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The effect of the independent board of commissioners and motivation on financial distress

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Abstract

Financial distress is carried out before real bankruptcy occurs in an industry. Problems in the finances of an industry are often faced because there are irregularities in it, the company does not have the ability to pay its long-term obligations to the total assets it has, while the margin obtained is not in line with the amount of assets that have been issued. The purpose of this study was to analyze the factors that influence financial distress with independent commissioners and motivation as the independent variables. The population used is the transportation company on the IDX (Indonesian Stock Exchange) for the 2019-2020 period with the purposive sampling method. The analysis technique used multiple linear regression using SPSS 25. The results obtained: motivation has a positive and significant effect on the financial distress variable and the independent board of commissioners has no significant effect on the financial distress variable. This study provides input to enrich the theory of the relationship between the Board of Independent Commissioners and Motivation towards Financial Distress.

Keywords: Financial Distress; Independent Board of Commissioners; Indonesian Stock Exchange; Motivation

1 Introduction

The global crisis which also affected Indonesia in recent years is still affecting various industries today, so that many industries are experiencing financial difficulties, even bankruptcy. The decline in financial performance poses a risk to the industry, both the service industry and trade. All industry segments must be worried about this because of the fact that even large industries that have strong capital and healthy financial performance cannot avoid the danger of bankruptcy. As stated by [1] the existence of bankruptcy in an industry or company begins with financial distress with the meaning that the company is facing financial difficulties. When financial distress appears, this indicates an early warning of financial distress. A company can mitigate as a whole by looking at the early warning [1]. This is reflected in the financial statements and other financial information related to weak financial performance. Suboptimal corporate governance causes financial difficulties, while good governance is reflected in how companies are able to understand consumer needs. In addition, the existence of shareholders related to control shows that a company can be said to have good governance because the relationship is to reduce problems that exist in control, for example the pursuit of various records which in the long-term shareholders are determined with the help of the use of control itself.

Most companies will present their financial statements as well and as neatly as possible to shareholders with the aim of investing in the industry so that some investors should take other sources for reference as predictions of financial distress symptoms. One of the industries that is experiencing a decline in financial performance is PT Trans Express Tax, the company's shares fell to IDR 50 (per share). This was due to poor financial performance resulting in mass selling of shares. Referring to the IDX (Indonesian Stock Exchange), the opening of IDR 51 (per share) occurred in a

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transportation company, namely Express Transindo with the initial part selling shares until the lowest price on the Indonesia Stock Exchange was IDR 50 (per share) or decreased by 1.96%.

The corporation is currently experiencing a decline in proportion value, that is because of a new competitor's ability that has taken over its passengers with online-primarily based totally messaging services. This company has poor management control in the field of transportation, especially in four-wheeled public vehicles which are often referred to as taxis. This company thinks that the company has succeeded and does not want to evaluate itself, so the Transs Express Taxi company is experiencing financial difficulties because there is a new competitor. Consumers who initially used the services of the Trans company turned to new competitors with innovative ideas such as Uber. Other parties such as Uber Company, although using online-based messaging services, recorded losses of 4.5 billion US dollars. This figure is 61% higher than the previous period. The loss of the Uber company has resulted in the Grab company being attracted and merging. The Singapore Business Competition Supervisory Commission (Competition Commission Singapore/CSS) explained that the merger relationship between Grab and Uber was a step-in violation of competition rules, so this CSS asked the court to issue a temporary order. CSS hopes that the two companies will not carry out a business union which will affect the ease of selling the business.

Furthermore, according to [2] said that company governance is a fixed of rules that adjust the connection among shareholders, government, employees, management (managers) of the corporation, creditors, and holders which are beneficial for controlling different inner and outside interests related to their rights and obligations or a system focused on controlling the corporation. The reason of company governance is to create an introduced cost this is useful for all involved parties. Corporate governance is a non-monetary system this is cost introduced to the corporation to draw all stakeholders to spend money on a corporation. Corporate governance has two very important things, first, shareholders have the right to receive correct and timely information and second, companies have an obligation to disclose everything that happens in their company accurately, on time, transparently with all company performance information, ownership, and stakeholders.

Bankruptcies of several companies have destroyed shareholder wealth and weakened the confidence of investors which made investors hesitant to invest. Corporate governance is a structure to determine the company's goals, the means to achieve these goals and to determine the supervision of the company's performance. Good corporate governance will occur, if the company can monitor its performance, so that it will lessen the ability for experiencing economic distress. The life of precise governance achieved via way of means of control may have an effect on enhancing the company`s image, growing patron pleasure and being relied on via way of means of investors. The low exceptional of the implementation of precise company governance may have an effect at the decline within side the company's performance on an ongoing basis which will bring the company in a deteriorating financial condition and experience financial distress.

Another influence that affects a company that causes financial distress is motivation. Motivation is a useful driver to encourage subordinates to move company activities quickly and precisely. Motivation questions how to direct the energy and potential of subordinates so that they want to work collectively productively and efficiently achieve and comprehend the desires that have been decided [3]. Several studies have been conducted regarding financial distress. The first variable is the independent board of commissioners' variable.

Based on the results of research from [1] explains that the independent board of commissioners' variable has an effect on financial distress. Meanwhile, the results of research conducted by [4], [2] explain that the corporate governance variable used is the composition of the independent board of commissioners. The study found that the independent board of commissioners' variable had no effect on financial distress by using the Spring gate model in the formulation of financial distress. Financial distress can be detected when there is bad governance. This study uses an independent variable in the form of an Independent Board of Commissioners in order to reduce the occurrence of bad governance. Not only bad governance, financial difficulties are also known from how much profit the company earns and the company's ability to pay off its short-term debt using its current assets.

This study uses independent variables in the form of profitability and motivation variables in order to find out how much profit the company gets which will be useful for paying off its current obligations. Financial difficulties can also be seen from the calculation of operating capacity which serves to determine whether the turnover of assets owned by the company is running effectively or what we often call operating capacity. Based on the background of these problems, this study aims to examine the effect of independent commissioners and motivation on financial distress.

2 Literature Review and Hypotheses Development

2.1 Agency Theory

[5] explain that, "the agency relationship is a contract between one or more principals and another person (agent) in the activities of delegating decision-making authority to agents. Agency theory has three kinds of agency relationships, namely, the agency relationship between managers and shareholders, between managers and creditors, and between managers and government. Agency theory explains that agency is based on the existence of a contractual relationship between shareholders (principal) and management (agent). Shareholders and management in question allow conflicting interests to occur which will cause problems, thus causing information asymmetry. On this basis, agency costs arise as costs incurred by the principal to supervise the agent's performance. Due to the large difference in interests between the ruler and the representative, corporate fees are incurred for the necessities to ensure that the manager can make the best choice for the necessities.

Agency theory emphasizes that it is important for company owners (shareholders) to hand over the management of the company to professionals (agents) who understand better in running their daily business [5] This theory combines the interests of the principal and agent to be interconnected, so managers will not be concerned with their own welfare other than for the benefit of the company. Management ownership of company shares can be used to reduce agency costs because managers will get direct results from every decision taken. Managers will be motivated to improve company performance and are responsible for generating prosperity for shareholders.

2.2 Financial Distress

Financial distress or what we often call "financial difficulties or financial distress" is a symptom before the occurrence of a real bankruptcy in a company. Companies before going bankrupt will usually experience financial difficulties. Typically, the prevalence of economic problems is because of fraud in management, the organization’s incapability to pay its responsibilities with its belongings, and the income earned via the agency compared to the whole assets issued. An unbiased board of commissioners is a member of the board of commissioners who's free from business relationships or different relationships in the company which can have an effect on his capability to behave independently for the advantage of an employer. Independent Commissioner is a commissioner outside the control structure of a company. The wide variety of independent commissioners inside the organization is as a minimum 30 percent of the overall number of commissioners. The responsibility of the unbiased board of commissioners is to help enforce a precept of accurate corporate governance or commonly known as properly company governance in the agency.

2.3 Motivation

Motivation comes from the Latin word "movere" because of this to push or move. Motivation in control is simplest intended for human assets in well-known and subordinates especially. Motivation questions the way to direct the power and ability of subordinates in order that they want to work collectively productively and correctly achieve and recognize the goals which have been determined [3]. Motivation consists of two factors, namely intrinsic motivation and extrinsic motivation, each of which has an influence on a separate aspect of job satisfaction. External motivation prevents dissatisfaction but does not lead to satisfaction. One of the factors when using motivation for employees is:

- Work achievement, which is the success of an employee in completing his duties properly and maximally.
- Self-development (advancement) which is the desire or desire of an employee in developing a career.
- The work itself which is a variation of work and control over work procedures or steps.

2.4 Influence of Independent Board of Commissioners on Financial Distress

[6], [7] said that independent commissioner has tremendous fine impact on financial distress. [8] defined that dependent commissioner can be higher in overcoming financial distress considering the fact that they have got better threat of being laid off while financial ruin occurs. This way growing independent commissioner percentage can even growth the opportunity of financial distress. [6] speculated that Indonesian agencies generally tend to disregard the knowledge, enjoy and know-how of an independent commissioner to satisfy the rules therefore main to ineffectiveness of independent commissioner`s employment. Furthermore, poorly completed companies may attempt to rent extra independent commissioner to draw investors. [9] said that Indonesia agencies normally employ a former or energetic authorities professional as a member of board of commissioners so that you can have get entry to the applicable authorities companies which can also additionally result in the dearth of integrity and capacity of independent commissioner.

According to [1] explaining that the independent board of commissioners has an influence on financial distress. Based on this description, it can be seen that the independent board of commissioners has a relationship with financial distress, so a hypothesis can be drawn as follows:

H1: Independent commissioners have an effect on financial distress.

2.5 The Effect of Motivation on Financial Distress

The relationship between motivation and financial distress is the existence of a trigger for the movement of company activities to prevent financial distress. This happens because there is production in an office that makes the company profit from selling or providing these services. According to [10], explaining that motivation has an influence on financial distress. From the above review, it can be concluded that motivation has an effect on financial distress so that the following hypothesis is obtained:

H2: motivation has an effect on financial distress

From the literature review and hypothesis development, the conceptual framework of this study is shown below:

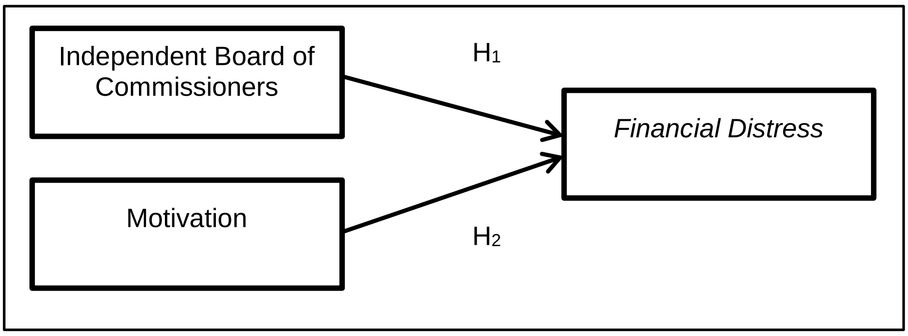

Figure 1 Research Conceptual Framework

3 Method

The population of this study are companies engaged in the transportation sector that have published their financial statements from the period 2020 to 2021 on the Indonesia Stock Exchange. This study uses a purposive sampling technique using the documentation method which later on samples can be cataloged according to the following criteria: a) Transportation companies that have made audited financial statements. b) Transportation companies that have complete information according to research needs and have published annual reporting for the 2020-2021 period. There are 35 transportation companies listed on the Indonesia Stock Exchange in the 2020-2021 period, so there are 9 companies that are not needed in this study, so there are 26 samples. There are 3 periods in this study and the amount of data used in this study was 62 data that matched the sample selection criteria.

The data in this study is quantitative data. The data collection method in this researcher is more of a database retrieval technique. The data collection technique used the documentation method, which was obtained from the media www.idx.co.id and www.yahoofinance.com.

The variables in this study consist of independent variables that influence in this study, namely the Independent Board of Commissioners and motivation. The dependent variable that is influenced in this study is Financial Distress. The operational definition of financial distress variable is a company that is unable to pay its obligations. Financial difficulties in the company can be seen from the inability to carry out company activities to pay short-term obligations to the company's inability to overcome all its obligations. In measuring financial distress, this study uses the spring gate s-score, namely:

S = 1,03 A + 3,07 B+ 0,66 C + 0,4 D

Information:

- A= (current assets - current liabilities) / Total assets

- B= Net income before interest and taxes / Total assets
- C= Net income before tax / Current liabilities
- D= Income / Total assets

The operational definition of the independent board of commissioners is a non-participant commissioner of management within the company. The number of independent commissioners in the company is at least 30 percent of the total number of commissioners. In this study, independent commissioners were measured by comparing the number of independent commissioners with the number of commissioners in the company. The measurement of the Independent Board of Commissioners in this study uses the following formula [10].

$$DK.Ind = \frac{\sum Number\ Independent\ Board\ of\ Commissioners}{\sum Board\ of\ Commisioners} x\ 100\ \%$$

The data analysis technique of this research used multiple regression analysis. The data analysis used in this study consisted of descriptive statistical analysis, classical assumptions (normality test, multicollinearity test, autocorrelation test and heteroscedasticity test), F test, analysis of determination (R^2) and t test.

The multiple regression models in this study are:

FD = α + β1 DKI + β2 MT + e

Information :

- α = Constant
- β_1 = Independent Board of Commissioners Variable Coefficient
- β_2 = Coefficient of Motivation Variable
- FD = Dependent Variable (Financial Distress)
- DKI = Independent Variable (Independent Board of Commissioners)
- MT = Independent Variable (Motivation)
- e = error

4 Results

4.1 Descriptive Test

Descriptive analysis is the analysis used in providing an overview of the variables in this study which are interpreted in table below. The results of the descriptive analysis are as follows.

Table 1 Descriptive Analysis Results

Variables	Amount of data	Minimum Value	Maximum Value	Average
Financial Distress	78	-20.65	123	18.51
Independent Board of Commissioners	78	0.0	0.67	0.13
Motivation	78	-6.9	3.3	1.42

Source: processed field data

Based on the data processed in Table above. the results of the descriptive analysis obtained the maximum and minimum values for financial distress from the 2020-2021 period. which are 123 and -20.65. The average value of accounting conservatism from the 2020-2021 period is 18.51. Financial Distress occurs if it has a value below 0.862 of the total spring gate s-score measurement. The maximum and minimum values for the independent board of commissioners from the entire sample for the 2020-2021 period are 0.67 and 0.0. The average value of the independent board of commissioners is 0.13. A good independent board of commissioners has an above average score of 30% of the total measurement. The maximum and minimum values of Motivation of the whole sample are -6.9 and 3.3. The company's average risk is 1.42. A sample of 4 indicates that the company has good motivation:

4.2 Classic assumption test

4.2.1 Normality Test

Kolmogorov Smirnov test with 78 data of 0.200. These results indicate that the significant value > 0.05 which can be concluded that the research data has a normal distribution.

Table 2 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		78
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	2.68100951
Most Extreme Differences	Absolute	0.072
	Positive	0.072
	Negative	-0.044
Test Statistic		0.072
Asymp. Sig. (2-tailed)		0.200[c.d]

Source: processed field data

4.2.2 Multicollinearity Test

The results of the multicollinearity test in this study indicate that there is no multicollinearity where it occurs in all variables. namely the independent board of commissioners and motivation which has a tolerance value above 0.10 and a VIF below 10.

Table 3 Multicollinearity Test Results

Coefficients a								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
		B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
1	(Constant)	4.859	2.460		1.977	0.051		
	DKI	0.491	0.188	0.419	2.619	0.012	0.249	4.199
	MT	0.347	0.151	0.370	2.316	0.025	0.249	4.199

Source: processed field data

4.2.3 Autocorrelation Test

This study has a sample size (n) of 78 and the variables used in this study are 2 variables (k=2) so that dL = 1.5801 and dU = 1.6851. The results of the autocorrelation test in this study were that there was no autocorrelation due to the Durbin Watson (d) value of 1.724. Because the d value of 1.724 is greater than the upper limit (dU) 1.6851 and less than (4-dU) 2.3149. it is concluded that there is no autocorrelation symptom.

Table 4 Autocorrelation Test Results

Model Summary b					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	0.862	0.680	0.868	3.578	1.724

Source: processed field data

4.2.4 Heteroscedasticity Test

In this study to test heteroscedasticity using the Glejser test. The results of this study indicate that all variables have a significance value > of 0.05. The conclusion is that there is no heteroscedasticity in the study which can be interpreted as follows.

Table 5 Heteroscedasticity Test Results

Coefficients a						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	5.278	1.336		4.950	0.000
	DKI	-0.045	0.103	-0.204	-0.333	0.767
	MT	-0.045	0.082	-0.230	-0.642	0.690

Source: processed field data

4.3 Multiple Linear Regression Analysis

Regression analysis conducted in this study is a multiple regression model which aims to test the hypothesis in this study. The results of the regression in this study are interpreted in Table below. The results of the Multiple Regression Analysis are as follows.

Table 6 Linear Regression Analysis Results

Coefficients a						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	3.889	2.459		1.976	0.052
	DKI	0.080	0.187	0.318	1.518	0.061
	MT	0.346	0.150	0.469	3.315	0.001

Source: processed field data

From the output obtained. the regression equation model is obtained as follows:

$FD = 3.889 + 0.080DKI + 0.346MT + e$

The regression equation model means that the independent variable regression coefficient (independent commissioners and motivation) has a positive and significant effect on the dependent variable (financial distress). This means that every increase in the independent commissioner variable and motivation will be followed by an increase in the financial distress variable.

Table 7 Coefficient of Determination of Linear Regression

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.462	0.580	0.668	3.678

Source: processed field data

Adjusted R square value of 0.668 means that financial distress is influenced by the independent board of commissioners and motivation is 66.8% while 33.2% of financial distress is influenced by other variables.

4.4 Hypothesis test

4.4.1 t test (Partial Test)

This test aims to determine the significant effect between the independent variables on the dependent variable partially (individually). The value of t-count can be seen from the regression results and for t-table obtained from df = n-k-1 with a significance ($\alpha = 0.05$) obtained t table of 1.6654. The results of hypothesis testing are concluded as follows:

H1: The Independent Board of Commissioners has an effect on financial distress. the t value is 1.518 < 1.6654 and the significance is 0.061. so Ha is rejected. So that the hypothesis of the independent board of commissioners has a positive and significant effect on financial distress is rejected.

H2: Motivation has an effect on financial distress. the t-count value is 3.315 > 1.6654 and the significance is 0.001 then Ha is accepted. So that the motivation hypothesis has a positive and significant effect on financial distress is accepted.

4.4.2 F Test (Simultaneous Test)

This test is used to determine the overall effect of the independent variable on the dependent variable. The subsequent presents the statistical F test on this take a look at which may be interpreted within the table underneath. Simultaneous take a look at effects are as follows.

Table 8 Simultaneous Test Results

ANOVA a						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	1722.603	2	861.301	143.111	0.000 b
	Residual	415.272	75	6.018		
	Total	2137.875	77			

Source: processed field data

With a significance level of 5% and degrees of freedom df1 = 2 and df2 = 78-2-1 =75. the table obtained is F (2;75) =3.119. Based on Table12. Simultaneous test results obtained by the calculated F value > from F table. namely 143.111 > 3.119 so that H0 is rejected. Meanwhile. if it is seen from the calculated probability value is 0.000 <0.05. the result rejects H0 which means that simultaneously there is an influence of independent board of commissioners' variables and motivation on financial distress in transportation companies.

5 Discussion

5.1 Influence of Independent Board of Commissioners on Financial Distress

In this test it's demonstrated that the board of commissioners has no impact on financial distress. This is evidenced by means of the effects of the t-test which shows the price of t-count < t-table and significance > 0.05. This shows that the independent board of commissioners has no effect on financial distress. which means despite the fact that the value of the independent board of commissioners' variable will increase or decreases. it will no longer have an effect at the value of financial distress as indicated through the inconsistent course of the relationship between the independent board of commissioners and financial distress.. So that the independent board of commissioners' variable is said to have no effect on financial distress because based on agency theory. most transportation companies do not have an independent board of commissioners. it is likely that most of these companies have poor governance. thus making investors think that this company is not transparent. Although the governance of transportation companies is mostly bad. it does not affect investors to invest in the company. so this variable has no effect on financial distress. This is in accordance with research conducted by [4]. [2]. and [11] which state that the independent board of commissioners' variable does not affect financial distress. so H1 is rejected. This result contradicts research conducted by [1] which states that the independent board of commissioners' variable affects financial distress. so H1 is accepted.

5.2 The Effect of Motivation on Financial Distress

Motivation in this study can prove that the motivational variable has an effect on financial distress. This is evidenced in the results of the t-test showing the value of t-count > t-table with a significance of <0.05 so this indicates that motivation has a significant effect on financial distress. This means that the value of motivation increases. it will make the value of financial distress high as well. and vice versa. The influence of motivation on financial distress is positive. where the greater the motivation. the better the financial distress. This is supported by agency theory. where motivation occurs when there is poor corporate governance. Poor governance can partially affect the occurrence of financial difficulties in a company. This is in line with research conducted by [4]. [12] which state that the motivation variable affects financial distress. so (H2) is acceptable. This result contradicts the research conducted by [11] which states that the motivation variable does not affect financial distress. so (H2) is rejected.

5.3 Managerial Implication

This study provides input to enrich the theory of the relationship between the Board of Independent Commissioners and Motivation towards Financial Distress.

6 Conclusion

Based on the results of hypothesis testing that has been carried out on the effect of the independent board of commissioners' variables and motivation on financial distress. the conclusions that can be drawn are as follows:

- The results of testing the first hypothesis (H1) show that the independent board of commissioners has no significant effect on financial distress. so the first hypothesis is rejected.
- The results of testing the second hypothesis (H2) indicate that work motivation has a significant effect on financial distress. so the second hypothesis is accepted.

Compliance with ethical standards

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Disclosure of conflict of interest

The Authors wish to declare that none has any interest to disclose.

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