bankruptcy

1.2.5 The effect of the frequency of audit committee meetings in predicting company bankruptcy

FCGI (2001) explains that board of directors and audit committee meetings are a medium of communication and coordination between management. At meetings held by board members and the audit committee, management's performance will be evaluated and the board will provide feedback on the implementation of tasks that have been carried out by management. Meeting activities will also discuss issues regarding the direction and strategy of the company, evaluate policies that have been taken or carried out by management, and resolve conflicts of interest. [25] said that regular meetings held by the board of commissioners will also evaluate policies taken by management and resolve conflicts of interest between shareholders and managers.

H5 = Frequency of Audit Committee Meetings has a significant effect in predicting company bankruptcy.

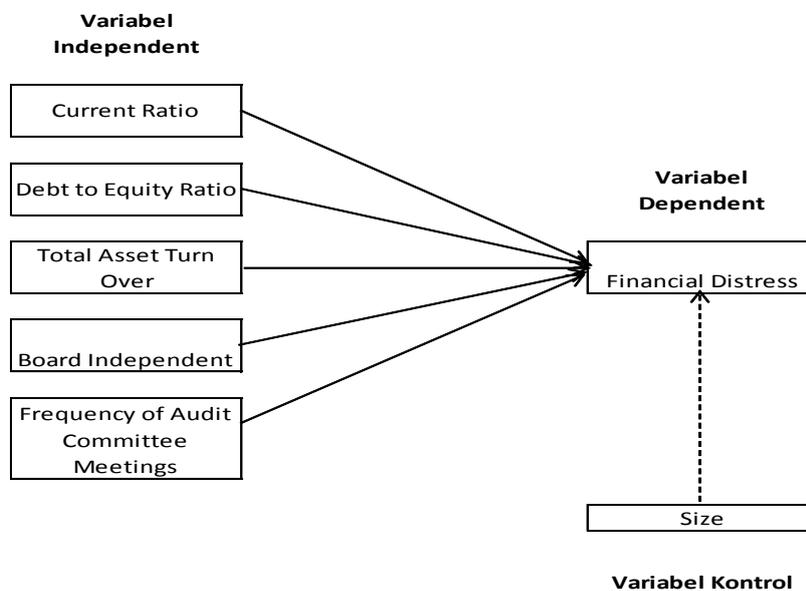


Fig. 1. Frame work

2. METHODS RESEARCH

2.1 Research Design

The population in this study are retail sector companies listed on the Indonesia Stock Exchange in 2017-2019. Sampling in this study using purposive sampling technique, where purposive sampling is a technique of sampling data sources with certain considerations, obtained a research sample of 22 companies and the amount of data as much as 66 data.

2.2 Analysis Method

The analytical method used is a quantitative method [26], namely the approach to data processing through statistical or mathematical methods collected from secondary data. It is hoped that the conclusions obtained in a study will be more measurable and comprehensive.

The data analysis method in this study uses the SmartPLS version 3.0 software which is run on computer media. SEM is an analytical tool to test and confirm the theory. why PLS, because Besides being able to be used to confirm the theory, PLS can also be used to explain whether there is a relationship between latent variables. Because it focuses more on data and with limited estimation procedures, model misspecifications have little effect on parameter estimation. The measurement model is used to test the validity and reliability, while the structural model is used to test causality (testing hypotheses with predictive models).

The data analysis method in this study is divided into two, namely:

1. Descriptive statistics descriptive analysis

Empirical analysis is descriptive of the information obtained to provide an overview/describe about an event (who/what, when, where, how, how much) collected in the study. The data comes from the answers given by the respondents to the items contained in the questionnaire. Furthermore, the researcher will process the existing data by grouping and tabulating then giving an explanation.

2. Inferential statistical analysis

In accordance with the formulated hypothesis, in this study the analysis of inferential statistical data was measured using the SmartPLS (Partial

Least Square) software starting from the measurement model (outer model), model structure (inner model) and hypothesis testing.

This study uses latent variables with formative indicator models. Constructs with formative indicators assume that each indicator defines or explains the characteristics of its construct domain, namely indicators to constructs. The measurement error is shown in the construct not in the indicator so that testing the validity and reliability of the construct is not needed, Ghozali (2015).

3. RESULTS AND DISCUSSION

3.1 Result

The following is a table of descriptive test results for the dependent variable and the dependent variable.

In Table 2 the results of the descriptive test can be described as follows:

1. Financial distress in this study uses the Altman zscore measuring instrument, where the healthy and bankrupt categories have a Zscore value, namely if the value of $Z < 1.1$ (bankrupt companies), the value of $1.1 < Z < 2.6$ (including gray area or it cannot be determined whether the company is healthy or bankrupt) and the value of $Z > 2.6$ (a company that is not bankrupt/healthy). In Table 2, the minimum value is -280.24 belonging to Global Teleshop Tbk in 2019, while the maximum value is 21.61 belonging to Supra Boga Lestari Tbk in 2017. Of the total 66 data studied, 20 company data or 30.3 percent included in bankruptcy, 18 company data or 27.7 percent included in the gray area or cannot be determined, and 28 company data or 42.42 percent included in a healthy condition.
2. The current ratio in Table 2 shows a minimum value of 0.02 times that of Global Teleshop Tbk in 2019, this result is in accordance with the minimum zscore value, meaning the least healthy among other companies. While the maximum value of 9.18 times belongs to Pt Electronic City Tbk in 2017. Current assets are the company's ability to pay off its short-term debt. The higher the CR number, it can be said that the condition of the company is getting better.

3. Leverage in Table 2 shows the minimum value of 0.09 or 9% belonging to Pt M Cash Integration Tbk in 2018, while the maximum value of 7.30 or 730 percent belonging to Pt Kokoh Inti Arebama Tbk in 2018. Leverage in this study uses the debt to Equity ratio proxy, where these results indicate that how much of the company's capital is financed by debt or how much the company's debt affects its equity management. Companies in the retail sector obtained an average yield of 1.7083 or 170.83 percent, which means that of all equity owned by the company, on average, 170.83 percent is financed by debt.
4. Total Asset Turn Over shows a minimum value of 0.15 belonging to Pt PT Centratama Telekomunikasi Indonesia, Tbk in 2019, while the maximum value of 28.82 belongs to Pt Global Teleshop Tbk in 2019. TATO is a ratio used to measure the company's ability to use its assets effectively.
5. The number of independent commissioners in Table 2 has a minimum score of 33.33 percent and a maximum value of 77.7 percent with an average of 40 percent. This means that all retail sector companies listed on the Indonesia Stock Exchange in 2017-2019 have complied with the provisions contained in POJK 33 and Decree of the Board of Directors of the Indonesia Stock Exchange No. Kep-00001/BEI/01-2014 dated January 20, 2014 concerning Amendment to Regulation No. I-A concerning Listing of Shares and Equity Securities Other than Shares Issued by Listed Companies ("IDX Regulation No. I-A"), where public companies must have Independent Commissioners 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 ensure that the supervisory mechanism runs effectively and in accordance with the laws and regulations.
6. The frequency of audit committee meetings in Table 2 shows a minimum value of 4 times and a maximum value of 12 times, with an average of 4 times. This means that all retail sector companies listed on the IDX in 2017-2019 have complied with the provisions contained in POJK 55/POJK.04/2015 concerning the establishment and guidelines for the implementation of the work of the audit committee. at least once every 3 months or 4 times a year..

Table 1. Operational Variable

Variabel	Measurement	Scale
Financial distress (Y)	$Z'' = 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4$ info: Z'' = bankruptcy index X1 = working capital/total asset X2 = retained earnings / total asset X3 = Earnings before interest and taxes/total asset X4 = book value of equity/book value of total debt. The classification of healthy and bankrupt companies is based on the Z-score of the Modified Altman model, namely: a. If the value of Z < 1.1 then it is a bankrupt company. b. If the value is 1.1 < Z'' < 2.6 then it is included in the gray area (cannot be determined whether the company is healthy or bankrupt). c. If the value of Z > 2.6 then it is a company that is not bankrupt	Ratio
Current Ratio (X ₁)	Current Ratio = current asset / current debt	Ratio
DER (X ₂)	DER = Total Liabilitas / Total Equity	Ratio
TATO (X ₃)	Total Asset Turnover = sales / total assets	Ratio
DKI	The number of independent commissioners Total number of commissioners	Ratio
FRKI	the total number of meetings held during one year	Nominal
Size	Total Asset = lnSize	Ratio

Table 2. Descriptive test results

	N	Minimum	Maximum	Mean
Financial Distress	66	-280.24	21.61	-2.7187
Current Ratio	66	.02	9.18	2.1458
Debt Equity	66	.09	7.30	1.7083
Total Asset Turn Over	66	.15	28.82	4.1601
Board Independent	66	33.33	77.78	40.6061
Frek Meeting Comitee	66	4	12	4.58
Valid N (listwise)	66			

3.2 Measurement Model Evaluation

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

The loading factor describes how much the indicators relate to each construct. The path diagram above shows that all indicators have a loading factor of 1,000 which means that all indicators are valid because the loading factor value meets the criteria, namely the loading factor of the construct must be above 0.70. These results indicate that there is a good relationship between the indicators and each construct.

The second check of convergent validity is to look at the value of Cronbach's alpha and composite reliability. The results are as follows.

Cronbach's alpha and composite reliability are the basis for decision making in reliability testing. values above 0.7 indicate high reliability of the measuring instrument which means that the gauges of each construct are highly correlated. The third check of convergent validity is to look at the AVE value. AVE values above 0.5 are highly recommended. From Table 3 all contracts are 1 or above 0.5.

3.3 Structural Model Evaluation

After the examination of the measurement model is fulfilled, the next step is to examine 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 evaluation of the structural model. The value of R2 aims to determine how much the independent variable affects the dependent variable. The value of R2 can be seen from Table 4.

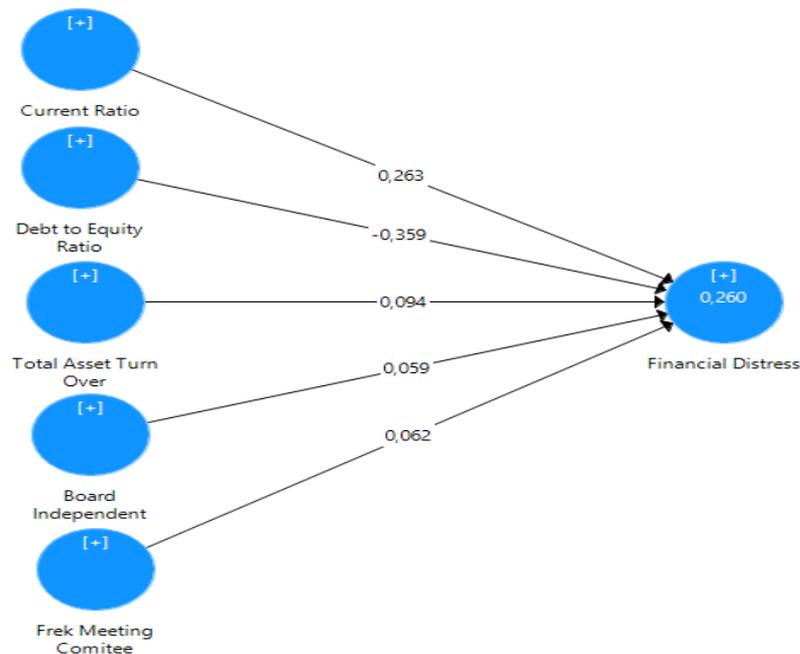


Fig. 2. Loading factor

Table 3. Construct Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Board Independent	1.000	1.000	1.000
Current Ratio	1.000	1.000	1.000
Debt to Equity Ratio	1.000	1.000	1.000
Financial Distress	1.000	1.000	1.000
Frek Meeting Comitee	1.000	1.000	1.000
Turn Asset Over	1.000	1.000	1.000

Source: SmartPLS 3.0 data processing

Table 4. Model summary (R Square)

	R Square	R Square Adjusted
Financial Distress	0.260	0.198

Source: SmartPLS 3.0 data processing

Table 5. Path Coefficient Values (Mean, STDEV, T-Values, P-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Current Ratio -> Financial Distress	0.263	0.282	0.086	3.048	0.002
Debt to Equity Ratio -> Financial Distress	-0.359	-0.374	0.098	3.675	0.000
Turn Asset Over -> Financial Distress	0.094	0.108	0.107	0.880	0.379
Board Independent -> Financial Distress	0.059	0.068	0.081	0.726	0.468
Frek Meeting Comitee -> Financial Distress	0.062	0.073	0.044	1.396	0.163

Source: SmartPLS 3.0 data processing

The value of R Square (R²) of 0.260 means that the variability of the financial distress construct can be explained by the constructs of Current Assets, Debt Equity Ratio, Total Asset Turn Over, Frequency of Audit Committee Meetings and Number of Independent Commissioners of 26.0%. While 74.0% is explained by other variables not included in this study.

3.4 Hypothesis Test Results

Based on the table above, the results can be used to answer the hypothesis in this study. Hypothesis testing in this study was carried out by looking at the T-Statistic value and the PValue value, it can be seen that the relationship test between constructs showed that all constructs were positively related and significantly affected stock prices with a T value > 1.96 and a P value < 0.05. So it can be concluded that all hypotheses 1 and 2 can be accepted, while hypotheses 3, 4 and 5 are rejected.

3.5 Discussion

From the data obtained while it can be seen that there are no independent variables that affect the prediction of company bankruptcy, but this cannot because it has been discussed as a whole the data has not been obtained thoroughly.

4. CONCLUSION AND SUGGESTION

4.1 Effect of Current Ratio in Predicting Company Bankruptcy

The results of the hypothesis test in Table show that the financial ratios proxied through the current ratio have a positive effect in predicting corporate bankruptcy or financial distress. This study uses the Altman zscore model to measure financial distress, where if the zscore value increases it means the company is in good health and vice versa if the zscore value

decreases, it indicates the company is not in good health or bankrupt. The direction of the positive influence on the results of the study shows that the higher the company's ability to pay its short-term debt, the zscore value will also increase, which means the company is in good health. The results of this study are in accordance with [4] where a company that has the ability to pay its short-term debt means that the company has good financial performance in fulfilling its current debt. results that liquidity has an effect on financial distress. According to them, the more liquid a company is, the greater the probability that the company will avoid the threat of financial distress.

4.2 Effect of Debt Equity Ratio in Predicting Company Bankruptcy

The results of the hypothesis test in Table show that the financial ratios proxied through DER have a negative effect on predicting corporate bankruptcy or financial distress. The direction of the negative influence on the results of the study means that if the company does not manage debt properly or the debt is increasing, it will reduce the zscore value which means the company is in an unhealthy state or tends to go bankrupt. Information about the continuous increase in DER can be a signal of bankruptcy for investors. Research [22] results that a high debt to asset ratio or debt equity ratio indicates that the debt used to finance company assets or company capital is higher, the higher the financial risk. If the total debt owned by the company is greater, it will result in the possibility of the company experiencing greater financial distress. Research [27] shows that the analytical value inherent in the Altman Z-score model has uses in difficulty classification and stock market prediction.

4.3 Effect of Total Asset Turn over in Predicting Company Bankruptcy

The results of the hypothesis test in Table show that the financial ratios proxied through TATO have no effect in predicting corporate bankruptcy or financial distress. This can be interpreted that the high operating capacity even though it shows the company is able to generate income from the use of their assets for operating activities, but is not able to predict the company is in good health or bankrupt. According to Moghaddam, et al, [3] the ability to predict the financial and commercial bankruptcy of companies, both from the perspective of private investors and also from a

social perspective is important, because it is a clear sign of resource allocation errors, so that the size of the company in using assets -its assets for operating activities are not necessarily correct.

4.4 The Effect of Independent Commissioners in Predicting Company Bankruptcy

The results of the hypothesis test in Table show that the ratio of good corporate governance as proxied through the number of independent commissioners has no effect in predicting corporate bankruptcy or financial distress. This can be interpreted even though the existence of a board of commissioners in a company is expected to carry out more effective supervision of company managers. so that the company's performance will increase, but the presence of independent commissioners does not guarantee that the company will always be healthy. This result contradicts research [24], where the board of commissioners as part of corporate governance is a board formed to improve company performance through supervision or monitoring of management performance to ensure management accountability to shareholders and stakeholders.

4.5 Effect of Audit Committee Meeting Frequency in Predicting Company Bankruptcy

The results of the hypothesis test in Table show that the ratio of good corporate governance as proxied through the frequency of audit committee meetings has no effect in predicting corporate bankruptcy or financial distress. This can be interpreted that the activities of the audit committee meeting discuss issues regarding the direction and strategy of the company, evaluate policies that have been taken or carried out by management, and resolve conflicts of interest in the company, but not in predicting whether the company is in good health or bankrupt. This result is contrary to [25] which says that regular meetings held by the board of commissioners as well as the audit committee will evaluate the policies taken by management and resolve conflicts of interest between shareholders and managers and avoid bankruptcy.

4.6 Summary

1. Financial ratios that are proxied through the current ratio, debt equity ratio and total

asset turnover show that the CR and DER ratios have an influence in predicting company bankruptcy but the TATO ratio is not able to predict bankruptcy.

2. Good corporate governance which is proxied through corporate governance, namely the number of independent commissioners and the frequency of audit committee meetings, although overall the company has complied with the POJK Law, the number of independent commissioners and the frequency of audit committee meetings is not able to predict company bankruptcy.

4.7 Suggestions

1. For companies and investors, bankruptcy prediction can be seen through historical financial ratios shown in the summary of a company's financial statements, therefore companies should improve company management in order to be able to avoid company bankruptcy.
2. For academics, in future research, The limitation of this article is that not all companies in the manufacturing sector were tested, only in the consumption sub-sector. and other limitations in this study only use three financial ratios and 2 GCG ratios. it is possible to test the elements in other financial ratio variables to see predictions of company bankruptcy or by considering other ratio variables as intervening variables.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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