THE EFFECT OF BOARD SIZE, BOARD INDEPENDENCE, AUDIT COMMITTEE TO FINANCIAL DISTRESS DURING COVID-19 PANDEMIC

Kosim Permana, Indah Umiyati*)
Accounting Department, STIE Sutaatmadja
**Email: indahumiyati@stiesa.ac.id*

ABSTRACT
The purpose of this study is to determine the effect of board size, board independence, and audit committee on financial distress in service sector companies with sub-sectors namely infrastructure, utilities, and transportation as well as hotels, restaurants and tourism listed on the Indonesia Stock Exchange and the Malaysia Stock Exchange. . The analysis used in this study is a logistic regression analysis with a sampling technique that is purposive sampling. With this technique, 116 samples were obtained with the results of board size having a significant effect on financial distress, while the board independence and audit committee variables had no significant effect on financial distress.

Keywords: Board Size, Board Independence, Audit Committee, Financial Distress, Covid-19.

1. INTRODUCTION

According to Bisnis.com (2021) the impact of the Covid-19 pandemic in 2020 caused the growth of the service sector to contract by -1.77 percent, far compared to growth in 2019 of 6.23 percent. Of the 17 service sectors only 7 recorded positive growth, 10 of which recorded negative growth. Some of the sectors that had the biggest negative growth were Transportation and Warehousing and Accommodation, Food and Beverages at -15.04% and -10.22% (cnbcindonesia.com, 2021).

In addition to transportation, this pandemic also has an impact on hotels and restaurants. According to the Central Statistics Agency (BPS) showed that the occupancy rate of hotel rooms contracted by 39.75% in 2020 and foreign tourist visits also plummeted by 75.03% in addition to the food and beverage supply sector contracted by 10.22%. This caused some hotels, restaurants and tourist attractions to close their businesses temporarily and even permanently. In Malaysia, 120 hotels closed their businesses temporarily or permanently, this was due to losses due to declining revenues, and recorded hotel losses in 2020 of RM6.3 billion (Sinarharian.com).

Gunawijaya (2015) stated that financial distress is an indication before the company went into bankruptcy. This is in line with what is expressed by Plat and Plat (2002) in Pembayun and Januarti (2012) which states financial distress is a stage of financial decline before the company goes into liquidation. For this reason, it is important to influence corporate governance or corporate governance in the company. In the governance system of a company there are several management that can run the company's operations including board size, board independence, and audit committee.

Ningrum & Hatane (2017) explained that board size refers to the number of board members, which is one of the functions that is to monitor the performance of directors. However, the large number of board sizes also tends to cause financial distress, because it will lead to less effective board performance to participate in the decision-making (Salloum and Azoury, 2010). Fama and Jensen (1983) in Ujiyantho and Pramuka (2007) stated that independent commissioners are able to act as mediators in the event of problems between internal managers and conduct management policy supervision and provide advice to management. With an independent board of commissioners is expected to reduce financial distress to the company. Then, the audit committee is expected to help management to improve the company's performance and is expected to reduce the possibility of financial distress (Gunawijaya, 2015).

The study aims to look at the influence of board size, board independence and audit committees on financial distress. Nasir and Ali (2018) showed results that board size negatively affects financial distress, board independence positively affects financial distress. Pembayun and Januarti (2012) showed that the audit committee negatively affects financial distress. This research develops Nasir and Ali's research (2018) in terms of: (1) the addition of variables, namely the audit committee, and (2) case studies used are service sector companies listed on the Indonesia stock exchange and Malaysia in 2020, because service sector companies in this pandemic period some companies experience losses due to inoperation of business activities.

2. LITERATURE REVIEW

Agency theory explain that the separation of functions between management and ownership of the company that causes agency conflicts, giving rise to an information asymmetry between shareholders and management, which allows the company's management to take less effective policies (Jensen and Meckling in 1976 in Concierge, 2010). Corporate governance can reduce agency conflicts so that there is an alignment of interests between company owners and managers (Triwahyuningsih, 2012). With the reduction of agency conflicts will make the company in a conducive state so as to reduce financial distress conditions.

Corporate Governance

Corporate governance is a combination of structures and processes used by the board to convey information, manage, supervise, and direct an organization's activities to achieve goals (Institute of Internal Auditors, 2016). The Corporate Governance system implemented in Indonesia is a two-tier system, which in this system in the organizational structure there are two organs in the top leadership, namely the Board of Commissioners and the Board of Directors, while Malaysia adheres to a one-tier system which in this system in the organizational structure only one organ in its top leadership is the board of directors or in the two-tier system is the Board of Directors.

Board Size

Board size refers to the number of board members in a company or organization (Appuhami & Bhuyan, 2015). Agency theory explains that larger boards will be easier to supervise and control the CEO (Bredert, 2014) and reduce dominance in work (Singh &Hariyanto, 1989). In this study Board Size was measured using the number of members of the board of directors or board of commissioners (Jamal and Shah, 2017).

$$\mathbf{BSIZE} = \sum \textit{\textbf{Member of Board of Directors}}$$

Bredart (2014) and Nasir & Ali (2018) stated that board size negatively affects financial distress and the existence of boards is influenced by a difference in competence or expertise owned by each board. The higher the board size, the level of education and experience level the better which means the company has a good capacity to be able to make a good strategic decision.

H1: Board Size Negatively Affects Financial Distress

Board Independence

Board independence is a board that comes from outside the company or unaffiliated selected to help the company run **(UU PT No. 40 2007).** A larger board of independence will help organizations avoid bankruptcy and recover from financial distress and make the best decisions for the company. In addition, independence boards can also be used to overcome the problem of agency conflicts, because the independence board is able to communicate the goals of shareholders to managers (Muryati and Suardikha, 2014).

BIND = (∑Non-Executive Directors)/(∑Anggota Board of Directors)

Helena and Saifi (2018) showed that board independence negatively affects financial distress. A company that has a high independence board then the possibility of financial distress will be low.

H2: Board Independence Negatively Affects Financial Distress

Audit Committee

Agency theory predicts that the establishment of an audit committee will be able to resolve agency conflicts, this is because the main function of an audit committee is to review the internal control of the company, ensure the quality of financial statements and improve the effectiveness of audit functions (Wulandari, 2011). The large number of members of the audit committee will be able to affect the performance of the company, so it is expected that existing audit committee members can reduce the possibility of financial distress. To measure the audit committee is using dummy i.e. 1 if the audit committee numbers more than three members, and 0 if the audit committee is less than three members (Andriyani, 2008 in Kurniasih and Sari, 2013).

KA = Dummy (1 = if audit committees are three or more, 0 = audit committees are less than three)

Januarti & Pembayun (2012) showed results that the size of the audit committee negatively affects financial distress, meaning that the size of the audit committee can minimize the occurrence of financial distress in the company, the size of the large audit committee tends to improve the quality of internal control so that it will reduce the occurrence of financial distress conditions.

H3: Audit Committee Negatively Affects Financial Distress

Financial Distress

Financial distress is one of the financial decline conditions that occur in companies before liquidation, which is initiated by liquidity pressures that get worse and cause a decrease in the value of assets so that they are unable to meet their obligations. There are other problems that arise such as important employees who resign, suppliers refuse to provide credit, and lenders provide loans with higher interest rates and more difficult conditions (Zulaecha &Atik Mulvitasari, 2018). Measuring financial distress using the Altman Z-Score method, this method is used to predict a company's bankruptcy. The Altman Z-Score model in this study is as follows:

Z = 6,56X1 + 3.26X2 + 6,72X3 + 1,05X4

X1 = Working Capital / Total Asset
X2 = Retained Earning / Total Asset
X3 = Earnings Before Interest and Tax / Total Asset
X4 = Book Value of Equity / Total Liabilities

The score categories used are:
< 2.6 = Bankruptcy
> 2.6 = No Bankruptcy

3. DATA AND RESEARCH TECHNIQUE ANALISYS

The population in this study is a service sector company listed on the Indonesia stock exchange and Malaysia period 2020. Sampling using purposive sampling techniques. The criteria used as a sample of research are:

1. Infrastructure, Utilities and Transportation Sub-Sectors listed on indonesia stock exchange and Malaysia Stock Exchange in 2020
2. Restaurant, Hotel and Tourism Sub-Sectors listed on Indonesia Stock Exchange and Malaysia Stock Exchange in 2020
3. Provide audited 2020 financial statements
4. Provide data related to research variables

The number of population (infrastructure, utilities, and transportation and hotels, restaurants, and tourism listed on the Indonesia Stock Exchange and the Malaysian Stock Exchange) during the period 2020 is 206 companies. There were 90 companies that did not publish financial statements, so the sample in the study are 116 companies.

Logistic Regression Analysis

The regression analysis used in this study is logistic regression analysis. The reason for using this analysis is because the dependent variables used in this study are dummy and logistic regression is almost the same as discriminant analysis i.e. it can be used to test whether the probability of dependent variables can be predicted with independent variables (Ghozali, 2011).

The dependent variable used in the study was financial distress. The independent variables used in the study were the board size, independence board, and audit committee. The logistic regression model used in this study is as follows:

$$\mathbf{Z = \alpha + \beta_1 (BSIZE) + \beta_2 (BIND) + \beta_3 (KA) + \varepsilon}$$

Z = *Financial Distress* (0 if Bankruptcy , 1 if not Bankruptcy)
α = Constans
β_1 = *Board Size*
β_2 = *Board Independence*
β_2 = Audit Committee
ε = Error

4. RESULT AND DISCUSSION

Analysis of the results of this research will be in the form of outlines in table 1 to table 5 :

Table 1 : Descriptive Statistic Analysis

	Minimum	Maximum	Mean	Std. Deviation
BSIZE	3,00	13,00	6,3448	2,22282
BIND	,10	1,00	,5259	,17402
KA	,00	1,00	,9741	,15941
FDISTRESS	,00	1,00	,5000	,50217
Valid N (listwise)				

Source : Self Proceed

Based on the above with the sample number of 116 companies, that on the board size variable shows a minimum value of 3.00, a maximum value of 13.00, a mean value of 6.3448, and a standard deviation value of 2.22282. The board independence variable shows a minimum value of 0.10, a maximum value of 1.00, a mean value of 0.5259, and a standard deviation value of 0.17402. The audit committee variables show a minimum value of 0.00 in companies that have less than three audit committee members, a maximum value of 1.00 in companies that have three or more audit committee members, a mean value of 0.9741, and a standard deviation value of 0.15941. In the financial distress variable shows a minimum value of 0.00 in companies experiencing financial distress, a maximum value of 1.00 in companies that do not experience financial distress, a mean value of 0.5000, and a standard deviation value of 0.50217.

Table 2 : Hosmer and Lemeshow Tes

Chi-square	df	Sig.
5,143	6	,526

Source : Self Proceed

Based on the table above the test results from Hosmer and Lemeshow's Goodness of Fit Test showed a chi square value of 5,143 with a significant level of 0.526. These results show that the significant value or probability is 0.526 > 0.05, meaning that there is no significant difference between the model and the data so the regression model in this study is feasible to predict the value of its observation.

Table 3 : Overall Model Fit

-2Log Likelihood awal (Block Number = 0)	160.810
-2Log Likelihood akhir (Block Number = 1)	148.457

Source : Self Proceed

Based on the table above shows the value of -2Log initial likelihood (block number = 0) before being entered into an independent variety of 160,810. After all three independent variables are entered, the final -2Log likelihood value (block number = 1) decreases to 148,457. So it can be concluded that the value of -2Log initial likelihood (block number = 0) with the value of -2Log final likelihood (block number = 1) decreases, meaning that the hypothesized model is appropriate or fit with the data.

Table 4 : Nagelkerke’s R Square

-2 Log likelihood	**Cox & Snell R Square**	**Nagelkerke R Square**
148,457[a]	,101	,135

Source : Self Proceed

Based on the table above shows the coefficient of determination of Nagelkerke's R Square value of 0.135. Thus indicated that the ability of independent variables namely board size, board independence, and audit committee in explaining dependent variables is financial distress of 13.5%. While the remaining 86.5% was explained by other variables outside the study.

Table 5 : Regression Logistic Model

	B	**Wald**	**Sig.**
BSIZE	-,228	4,727	,030
BIND	1,887	2,176	,140
KA	,352	,077	,781
Constant	-2,754	3,740	,053

Source : Self Proceed

Based on table above shows the results of logistic regression analysis that can be made the following equation:

$$\mathbf{Z = -2.754 - 0.228BSIZE + 1.887BIND + 0.352KA + \varepsilon}$$

The first hypothesis (H1) states that board size affects financial distress. This is indicated by the table above with a probability value smaller than the significance level of 0.030 < 0.05. So based on research, board size variables have a partial effect on financial distress and have a significant effect with negative correlations. The results of this study are in line with research conducted by Hartantri & Hatane (2017) and Bredart (2014). The larger the board size, the more the company will have a profit in accessing human resources and information (Zahra & Pearce, 1989). In addition, the board must have a large number because it is in accordance with agency theory which says that if larger board members will more easily control the work of the CEO (Bredert, 2014) and reduce his dominance (Singh & Hariyanti, 1989).

The second hypothesis (H2) states that board independence has no effect on financial distress. This is indicated by the table above with a probability value greater than the significance level of 0.140 < 0.05. So based on research, board independence variables do not partially affect financial distress with a positive correlation. The results of this study are in line with research conducted by Cinantya & Merkusiwati (2015), Sastriana (2013) and Hartantri & Hatane (2017). According to Cinantya & Merkusiwati (2015) explained that the independence board is needed its independent attitude in carrying out its duties and responsibilities, but sometimes the independent attitude is lacking resulting in weak supervision on management performance, so that the independence board has no influence on the occurrence of financial distress.

The third hypothesis (H3) states that the audit committee has no effect on financial distress. This is indicated by the table above with a probability value greater than the significance level of 0.781 < 0.05. So based on research, audit committee variables do not have a partial effect on financial distress with a positive correlation. This research is in line with research conducted by Putra & Muslih (2019), Irmayanti & Almuri (2020), and Sulistyowati et al (2019). According to Sulistyowati et al (2019) stated that the larger the number of audit committee members will make it difficult to make decisions, on the one hand if the number of audit committee members with fewer members, with a lack of knowledge and skills will have difficulty in dealing with financial problems that occur in the company, in addition to internal and external factors can cause a company to experience financial distress.

5. CONCLUSION

This study identifies that Board Size has a significant effect on Financial Distress with a negative correlation, the greater the board size, the greater the company will have a profit in increasing access to human resources and information. In addition, the board must also have a large number because if the board members are larger it will be easier to control the work and reduce its dominance. Board Independence has no significant effect on Financial Distress with a positive correlation, board independence is needed independent attitude in carrying out its duties and responsibilities, but sometimes the independent attitude is lacking, so that the independence board has no influence on the occurrence of financial distress. Audit Committee has no significant effect on Financial Distress with a positive correlation, the greater the number of audit committee members will make it difficult to make decisions, in addition to internal and external factors can cause a company to experience financial distress.

The limitations that occurred in this study are as follows: (1) This research object only uses sub-sectors of service companies namely infrastructure, utilities, and transportation as well as hotels, restaurants, and tourism in 2020 or in pandemic times so that the results of the study cannot be formed conclusions in general, and (2) The indicators used in this study only use Board Size, Board Independence, and Audit Committee.

For further researchers are expected to add variables in the research such as board size, managerial ownership, institutional ownership and add objects in this study, and it is advisable to increase the interval of the research year in order to obtain more accurate results.

REFERENCES

Appuhami & Bhuyan. (2015). Examining the Influence of Corporate Governance on Intellectual Capital Efficiency : Evidence from Topservices Firms in Australia. Managerial Auditing Journal. Vol 30. 347-372

Bredart. (2014). Financial Distress and Corporate Governance : The Impact of Board Configuration. International Business Research. Vol 7 No 3.

Cinantya & Merkusiwati. (2015). Pengaruh Corporate Governance, Financial Indicators, Dan Ukuran Perusahaan Pada Financial Distress. E-Jurnal Akuntansi. Vol 10 No 3. 897-915

Ghozali. (2011). Aplikasi Analisis Multivariate Dalam Program SPSS. Semarang : Badan Penerbit Universitas Diponegoro.

_______ (2018). Aplikasi Analisis Multivariate Dalam Program IBM SPSS 25. Semarang : Badan Penerbit Universitas Diponegoro.

Gunawijaya. (2015). Pengaruh Karakteristik Komite Audit, Independensi Dewan Komisaris, Reputasi Auditor Terhadap Financial Distress. Jurnal Akuntansi Bisnis. Vol. XIV. https://doi.org/10.24167/jab.v14i27.964

Hartantri & Hatane. (2017). Pengaruh Corporate Governance Terhadap Financial Distress Pada Perusahaan Sektor Barang Konsumsi dan Perdagangan Yang Terdaftar di Bursa Efek Indonesia. Journal Business Accounting Review. Vol 5 No 2. 505-516.

Helena & Saifi. (2018). Pengaruh Corporate Governance Terhadap Financial Distress (Studi Pada Perusahaan Transportasi Yang Terdaftar Di Bursa Efek Indonesia Periode 2013-2016). Jurnal Administrasi Bisnis. Vol 60 No 2.

Irmayanti & Almuri. (2020). Pengaruh Komite Audit, Profitabilitas, Arus Kas Operasi, Dan Inflasi Terhadap Financial Distress (Studi Empiris Pada Perusahaan Property Dan Real Estate Yang Terdaftar Di Bursa Efek Indonesia 2012-2018).

Jamal & Shah. (2017). The Impact of Corporate Governance on The Financial Distress : Evidence From Pakistani Listed Companies. Jinnah Business Review. 5(2). 49-53

Januarti & Pembayun. (2012). Pengaruh Karakteristik Komite Audit Terhadap Financial Distress. Jurnal Akuntansi. Universitas Diponegoro. Vol 1 No 1.

Kurniasih & Sari. (2013). Pengaruh Return On Asset, Leverage, Corporate Governance, Ukuran Perusahaan dan Kompensasi Rugi Fiskal pada Tax Avoidance. Buletin Studi Ekonomi. Vol 1 No 18. 58-66.

Muryati & Suardikha. (2014). Pengaruh Corporate Pada Nilai Perusahaan. E-Jurnal Akuntansi Universitas Udayana. Vol 9 No 2. 411-429.

Nasir dan Ali. (2018). Corporate Governace And Financial Distress : Malaysian Perspective. Asian Journal of Accounting Perspectives. Vol 11 No 1. https://doi.org/10.22452/AJAP.vol11no1.5

Ningrum & Hatane. (2017). Pengaruh Corporate Governance Terhadap Financial Distess. Journal Business Accounting Review. Vol 5 No .

Otoritas Jasa Keuangan. (2015). Peraturan Otoritas Jasa Keuangan Nomor 55/POJK.04/2015 tentang Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit. Ojk.go.id

Triwahyuningsih. (2012). Analisis Pengaruh Struktur Kepemilikian, Ukuran Dewan, Komisaris Independen, Likuiditas, dan Leverage Terhadap Terjadinya Kondisi Financial Distress Pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2008-2010. Jurnal Akuntansi.

Putra & Muslih. (2019). Pengaruh Kepemilikan Institusional, Kepemilikian Manajerial, Dewan Komisaris Independen, Dan Komite Audit Terhadap Financial Distress (Studi Empiris Pada Perusahaan Sub Sektor Transportasi Di Bursa Efek Indonesia Tahun 2013-2017). e-Proceeding of Management. Vol 6 No 2. 3289-3299

Salloum & Azoury. (2013). Board of Directors Effectson Financial Distress : Evidence of Famiy Owned Business in Lebanon. International Enterpreneurship and Management Journal. Vol 9 No 1. 59-75

Sastriana. (2013). Pengaruh Corporate Governance Dan Firm Size Terhadap Perusahaan Yang Mengalami Kesulitan Keuangan. Diponegoro Journal of Accounting. 130-139.

Sulistyowati., Afifudin, & Mawardi. (2019). Pengaruh Struktur Corporate Governance Dan Financial Indicator Terhadap Kondisi Financial Distress 9pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2018) Jurnal Ilmiah Riset

Akuntansi. Vol 8 No 5.

Ujiyantho dan Pramuka. (2007). Mekanisme Corporate Governance, Manajemen Laba dan Kinerja Keuangan (Studi Kasus pada Perusahaan Go Publik Sektor Manufaktur). Jurnal Simposium Nasional Akuntansi X. Makasar

Undang – Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas

WHO. (2021). Corona Diseases (Covid-19). https://covid19.who.int/table

Zahra, S., A., & II, J., A. (1989). Boards of Directors & Corporate Financial Perofrmance. Journal Of Management. Vol 15 No 2. 291-334.

Zulaecha, H, & Atik Mulvitasari. (2018). Pengaruh Likuiditas, Leverage, Dan Sales Growth Terhadap Financial Distress. Jurnal Manajemen Bisnis. Vol 9 No 1. ISSN 2302-3449 e-ISSN 2580-9490.