Corporate Governance and Intellectual Capital on Financial Distress

By Yenny Dwi Handayani, Diah Iskandar & Ewing Yuvisaibrani

Universitas Mercu Buana

Abstract- This study is conducted to examine the effect of corporate governance and intellectual capital on financial distress. Corporate governance in this study refers to the measurement of the effectiveness of the board of commissioners developed by The Indonesian Institute for Corporate Directorship (IICD) whereas Intellectual capital is proxy by using efficiency human capital, structural capital, relational capital, and capital employed. The measurement of financial distress uses the Altman Z-Score Modification Model. This research used multiple linear regression. The population is wholesale and retail trade sub-sector companies listed on the Indonesia Stock Exchange (IDX)during 2015-2017. This study used 96 observational data for 3 years. The results show Corporate Governance, Relational Capital Efficiency (RCE), and Capital employed efficiency (CEE) does not affect financial distress. However, Human Capital Efficiency (HCE), and Structural Capital Efficiency (SCE) could be affects financial distress.

Keywords: corporate governance, intellectual capital, financial distress.

GJMBR-C Classification: JEL Code: P45
Corporate Governance and Intellectual Capital on Financial Distress

Yenny Dwi Handayani °, Diah Iskandar ° & Ewing Yuvisaibrani °

Abstract: This study is conducted to examine the effect of corporate governance and intellectual capital on financial distress. Corporate governance in this study refers to the measurement of the effectiveness of the board of commissioners developed by The Indonesian Institute for Corporate Directorship (IICD) whereas Intellectual capital is proxy by using efficiency human capital, structural capital, relational capital, and capital employed. The measurement of financial distress uses the Altman Z-Score Modification Model. This research used multiple linear regression. The population is wholesale and retail trade sub-sector companies listed on the Indonesia Stock Exchange (IDX) during 2015-2017. This study used 96 observational data for 3 years. The results show Corporate Governance, Relational Capital Efficiency (RCE), and Capital employed efficiency (CEE) does not affect financial distress. However, Human Capital Efficiency (HCE), and Structural Capital Efficiency (SCE) could be affects financial distress.

Keywords: corporate governance, intellectual capital, financial distress.

I. INTRODUCTION

The purpose of establishing a company is to earn profits which will later be used to maintain the survival of the company. Along with the development of increasingly rapid economic activities, there is unavoidable competition among companies. Many ways can be taken by companies to have competitive advantages and one of which is to make product innovations produced so that it is not monotonous. The product produced must have different characteristics and specifications than competitors. Business threat cannot be avoided if the company cannot compete with other companies, the worst risk is bankruptcy. There are many factors causing the bankruptcy of a company, e.g., factors internal and external. One example of the internal factors is the difficulty of the company to pay off its obligations and losses experienced by the company. Financial distress is a sign that companies are in a state of bankruptcy (Rahayu, Suwendra, & Yulianthini, 2016).

Generally, bankruptcy in companies is caused by the inability to manage the business so that the company experiences a decrease in earning. When this condition cannot be overcome, the company will be in financial distress. One of the problems related to financial distress is the retail sector in Indonesia. Only a few retail outlets fell at the end of 2017, but the accumulation of the layered impact of the cessation of shop operations on the national economy can be problematic to account for in plain view. Institute for Development of Economics and Finance (INDEF) as quoted by Adhinegara, Huda, & Adha (2018) concerned that closing retail outlets could cause the contribution of the retail sector to economic growth to shrink. Based on data from the Indonesian Central Statistics Agency/Badan Pusat Statistik (2017), the retail sector provided a portion of around 13.03 percent of Gross Domestic Product (GDP) in the first semester of 2017 or became the fourth largest contributor after the processing, construction and information and communication industries.

The 7-Eleven's conditions deteriorated further proven by the increasing losses experienced by the company in 2015 in which 7-Eleven suffered a net loss of 54.7 billion Rupiah, in 2016 there was an increase in losses experienced by the company to 638.72 billion Rupiah. Signs of the 7-Eleven decline are becoming more apparent. During the first three months of 2017, Modern International Tbk has suffered a net loss of 447.93 billion Rupiah. Not surprisingly, the company continues to make efficiencies by closing 30 outlets before making a final decision to stop the operations of all remaining outlets on June 30 (KataData.com, 2017).

For a company to be sustainable, companies can implement good corporate governance. Corporate governance as a form of good corporate management has an important element which consist of Transparency, Accountability, Responsibility, Independence, and Fairness (Muhammad, 2009). Implementation of good corporate governance will affect the costs and benefits obtained in the long term (Lukviarman, 2016). So, it is very important for companies to improve corporate governance implementation that the problems faced by companies related to poor financial conditions can be immediately known early.

In his research (Emirzon, 2006) states that corporate governance implementation in companies has an impact on performance improvements up to 30%, and companies will also avoid unfavorable conditions. Also, good corporate governance can improve the company's image in the eyes of the public, increase productivity, increase customer satisfaction and gain the
trust of investors. The research conducted by Nuswandari (2009) states that companies with good governance will have more efficient operational performance. Effective and efficient management can reduce capital costs and also minimize risk. This action will produce high profitability. The study was not in line with the research conducted by Juniarti & Ellen (2013) stating that GCG scores were consistently unable to predict a company experiencing financial distress. GCG in a company is only a formality that is not supported by efficient performance.

Another way that can be used to minimize risk that involves financial distress is intellectual capital. The resources owned by the company are not only tangible assets in the form of land, buildings, machinery, raw materials, etc., but also include intangible assets called intellectual capital. When the source of the tangible assets is increasingly scarce and difficult to find, the management of the company must think of other ways to use intangible assets in the form of intellectual property.

Intellectual capital is an intangible asset which is believed to be able to help the sustainability of the company therefore, avoiding financial distress (Septivani & Agoes, 2014). Intellectual capital plays a significant role in creating added value for companies that will later improve the performance of companies to be able to provide a competitive advantage from a company. The intellectual capital mechanism in this study is Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), Relational Capital Efficiency (RCE), and Capital Employed Efficiency (CEE). Human capital efficiency shows the ability of human resources to create value in the company, Structural Capital Efficiency (SCE) is a facility and infrastructure that supports employees to produce optimum performance, Relational Capital Efficiency (RCE) is a good relationship between companies and stakeholders, and Capital Employed Efficiency (CEE) is a calculation of efficiency of physical and financial capital.

Based on previous studies, Septivani & Agoes (2014) states that intellectual capital hurts financial distress. The company's performance will increase when intellectual capital is managed, so that the company avoids the risk of bankruptcy and is in a healthy condition. This is in line with the research of Ananto, Mustika, & Handayani (2017) stating that intellectual capital hurts financial distress. Its shows that managing of intellectual capital, financial distress in the company will decrease, whereas the poor management of intellectual capital will increase financial distress. This condition is due to the decrease in performance from human resources resulting in a decline in company performance. Continuous improvement should be fulfilled so that the company can avoid the risk of financial distress. Financial distress is the initial stage before the company goes bankrupt. On the other hand, the research conducted by Bakshani (2014) states that the component of intellectual capital is not the right predictor of predicting bankruptcy.

Based on the inconsistencies of the previous research, the researcher wants to reiterate the factors that influence financial distress, including corporate governance and intellectual capital. This study uses corporate governance variables that are proxied by the measurement index developed by IICD, whereas previous studies used more corporate governance mechanisms.

II. Literature Review and Hypotheses

a) Agency Theory

Agency theory is a theory that states the relationship between agents and principals where one party has more information than the other (Jensen & Meckling, 1976). There is imbalance information owned by the principal and agent. Information about companies is more owned by agents than principals, it will lead to information asymmetry. The opportunistic nature of the agent has a bad influence on the company. The amount of information an agent has will be used to commit fraudulent actions against the company, namely manipulating financial statements. Jensen & Meckling (1976) states there are two ways to reduce the likelihood of agents acting adversely, including primary monitoring, and limiting the actions of the agent (bonding). Monitoring is an effective way to reduce an agent's opportunistic behavior, so that the conflict of interest between the agent and the principal decreases. Monitoring carried out is internal monitoring specifically the board of commissioners and the audit committee. Monitoring carried out can prevent companies from the risk of bankruptcy or financial distress.

b) Financial Distress

Financial distress is the stage of the decline in financial conditions that occurred before bankruptcy or liquidity. According to another definitions, financial distress is a situation where a company has difficulty fulfilling its responsibility, a situation in which a company's income cannot cover total costs and incur losses (Hery, 2017: 33). The condition of financial distress can occur in various companies and can be a sign/signal that the potential for bankruptcy may be happening (Dwijayanti, 2010). Thus, it can be concluded that financial distress is a sign of the company's inability to fulfill its responsibility.

c) Corporate Governance

The Organization for Economic Cooperation and Development (OECD, 1999) states that Corporate Governance is a system that brings together various elements of the organization (board of commissioners, managers, shareholders, and stakeholders) with rules
and procedures for decision making designed to achieve organizational goals.

Along with this concept, there are several insights to clarify corporate governance. According to Lukviarman, (2016a), the role of corporate governance becomes very important in empowering companies to be more competitive. The implementation of CG will be increasing the ability of companies to access international capital markets. Besides, it will also produce governance outcomes that are expected to increase competitiveness and company access to funding sources at the global level. Realization of governance outcomes is an increase in firm performance, so it is very clear that the optimal governance system in the company of course the company will avoid the risk of bankruptcy.

Corporate governance is a set of rules that regulate the relationship between various parties in the company concerning rights and obligations and to achieve the interests of shareholders in the long term which of course, takes into account the interests of all parties (Anggraini, 2013).

In this study Corporate Governance (CG) uses the commissioner effectiveness proxy released by the Indonesian Institute for Corporate Directorship (IICD). The characteristics of the board of commissioners are obtained from the information available in each company's annual report. The effectiveness of the board of commissioners consists of 21 questions which are grouped into 2 subcategories e.g. Qualification and Composition of the Board, and the Activities of the Board.

d) Intellectual Capital

Some researchers provide diverse definitions of intellectual capital. Thomas A. Stewart (1997) defines intellectual capital as the sum of everything in a company that can help a company to compete in the market, (including knowledge, information, experience, and intellectual property) that can be used to create prosperity. Brookings (1998) states that intellectual capital is a term given to a combination of intangible assets, intellectual property, employees, and infrastructure that allows companies to function. In the definition put forward by Brookings (1998) it is very clearly that intellectual capital is not just about human capital. Human capital is only one component of intellectual capital. Intellectual capital plays an important role in creating added value for companies that will improve firm performance to be able to provide competitive advantage (Ananto et al., 2017).

e) Corporate Governance and Financial Distress

The application of corporate governance in the company can reduce the emergence of agency problems between principle and agents so that it can reduce the incidence of the worst risk, namely the bankruptcy of the company (Hanifah & Purwanto, 2013). The principle of transparency and accountability in corporate governance certainly provides early supervision of the emergence of all types of fraud so that the company can avoid the risk of bankruptcy or financial distress.

Research conducted by Nuresa et al. (2013) states that corporate governance which is proxied with the knowledge of audit committees has a significant negative effect on financial distress. The existence of an audit committee that has the required competencies is expected to perform its role well in controlling and supervising the company's performance so that the number of companies experiencing financial distress can be reduced. Research conducted by Wang & Deng (2006), corporate governance hurts financial distress. The better the implementation of corporate governance in a company is, the lower the risk of bankruptcy or financial distress.

H1: Corporate Governance has a negative effect on Financial Distress

f) Human Capital Efficiency (HCE) and Financial Distress

Human Capital Efficiency (HCE) is a comparison of value-added (VA) with human capital. HCE shows how much VA is formed by expenditures incurred for labor. The company is said to be efficient if the HCE value is high, meaning that the company utilizes its human resources well. HCE is an added value of efficiency from human capital (HC) which includes human resources, knowledge, and skills possessed by employees. Employees will be motivated to give their best performance by providing compensation in the form of salaries and benefits, besides empowering human resources through training and developing, employees are also an effective way to improve company performance (Jeneo, 2013). That way, the possibility of financial distress will besligter.

Research on intellectual capital conducted by Septivani & Agoes (2014) states that intellectual capital hurts financial distress. Its means that the better and efficiency in the management of intellectual capital the better the performance of the company becomes, this avoids the risk of bankruptcy and the financial condition of the company in a healthy state.

H2: Human Capital Efficiency has a negative effect on Financial Distress

g) Structural Capital Efficiency (SCE) and Financial Distress

Structural Capital Efficiency (SCE) is a contribution of structural capital (SC) in value creation. Structural capital is an infrastructure owned by a company to meet market needs, such as system technology, operating systems of companies, patents, trademarks, and training courses. Structural capital is a supporting tool for human capital in improving company
performance (Putra, Herawati, & Wahyuni, 2017). The higher the SCE is, the higher the contribution of SC will be in creating company value so that the company's performance will also increase which in turn will prevent the company from financial distress.

**H3:** Structural Capital Efficiency has a negative effect on Financial Distress

**h) Relational Capital Efficiency (RCE) and Financial Distress**

Relational Capital Efficiency (RCE) is an added value of the efficiency in using relational capital (RC). This element provides real value for the company. RC is a good relationship the company has with its partners which includes suppliers, customers, the government, and the community around the company (Fajarini & Firmansyah, 2012). The higher the RCE is, the higher the contribution of RC will be in creating company value and the less likely it is for the company to experience financial distress.

**H4:** Relational Capital Efficiency has a negative effect on Financial Distress

**i) Capital Employed Efficiency (CEE) and Financial Distress**

Capital Employed Efficiency (CEE) is an indicator for VA created by a unit of physical capital. CEE illustrates how much VA is generated from physical capital used. The opportunity to create innovation for the products produced will be more open if the company can manage its sources of equity funds well and efficiently. Pulić (2000), when company resources create innovations that can improve returns better than other companies, the company already has a competitive advantage. Better use of CE is part of the company's intellectual capital.

**H5:** Capital Employed Efficiency has a negative effect on Financial Distress

### III. Research Methodology

This study used a sample of sub-sector wholesale and retail trade companies listed on the Indonesia Stock Exchange in 2015-2017, sampling using purposive sampling. The criteria used are as follows:

1. Wholesale and retail trade companies consistently make annual reports for the 2015-2017 period.
2. Use a rupiah currency unit.
3. Have complete data about the variables under study.

#### a) Measurement

The dependent variable in this study, financial distress, is a situation where a company has difficulty fulfilling its responsibility, a situation in which the company's income cannot cover the total costs and suffer losses (Hery, 2017: 33).

Financial distress can be measured using the Altman Z-Score model. The Altman Z-Score model used in this study is the Modified Altman Z-Score Model (1995).

$$Z' = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$$

Notes:

- $Z''$ = Overall Index
- $X1$ = Working Capital/Total Assets
- $X2$ = Retained Earnings/Total Assets
- $X3$ = Earnings Before Interest and Taxes/Total Assets
- $X4$ = Book Value of Equity/Total Liabilities

#### b) Corporate Governance

Corporate governance is a process and structure applied in running a company with the prime goal of increasing shareholder value in the long term while taking into account the interests of other stakeholders, measuring the practice of Corporate Governance (CG) in this study referring to the Board of Commissioners' effectiveness measurement conducted by The Indonesian Institute for Corporate Directorship (IICD). The characteristics of the board of commissioners come from information available in the annual report of each company.

The measurement of Corporate Governance (CG) in this study refers to the measurement of the effectiveness of the board of commissioners conducted by The Indonesian Institute for Corporate Directorship (IICD). To measure the effectiveness of the board of commissioners consists of 21 questions which are grouped into 2 categories, namely: Board Qualification and Composition, Board Activities.

Each question will consist of 3 ratings:

- Good = value 3 if each criterion is met
- Fair = value 2 if only a number of criteria are met
- Poor = value 1 if no criteria are met

After obtaining a score for each question, the score for the board of commissioners is obtained by summing the total score for each characteristic then divided by the maximum score.

#### c) Intellectual Capital Measurement

#### i. Human Capital Efficiency

HCE is an indicator of efficiency in human capital added value. HCE is the ability of a company to produce the added value for every rupiah spent on human capital. This model begins with calculating.

Value-added (VA) is the most objective indicator to assess business success and show the company's ability to create value (Poetri, 2015). Value Added is calculated by the following formula (Pulić, 2000).

$$VA = OUT - IN$$
Notes:
OUT: Output (total sales and other income)
IN: Input (Selling expense and other income than employee expense).

HCE is used to see how much spent on labor can be generated with funds. The formula for calculating it is (Pulić, 2008):

\[ HCE = \frac{VA}{HC} \]

Notes:
VA: Value added (OUT – IN)
HC: Total employee expenses including training

ii. Structure Capital Efficiency (SCE)
SCE is an efficiency indicator of added value in structural capital (SC). SCE is used to measure the number of SCs needed to produce one rupiah from VA, an indication of how successful the SC is in value creation. SCE is calculated by the following formula (Pulić, 2000):

\[ SCE = \frac{SC}{VA} \]

Notes:
VA: Value added (OUT – IN)
SC: VA – HU

iii. Relational Capital Efficiency
Relational Capital Efficiency (RCE) is a value-added efficiency in the use of relational capital. RCE is a good relationship between companies and different external stakeholders, including elements such as customers, distribution networks, business collaboration, franchise agreements, and so on (Suhardjanto and Wardhani, 2010). RCE is used to see how much value-added the company makes every one rupiah invested in marketing costs.

Relational Capital is proxied by marketing costs. RCE is calculated by the following formula (Ulum, 2017):

\[ RCE = \frac{RC}{VA} \]

Notes:
VA: Value added (OUT – IN)
RC: Marketing expenses

IV. Results and Discussion

From the results of testing for normality with the Kolmogorov Smirnov non-parametric statistical test, it shows that the significant value is still below 0.05, meaning that the residual data are not normally distributed. To deal with abnormal data, the researchers discarded outlier data with a range of values above 3. There were 13 observation data outliers, after the data was removed then Kolmogorov Smirnov’s non-parametric statistical test was done with a significance value of 0.088 so that the residual data can be distributed normally.

Table 1: Normality Test

<table>
<thead>
<tr>
<th>Unstandardized Residual</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>83</td>
</tr>
</tbody>
</table>
Table 2: Fit Model Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4979.221</td>
<td>5</td>
<td>995.844</td>
<td>18.419</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>4163.015</td>
<td>77</td>
<td>54.065</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9142.236</td>
<td>82</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the F Test, the hypothesis will be tested by looking at the level of significance. If the significance value is below 0.05 then the hypothesis is accepted. The table above shows that the significance level is 0.000 below 0.05. It means that the model in this study is fit and can be used to predict the Financial Distress variable.

Table 3: Regression Result

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>6.390</td>
<td>5.495</td>
<td>1.163</td>
</tr>
<tr>
<td>INDEXSCG</td>
<td>-11.693</td>
<td>8.569</td>
<td>-.108</td>
</tr>
<tr>
<td>HCE</td>
<td>3.214</td>
<td>.393</td>
<td>.645</td>
</tr>
<tr>
<td>SCE</td>
<td>-5.201</td>
<td>1.955</td>
<td>-.212</td>
</tr>
<tr>
<td>RCE</td>
<td>180.653</td>
<td>97.407</td>
<td>.163</td>
</tr>
<tr>
<td>CEE</td>
<td>0.00</td>
<td>.002</td>
<td>-.008</td>
</tr>
</tbody>
</table>

In this study, the intellectual capital proxied by using human capital efficiency has an affect financial distress. The element of human capital efficiency is very important in an organization, the most valuable company assets are the people in the company related to the knowledge, skills, and experience they represent. If the assets are managed exactly, it will improve the company’s performance and will avoid the risk of financial distress. Competent human resources are meaningless to the company if they are not properly maintained and managed. It is this management of resources that result in competitive advantage and increases the added value of the company (Ulum, 2017).

In this study, the intellectual capital proxied by using human capital efficiency has an affect financial distress. The element of human capital efficiency is very important in an organization, the most valuable company assets are the people in the company related to the knowledge, skills, and experience they represent. If the assets are managed exactly, it will improve the company’s performance and will avoid the risk of financial distress. Competent human resources are meaningless to the company if they are not properly maintained and managed. It is this management of resources that result in competitive advantage and increases the added value of the company (Ulum, 2017).

This research is not in line with Bakshani (2014) stated that intellectual capital does not affect financial distress and the component of intellectual capital is not
the right predictor of predicting bankruptcy. Septivani & Agoes (2014) states that intellectual capital has a negative effect on financial distress. It means that the better and more efficient management of intellectual capital, the better the performance of the company, this avoids the risk of bankruptcy and the financial condition of the sample company in healthy.

d) The effect of Structural capital efficiency on financial distress

In this study, the intellectual capital proxied by using structural capital efficiency has an affect financial distress. Structural capital (SCE) consists of databases, organizational culture, information flows, and strategies run by the company. SCE is the quality of the company that is related to the internal work culture (not the individual quality of employees). When companies can be optimal in utilizing structural capital (SCE), the company's performance can increase. SCE is one of the main drivers for companies to maximize the potential of the company's management.

Astuti (2005) states that if a company can codify knowledge and develop structural capital, for example implementing and developing great ideas, having systems and procedures that support innovation, competitive advantage will be achieved. These advantages will relatively result in higher business performance.

This research is not in line with Bakshani (2014) which states that intellectual capital does not affect financial distress and the component of intellectual capital is not the right predictor of predicting bankruptcy.

e) The Effect of Relational Capital Efficiency on Financial Distress

In this study, the intellectual capital proxied by using relational capital efficiency does not affect financial distress. Relational capital is one of the main components of intellectual capital that describes organizational wealth from the customer aspect. RC refers to knowledge that is inherent in marketing channels and customer relationships where an organization develops it through a business path (Ulum, 2017). A good relationship with the customer does not guarantee that the company will avoid the risk of financial distress. The company will avoid financial distress when the products produced are acceptable to consumers and companies have competitive advantages compared to other companies.

This study is not in line with Pour et al. (2014) founded that intellectual capital has a positive and significant influence on bankruptcy. It means that the greater the efficiency of intellectual capital by the company is, the greater the possibility of bankruptcy will be. Bakshani (2014) stated that the component of intellectual capital is not the right predictor of predicting bankruptcy.

f) The Effect of Capital Efficiency Employed on Financial Distress

In this study, the intellectual capital proxied by using employed capital efficiency does not affect financial distress. Because the utilization of the existence of assets owned by the company does not affect the creation or failure of innovations that are an added value for the company to be able to increase the financial performance that triggers financial distress. The size of capital employed efficiency does not directly provide an indication that the company will be bankrupt. On the other hand, the research conducted by Bakshani (2014) states that the component of intellectual capital is not the right predictor of predicting bankruptcy. The results of this study are inversely proportional to the research conducted by Septivani & Agoes (2014) stated that intellectual capital has a negative effect on financial distress. Its means that the better and more efficient management of intellectual capital, the better the performance of the company, so that it will avoid the risk of bankruptcy.

V. Conclusions and Suggestions

a) Conclusion

Based on the results of data analysis and discussion of the effect of Corporate governance and Intellectual Capital proxied in human capital efficiency, structural capital efficiency, relational capital efficiency, and capital employed efficiency on financial distress in 2015 to 2017 large-scale trade and wholesale goods sub-sector companies.

In this study, corporate governance does not affect financial distress. Good corporate governance does not guarantee that the company is in a stable financial condition. Financial distress in the company can occur when the company is not able to maintain the existence of its business activities.

Intellectual capital proxied by using Human capital efficiency has an affect financial distress. Human capital efficiency is very important in a company. When a company has competent resources, of course it will have an impact on improving company performance.

Intellectual capital proxied by using Structural capital efficiency has an affect financial distress. SCE is the quality of the company that is related to the internal work culture. When companies can be optimal in utilizing structural capital (SCE), the company's performance can increase.

Intellectual capital proxied by using Relational capital efficiency (RCE) does not affect financial distress. Good relations with customers do not guarantee the company is in a stable financial condition. When the products produced by the company can be accepted by the market, the risk of financial distress can be minimized.
Intellectual Capital proxied by using Capital employed efficiency (CEE) does not affect financial distress, because most companies in Indonesia, the process of innovation carried out by R & D and advertising is largely financed by debt. So that it can lead to the inability of the company to pay for the loan.

b) Suggestions

Based on the results of research on the topic of financial distress, suggestions for future researchers. The next researcher can use other proxies to measure financial difficulty variables. Then, can adding other independent variables in explaining corporate governance such as the characteristics of audit committee members for example from expertise in industry and finance, financial supervision, and expertise in certain industries. The next researcher can also expand the object of research by using companies other than large trade sub-sectors of production and retail goods, because the more the number of samples will affect the more accurate the results.

References Références Referencias


© 2019 Global Journals


