
**THE EFFECT OF GOOD CORPORATE GOVERNANCE ON THE
PREDICTION OF BANKRUPTCY IN RETAIL TRADE SUB-SECTOR IN
INDONESIA**

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Abstract

The pandemic causes many entities to be unable to survive in their operations, causing these entities to go bankrupt. management is required to have good governance to suppress the occurrence of bankruptcy. This long-term objective is to analyze the prediction of bankruptcy and its effects, as well as the causes of bankruptcy of the entity which resulted in the closing of the entity and the dismissal of the workforce. The specific objective that is desired is to get a cue on entities experiencing financial difficulties through the calculation of bankruptcy predictions, as well as testing the effect of corporate governance on bankruptcy prediction. the population of this study amounted to 27 companies. Samples were selected using the purposive sampling method amounted to 20 companies. The data analysis method used ordinal regression with the help of SPSS. The findings in this study have the effect of the board of directors on the prediction of bankruptcy. The board of commissioners affects the prediction of bankruptcy. Independent commissioners influence the prediction of bankruptcy. Managerial ownership affects the prediction of bankruptcy and the audit committee affects the prediction of bankruptcy.

Keywords: bankruptcy prediction, governance, board of directors, audit committee, managerial ownership

1. Introduction

The bankruptcy of operations of the Entity to continue its business to earn a profit. Goals Every company operates because it wants to achieve its goals, namely the prosperity of the company by generating profits, the company grows and develops and can maintain itself in the long term. Edward I. Altman (1968); (Edward I Altman, Drozdowska, Laitinen, & Suvas, 2017; Ananto, Mustika, & Handayani, 2017).

The closing of food and clothing outlets included: 1) 7 Eleven, in 2009 – 2014 was able to open 190 stalls in the Bulungan area of South Jakarta. However, in 2015 the heyday began to fade with intense competition. It's the same with Lawson and Family Mart. As a result of the prohibition on the sale of alcoholic beverages. The peak was in 2017, the decline in sales reached 50% from 2016 which caused a loss of Rp 456 billion. Until finally officially June 30, 2017, the outlet was closed. 2) In 2017 Lotus Department Store officially closed its stores. In October 2017 officially 5 outlets located in several locations were no longer operating, the company was forced to lay off. 3) At the end of 2017, all Debenhams retailers under the ownership of PT Mitra Adi Perkasa closed their outlets in the Senayan City area. 4) In early 2019, PT Hero also closed 26 outlets with 532 employee layoffs, this was done to maintain the going concern of its business activities (KumparanBisnis, 2019).

Online retail creates market efficiency advantages, there are cost savings such as store rental costs, employee salary costs, office supplies and equipment costs, transportation costs, operational costs where all sales-purchase activities are carried out online, and the amount of taxes that must be paid. From the consumer's point of view, shopping through online retail also contributes benefits, namely saving consumers' time. The closure of retail company outlets in Indonesia occurred at the beginning of 2019. One of them is Hero Supermarket Tbk (Hero Group), 26 stores have closed. In addition, until 2018 there were 59 Giant Ekstra, 96 Giant Ekspres and 3 Giant Marts out of business and the impact was the layoff of 532 store employees due to losses (Rahmah, 2019). There is a tendency for the entity to experience a decline in carrying out its business activities.

The legal basis for the entity's obligation to carry out governance is to realize corporate governance (Hadad, 2015), (Nurhaida, 2015). GCG is a set of rules as an intermediary that contacts shareholders with internal and external parties related to the company's rights and obligations that must be fulfilled. Corporate governance aims to create added value for stakeholders. The characteristics of a well-managed company must convey accurate and accountable information. Information that is informative in nature will change the confidence of the interested parties, the information provided which contains the latest information will generate new perceptions for investors. This will change both in terms of demand and supply. Corporate governance plays a role in increasing the value of the company. Corporate Governance is to regulate the mechanism for managing the entity's relationship between agents and principals in the process of determining strategic direction and performance. Based on the findings (Chrissentia & Syarief, 2018) said institutional ownership has a negative effect on bankruptcy prediction. This contradicts the findings (Ananto; Mustika; & Handayani, 2017) that institutional ownership, commissioners, directors, independent commissioners, audit committees do not affect the prediction of bankruptcy. Meanwhile (Damayanti, Yuniarta, & Sinarwati, 2017) said that the audit committee and managerial ownership did not affect the prediction of bankruptcy. The implementation of GCG in a company is expected to improve entity performance in accordance with agency theory (Ratieh Widhiastuti, Ahmad Nurkhin, & Susilowati, 2019). Meanwhile, his findings (Jensen & Meckling, 1976) are that there is a conflict between the principal (owner) and the agent (manager), the explanation is in agency theory. The agent as the manager who is trusted by the owner who should carry out the mandate, sometimes there is behavior from the manager to act in accordance with his own interests not as a party that should be fair, wise and wise to provide services to shareholders. When there is a difference in interests between the principal and the agent, it will cause agency problems. The agent as the manager of the company has the opportunity to find out more information about the organization, on the other hand the principal does not have enough information related to the manager's performance. This can lead to information imbalances and can lead to information asymmetry.

When an entity experiences financial distress, it is a signal for the company to go bankrupt. However, this is not a benchmark for the company's ability to continue its operations. In addition to financial ratios, Bankruptcy Prediction is also influenced by corporate management

governance. Where corporate governance plays a role in running the wheels of the leadership of a company.

2. Literature Review

2.1. Bankruptcy of The Company

The dependent variable is the bankruptcy of the company. Bankruptcy is a company's failure in operations to generate profits. The Altman model used is the Modified Altman Z-Score Model (Edward I Altman et al., 2017; Edward I. Altman & Edith Hotchkiss, 1993) which is used to measure the probability of bankruptcy of manufacturing and non-manufacturing entities, both those that go public and those that do not. the entity that issues developing country bonds. Modified Altman Z-Score model formula is as follows:

$$Z'' = 3.25 + 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

X_1 = Working Capital to Total Assets

X_2 = Retained Earning to Total Assets

X_3 = Earning Before Interest and Taxes To Total Assets

X_4 = Market Value of Equity to Book Value of Liabilities

Altman Z''-Score is then divided into the following :

1. If the Z-Score > 2.60 = Safe
2. If the value is 1.10 < Z-Score < 2.60 = Grey.
3. If the Z-Score < 1.10 = dangerous

The dependent variable in this study is the level of the company's bankruptcy category, where healthy companies are given a value of 3. Companies in the gray area are given a value of 2, and companies in the distress zone are given a value of 1 (Deanta: 2009).

2.2. Board of Directors

Based on the general guidelines of GCG Indonesia, there must be an adjustment of the complexity of the company with the number of members of the board of directors to be able to produce effectiveness in decision markers. The size of the board of directors consists of the number of boards of directors in the current period

Board of Directors = Σ Number of Board of Directors

2.3. Board of Commissioners

Based on the general guidelines for GCG Indonesia, there must be an adjustment to the complexity of the company with the number of members of the board of commissioners resulting in good GCG implementation within the entity. The size of the board of commissioners consists of the number of commissioners in the current period.

2.4. Independent Commissioner

Part of the membership of the board of commissioners who are independent and able to influence decision-makers, the formula is as follows

$$KInd = \frac{\text{Number of Independent Commissioners in the period } t}{\text{Total Number of Commissioners in the Period } t}$$

2.5. Managerial Ownership

Shares owned by managers in the form of %, with the management section, it is expected that the performance will be better with the expectation that the rate of return will be received in a certain period. So that management is required to be active and play a role in the progress of the entity.

$$KM = \frac{\text{Number of Shares owned by Management}}{\text{Number of outstanding shares}}$$

2.6. Institutional Ownership

The proportion of ownership is in other institutions or entities, thus managers will take a preventive attitude in the investment or funding decision process. In addition, it is used as a monitoring and evaluation tool in policies and strategies from government, private institutions (domestic & foreign).

$$KIns = \frac{\text{Number of shares owned by the institution}}{\text{Number of outstanding shares}}$$

2.7. Audit Committee

As a means of fulfilling control and supervision in the company's operational processes.

$$\text{Audit Committee} = \Sigma \text{Number of Audit Committee}$$

3. Research Methods

The population of this study is the trading sector companies listed on the Indonesia Stock Exchange for the 2016-2020 period as many as 27 companies, with a total sample of 20 companies, where the sampling technique uses the purposive sampling method. The analysis carried out is multiple linear regression analysis with SPSS tools. Where the research has 6 independent variables and 1 dependent variable whose research model can be seen in Figure 1

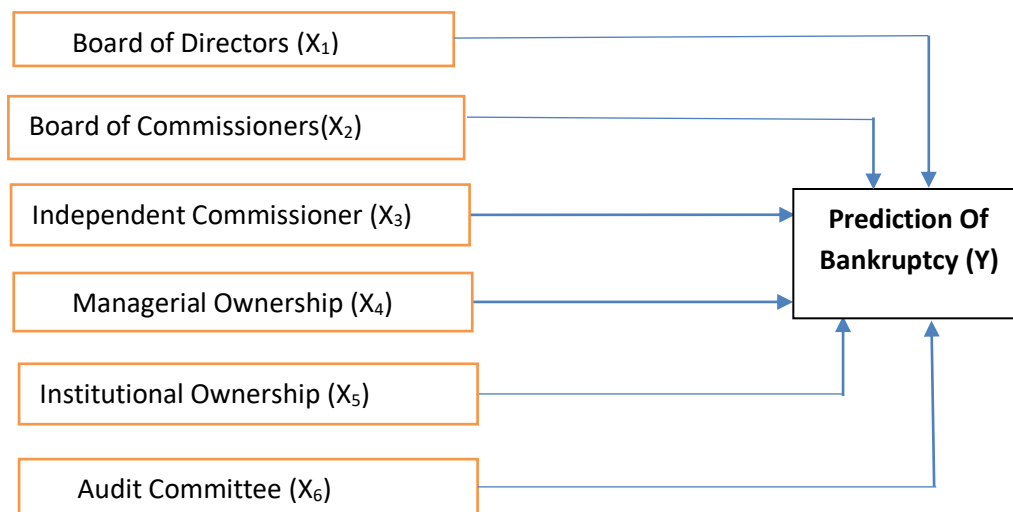


Figure1. Reserch Model

4. Result and Discussion

4.1. Result

4.1.1. Ordinal Regression Analysis Model

The feasibility of a regression model can be seen through the chi-square value in a test called goodness of fit. This test aims to see whether the model used is suitable or not. The model is said to be suitable if the probability value is > 0.05 . From the results shown, it can be seen that the deviance value has a probability or significance value > 0.05 , which is 1 while the Pearson value has a probability value of 0.00. If one of the two values has met the criteria, the model can be said to be suitable or feasible.

Table 1. Parallel Lines Test

-2 Log Likelihood	Chi-Square	df
46.655		
37.774 ^b	1.655	6

Source: Processed data

Table2. Goodness of Fit

	Chi-Square	df	Sig.
Pearson	6.104	154	.663
Deviance	5.269	154	1.000

Link function: Logit.

Source: Processed data

Based on the results of the model fit test, Table 2 shows that the Chi-Square value of the Pearson test is 6.104 and the p-value is 0.663. The Chi-Square deviance test value is 5.269 and the p-value is 1. So, the decision taken is to fail to reject H0 because of the p-value $>\alpha$. Thus, at the 95% confidence level, it can be said that the regression model used is suitable.

Table 3. Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	49.414			
Final	24.655	12.759	6	.028

Link function: Logit.

Source: Processed data

Based on the results of the simultaneous test calculation, Table 3 shows that the Chi-Square value is 12.759 and the p-value is 0.028. So, the decision taken is to reject H0 because the p-value $<\alpha$. Thus, at the 95% confidence level, it can be said that the model with independent variables is better than the model without independent variables

4.1.2. Pseudo R-Square Test

The results of the Pseudo R-Square test are described in Table 4 how much of the variability of the dependent variable can be explained by the variability of the independent variable. This test can be seen from the large percentage of the value of Cox and Snell, Nagelkerke, and McFadden. The coefficient value used in this study is the Nagelkerke value.

Table3. Pseudo R-Square Test

Cox and Snell	.027
Nagelkerke	.068
McFadden	.054

Link function: Logit.

Source: Processed data

The results of the calculation of the coefficient of determination Table 4 shows the R Square value approach using various methods. The Negerkerbe method provides the largest value among other methods, which is 0.068. Thus it can be interpreted that the independent variable can explain the dependent variable of 0.68%

4.2. Hypothesis Test

Decision-making on the hypothesis can be done by using the probability value approach from the Wald test. If the probability value or significance value <0.05 , then the proposed hypothesis can be accepted or each variable studied influences the dependent variable, namely bankruptcy prediction. Based on statistical tests, the Period I model in this study can be explained as follows:

Table4. Hypothesis Test

Parameter Estimates								
		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[Prediction of Bankruptcy Y= 1,00]	40.950	3.160	167.959	1	.000	34.757	47.143
	[Prediction of Bankruptcy Y = 2,00]	42.823	3.299	168.449	1	.000	36.356	49.290
Location	Board of Directors	.375	.288	1.698	1	.019	-.189	.939
	Board of Commissioners	.118	.355	3.110	1	.040	-.578	.814
	Commissioners Independent	.011	.047	2.055	1	.049	-.081	.103
	Managerial Ownership	-.020	.030	4.452	1	.048	-.079	.039
	Institutional Ownership	-.041	.002	4.152	1	.046	-.004	.002
	Audit Committee	11.981	.000	5.145	1	.022	11.981	11.981

Source: Data Process

Based on the table above, 6 variables in corporate governance have a probability value < 0.05, namely the Board of Directors (X1), Board of Commissioners (X2), Independent Commissioner (X3), Managerial Ownership (X4), Institutional Ownership (X5), Audit Committee (X6) so that it shows that the hypothesis is accepted or has an influence on the dependent variable. Thus the resulting regression equation model is as follows:

$$Y1 = \frac{Exp (estimste Y1 + estimate X1)}{1 - Exp(estimste Y1 + estimate X1)} + \frac{Exp (estimste Y1 + estimate X2)}{1 - Exp(estimste Y1 + estimate X2)} + \frac{Exp (estimste Y1 + estimate X3)}{1 - Exp(estimste Y1 + estimate X3)} + \frac{Exp (estimste Y1 - estimate X4)}{1 - Exp(estimste Y1 - estimate X4)} + \frac{Exp (estimste Y1 - estimate X5)}{1 - Exp(estimste Y1 - estimate X5)} + \frac{Exp (estimste Y1 + estimate X6)}{1 - Exp(estimste Y1 + estimate X6)} + e$$

$$Y2 = \frac{Exp (estimste Y2 + estimate X1)}{1 - Exp(estimste Y2 + estimate X1)} + \frac{Exp (estimste Y2 + estimate X2)}{1 - Exp(estimste Y2 + estimate X2)} + \frac{Exp (estimste Y2 + estimate X3)}{1 - Exp(estimste Y2 + estimate X3)} + \frac{Exp (estimste Y2 - estimate X4)}{1 - Exp(estimste Y2 - estimate X4)} + \frac{Exp (estimste Y2 - estimate X5)}{1 - Exp(estimste Y2 - estimate X5)} + \frac{Exp (estimste Y2 + estimate X6)}{1 - Exp(estimste Y2 + estimate X6)} + e$$

Where Y(1)= the probability of a healthy company and Y(2)= the probability that the company is in the gray zone or gray area

1. The two regression equations are obtained from 3 classifications of the level of the company's health zone condition. The classification of the company level as unsafe or unhealthy as the third classification or category is not listed because it is a comparison to other levels of company conditions.
2. The estimated parameter then interprets the regression equation X1, X2, X3, X4, X5, X6, and produces the following equation

$$Y1 = \frac{\text{Exp}(40,950 + 0,375)}{1 - \text{Exp}(40,950 + 0,375)} + \frac{\text{Exp}(40,950 + 0,118)}{1 - \text{Exp}(40,950 + 0,118)} + \frac{\text{Exp}(40,950 + 0,11)}{1 - \text{Exp}(40,950 + 0,11)} + \frac{\text{Exp}(40,950 - 0,20)}{1 - \text{Exp}(40,950 - 0,20)} + \frac{\text{Exp}(40,950 - 0,041)}{1 - \text{Exp}(40,950 - 0,041)} + \frac{\text{Exp}(40,950 + 11,981)}{1 - \text{Exp}(40,950 + 11,981)} + 3,160$$

$$Y2 = \frac{\text{Exp}(42,823 + 0,375)}{1 - \text{Exp}(42,823 + 0,375)} + \frac{\text{Exp}(42,823 + 0,118)}{1 - \text{Exp}(42,823 + 0,118)} + \frac{\text{Exp}(42,823 + 0,11)}{1 - \text{Exp}(42,823 + 0,11)} + \frac{\text{Exp}(42,823 - 0,20)}{1 - \text{Exp}(42,823 - 0,20)} + \frac{\text{Exp}(42,823 - 0,041)}{1 - \text{Exp}(42,823 - 0,041)} + \frac{\text{Exp}(42,823 + 11,981)}{1 - \text{Exp}(42,823 + 11,981)} + 3,299$$

4.2. Discussion

4.2.1. The Effect of Board of Directors on Prediction of Bankruptcy

Hypothesis testing for the board of directors variable which is proxied by the number of the board of directors shows a significance value of 0.05 which is smaller than the significance value of the board of directors, which is 0.019, with an estimated value of 0.375 indicating a positive number which means that the board of directors has a positive effect on bankruptcy prediction.

This finding is in line with research (Bodroastuti, 2009; Triwahyuningtias & Muharam, 2012). The number of the board of directors is an average of 4-7 people who really help the company in dividing the tasks within the company. This board of directors consists of a combination of presidents, directors, and independent directors. The board of directors as the manager of the company in charge of running the company's operations must comply with the regulations applicable to BUMN in order to create good corporate governance. The benefit of the board of directors for the company is to create a network link with external parties in ensuring the availability of resources. GCG principles (BUMN, 2011) include transparency, accountability, responsibility, independence, fairness. Members of the board of directors are responsible for implementing and monitoring GCG. There is an obligation for the board of directors to convey information related to identity, main job, and the position of the board of commissioners in subsidiaries in regular meetings. In addition, they also have the obligation to convey their share ownership and family in the company including changes in ownership (Effendi, 2016). The board of directors together with the board of commissioners are responsible for financial

reporting, risk management, and control, implementation of governance. The hard work of the directors in managing the company to generate profits will certainly suppress the occurrence of bankruptcy. This is indicated by the fluctuating profit for the year which tends to increase which comes from net sales consisting of sales and consignment sales.

4.2.2. The Effect of the Board of Commissioners on the Prediction of Bankruptcy

The results of hypothesis testing in this study indicate that the board of commissioners as a proxy for the number of commissioners has a significant positive effect on bankruptcy prediction. The significance value of the board of commissioners is $0.019 < 0.05$ with an estimated value of 0.118 which means that the board of commissioners has a positive effect on bankruptcy prediction. The number of commissioners between 3 and 6 people in the company is sufficient in carrying out the function of supervising. The commissioner is in charge of supervising the board of directors in carrying out operations and providing input to the board of directors. The board of commissioners is responsible for financial reporting, risk management, and control as well as the implementation of corporate governance. Maximum performance can be ascertained to reduce the occurrence of bankruptcy. This finding is in line with (Bodroastuti, 2009) which states that the board of commissioners has a positive effect on bankruptcy prediction. The number of large commissioners will heighten the prediction of bankruptcy. A large number of commissioners makes it ineffective in carrying out the monitoring function

4.2.3. The Effect of Independent Commissioners on Bankruptcy Predictions

The results of hypothesis testing in this study indicate that independent commissioners have a positive effect on bankruptcy prediction. The significance value of the independent commissioner is $0.049 < 0.05$ with an estimated value of 0.011 which means that the independent commissioner has a positive effect on bankruptcy prediction. The function of the independent commissioner is as a controlling power in the decision-making process of the board of commissioners. The number of the board of commissioners is between 1-3 people with the proportion of independent commissioners coming from the ratio between the number of independent commissioners to the total number of commissioners is 30%-50%. Based on (Effendi, 2016; OJK, 2014) the number of independent commissioners is at least 30% of the total number of commissioners.

4.2.4. The Effect of Managerial Ownership on Bankruptcy Predictions

The results of hypothesis testing in this study indicate that managerial ownership has a negative effect on bankruptcy prediction. The significance value is $0.048 < 0.05$ with an estimated value of -0.020 which means that managerial ownership has a negative effect on bankruptcy prediction. Managerial ownership is the ratio between the number of shares owned by management and the number of shares outstanding. Based on the findings that managerial ownership is 0-1%. This study supports agency theory which states that managerial ownership will reduce agency costs because there are aligned interests between the agent and the principal. When the company has excessive resources, there is a tendency to use the maximum agency cost, causing the welfare experienced by the principal, there is a difference in information between the agent and the principal. (Jensen & Meckling, 1976; Masita & Purwohandoko, 2020).

4.2.5. The Effect of Institutional Ownership on Bankruptcy Predictions

The results of hypothesis testing show that institutional ownership has a negative effect on bankruptcy prediction. The significance value is $0.046 < 0.05$ with an estimated value of -0.041 which means that institutional ownership has a negative effect on bankruptcy prediction. The average institutional ownership of 52% to close to 100% can reduce the occurrence of bankruptcy. The high level of share ownership from other institutions will improve management performance. The interests of management and shareholders can be aligned so that potential financial difficulties can be controlled properly. Management can realize shareholder trust by increasing the quality of returns expected by shareholders. Research findings are in line with findings (Chrissentia & Syarief, 2018; Cinantya & Merkusiwati, 2015; Septiani & Dana, 2019)

4.2.6. The Effect of the Audit Committee on the Prediction of Bankruptcy

The results of hypothesis testing show that the audit committee variable has a significant effect on bankruptcy prediction. The significance value of the audit committee is $0.022 < 0.05$ with an estimated value of 11.981 which means that the audit committee has a positive effect on bankruptcy prediction. The number of audit committees of 3 people is the minimum number, this number includes the ideal number in accordance with the rules (OJK, 2015) which refer to (RI, 2007) the audit committee is responsible to the board of commissioners in carrying out supervision and ensuring the effectiveness of the internal control system (SPI). and the effectiveness of the implementation of the duties and responsibilities of the KAP auditor. In order to achieve GCG, the audit committee supervises the process of independent oversight of the financial reporting and external audit processes, risk and control processes, and the process of implementing corporate governance. The duties and responsibilities described by the audit committee have been carried out well so that they can assist management in the operational sustainability process. The existence of this board of directors is predicted that 94% of companies are in the safe zone

5. Conclusion

The board of directors has a positive effect on the prediction of bankruptcy. The benefit of the board of directors for the company is to create a network link with external parties in ensuring the availability of resources in order to create GCG. The board of commissioners has a positive effect on the prediction of bankruptcy. The commissioner is in charge of supervising the board of directors in carrying out operations and providing input to the board of directors. The board of commissioners is responsible for financial reporting, risk management, and control as well as the implementation of corporate governance. Maximum performance can be ascertained to reduce the occurrence of bankruptcy. The number of large commissioners will increase the occurrence of bankruptcy predictions, as well as the lack of effectiveness in monitoring.

Independent commissioners have a positive effect on bankruptcy prediction. The function of the independent commissioner is as a controlling power in the decision-making process of the board of commissioners. The number of the board of commissioners is between 1-3 people with the proportion of independent commissioners coming from the ratio between the number of independent commissioners to the total number of commissioners is 30%-50%. Managerial ownership has a negative effect on bankruptcy prediction. Managerial ownership will reduce

agency costs because there are aligned interests between the agent and the principal. When the company has excessive resources, there is a tendency to use the maximum agency cost, causing the welfare experienced by the principal and there is a difference in information between the agent and the principal. Institutional ownership has a negative effect on bankruptcy prediction. The high level of share ownership from other institutions will improve management performance. The interests of management and shareholders can be aligned so that potential financial difficulties can be controlled properly. Management can realize shareholder trust by increasing the quality of returns expected by shareholders. The audit committee has a positive effect on the prediction of bankruptcy. the audit committee is responsible to the board of commissioners in carrying out supervision and ensuring the effectiveness of the internal control system (SPI) and the effectiveness of the implementation of the main duties and functions of the KAP auditor. To achieve GCG, the audit committee supervises the process of independent oversight of the financial reporting and external audit processes, risk and control processes, and the process of implementing corporate governance. The duties and responsibilities described by the audit committee have been carried out well so that they can assist management in the operational sustainability process. The existence of this board of directors is predicted that 94% of companies are in a safe zone.

The conflict between the principal and the agent does not occur as long as the manager of the company and the principal as the owner does the work according to his/her main duties and provides information to the owner, so that agency problems will not arise and minimize information inequality. The behavior of managers who act fairly, wisely and wisely will provide added value to shareholders and have good performance for the organization.

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