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THE INFLUENCE OF INTERNAL AND EXTERNAL CORPORATE GOVERNANCE MECHANISMS ON FINANCIAL DISTRESS WITH LIQUIDITY AS AN INTERVENING VARIABLE

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ABSTRACT

This study aims to analyze and find new things about the influence of internal and external corporate governance mechanisms, namely the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership, and KAP size on financial distress in shipping sector companies listed on the Stock Exchange. Indonesia. In addition, this study also aims to determine whether liquidity can be used as a mediation in the model. This research is quantitative research with correlational method. The research population is shipping companies as many as 26 companies. Researched for 5 years period 2016-2020. The sample technique used is purposive sampling and the number of samples is 9 companies experiencing financial distress. The data processing and analysis technique used in this research is panel data regression using the E-views 10 application. The results of this study indicate that the internal and external mechanisms of corporate governance affect financial distress partially and simultaneously. Liquidity is a mediating variable for the relationship between the proportion of independent commissioners, managerial ownership and KAP size on financial distress. However, liquidity is not a mediating variable for the relationship between audit committee educational background and institutional ownership on financial distress.

KEYWORDS: Proportion of Independent Commissioners, Educational Background of the Audit Committee, Managerial Ownership, Institutional Ownership, KAP Size, Liquidity

1. INTRODUCTION

A company built must have the wrong purpose, the goal is to generate maximum profits, but not always the entity will get good profits. Sometimes entities feel a decline in financial operational performance which will lead to financial difficulties (F.T. Kristanti, 2019). The monetary crisis that has occurred in Indonesia is still having an impact because there are still companies in Indonesia that are in a state of financial difficulty. Various terminology or definitions related to financial failure which refer to the same meaning. Insolvency is a condition where the company is in a situation of being unable to fulfill its obligations due to the entity not having sufficient liquidity. Financial distress



is the stage of declining financial health, which can be seen from the decline in profits. Default is a condition that the entity is unable to fulfill its debt repayments or agreements made with lenders. The downfall of a business is a situation where a company is officially reported to the court as a bankrupt entity. Liquidation is a condition that the entity is declared bankrupt by the court. (F.T. Kristanti, 2019).

The phenomenon of shipping companies experiencing financial difficulties was experienced by two large shipping companies listed on the IDX. The financial difficulties faced by shipping company Arpeni were unable to escape from bankruptcy because they were unable to repay the debt after the grace period, consisting of creditors who did not hold material security rights of IDR 1.20 trillion and creditors who held material security rights of IDR 436.61 billion and US\$170.22 million. PT. Berlian Laju Tanker Tbk (BLTA). seven years received a penalty of temporary suspension of trading shares. The reason for the request for the suspension is because the company is experiencing problems so that it is unable to make payments (temporarily cease repayment) for all bank loan facilities and bonds. The delay in payment is in the form of easy loans that expire, namely bank loans, bonds, and finance leases with a total default interest of Rp. 17.5 billion. On March 29, 2019, the IDX lifted the suspension of PT Berlian Laju Tanker Tbk's shares on all stock exchanges.

Corporate Governance is a rule or mechanism used for harmonization of the relationship that occurs between parties who have an interest, especially the relationship between shareholders and company owners so that the plans that have been jointly determined can be realized. Governance of an entity aims to manage the relationships that have been determined and avoid the occurrence of relevant errors in company policies and also ensure that errors that occur can be corrected immediately (E. Sudarmanto, E. Susanti, et al, 2021)

The results of the research of G. A. Atika, Jumaidi and A. Kholis (2020) that the proportion of independent commissioners has an influence on financial distress conditions. Research by R. Mulansari and W. Setyorini (2019) that managerial ownership has the effect make the company experience a condition towards financial difficulty. Institutional ownership has a positive influence on bringing the company to a state of financial difficulty. Sanny and Y. Warastuti (2020) and research by R. Yulianti and A. Rahmatiasari (2021) and inconsistent with research by R. Ridhayani Gaos, R. Mudjiyanti (2021), C. Alexander, Margaretha, Sanchia, Jehnifer, William, C. Meidan (2021) and research by R. Wilujeung, A. Yulianto (2020)

Liquidity describes the ability of an entity to pay off its current liabilities (Kasmir, 2019). Based on the description, it means that the high liquidity ratio illustrates that the entity will have the ability to pay off its current liabilities. The high ability to pay off its obligations indicates a good financial health



condition of the company. This description is in accordance with the results of research by G. A. Atika, Jumaidi and A. Kholis (2020) that the high level of liquidity ratio will prevent the entity from being in a state of financial distress and research from A.K. Putri and F.T. Kristanti (2020), Sanny and Warastuti (2020), R. Mulansari and W. Setyorini (2019). Analysis of the financial statements is carried out to see how well the financial performance of an entity is. The ratio commonly used is the liquidity ratio used to measure the entity's ability to meet its obligations. The liquidity ratio consists of the current ratio, quick ratio, and cash ratio, H. Shofwatun, Kosasih, I. Megawati (2021). Due to the emergence of financial difficulties experienced by some hiping companies in Indonesia, both large and small companies, and based on the description of the problem presented by the author, the authors are interested in conducting research with the title *The Effect of Internal and External Mechanisms on Financial Distress with Liquidity as an Intervening Variable*.

The aim of this research is ; (1) to analyze the effect of Good Corporate Governance in this case the independent board of commissioners, the educational background of the audit committee, managerial ownership, institutional ownership, along with KAP size on financial distress, (2) to analyze the effect of Good Corporate Governance in this case the board of commissioners independent, audit committee educational background, managerial ownership, institutional ownership, together with KAP measure of liquidity, (3) to analyze the effect of Good Corporate Governance in this case independent board of commissioners, audit committee educational background, managerial ownership, institutional ownership, joint with the KAP measure of financial distress mediated by Liquidity.

LITERATURE REVIEW

Agency Theory

The presence of agency theory has the aim of being able to overcome problems that may occur in agency relationships. There are several problems that often occur between the principal and the agent; 1) the different desires and goals between the agent and the principal, 2) the conditions that do not allow the principal to carry out confirmation of what the agent has done. Whether the agent has done exactly what the agent is supposed to do. 3) consequence sharing problems that arise because owners and investors have conflicting. So, it is hoped that an agreement between the agent and the principal can balance the desires of both parties (Erni Hendrawaty, 2017).

Signal Theory

Signal theory is information or explanation conveyed by institutions to investors about what management has done in implementing policies that have been set by owners or stakeholders which aims to reduce information asymmetry (Eugna F. Brigham and Joel F. Houston, 2009) . The information is in the form of financial reports issued by the Institution by applying conservative accounting policies that result in higher quality profits. The application of these principles is carried



out to avoid exaggerating profits or profits and to make it easier for users of financial statements by presenting profits and assets that are not exaggerated. Because this information is very important for investors and other third parties in making investment decisions.

Modern Capital Structure Theory (Modigliani – Miller Theory)

The opinion of the Modigliani-Miller theory says that the capital structure is not significant or has no effect on firm value. (Brigham and Houston, 2001). Modigliani-Miller put forward 2 (two) theories or patterns which are known as follows;

1. MM Theory Without Taxes. Theory 1) the value equation of the company between institutions that do not have debt and institutions that have debt. Theory 2) An increase in the cost of share capital if the institution obtains credit funds from a third party. Meanwhile, the risk of equity depends on the risk of financing the company's activities and the level of liability.
2. MM Theory With Taxes. Theory 1) the value equation of the company between institutions that do not have liabilities and institutions that have liabilities plus tax savings due to debt interest. Theory 2) An increase in liabilities will increase the cost of share capital but the decrease in value due to an increase in the cost of capital will be less when compared to the tax savings.

Financial Distress

A state of financial problems in an entity is usually characterized by a low level of liquidity ratio. If this happens, it is possible that the company is in a state of financial distress. If this situation is allowed to continue and no immediate action is taken to overcome it, it will lead the company towards bankruptcy, so that this does not happen, the company must improve itself by making new strategies or policies and even support from external and internal parties to avoid bankruptcy conditions. (Fahmi, 2017). Financial distress is described as two points of excess in the form of the inability to meet current liabilities to insolvency (assets owned are smaller than debt). Short-term financial difficulties are usually temporary, but can get worse (Hanafi and Halim 2018).

Factors that cause financial difficulties include elements from the company's internal 1) Quality human resources quantity, 2) product output does not match customer expectations, 3) product pricing and budgets that are inappropriate or illogical 4) The emergence of technological and environmental changes that cannot be adopted by the company, 5) The decline in sales levels due to incorrect implementation of marketing strategies 6) The company suffered losses because many products were damaged as a result of inappropriate distribution or distribution strategies, thereby reducing sales figures. The external elements of the company are 1) the company cannot adapt to the environment and does not follow social and cultural developments in the place where the company does business, this will immediately bring the company to a state of failure 2) macroeconomic conditions that occur,



such as the existence of new regulations both monetary as well as fiscal, inflation rate and economic growth as well as other macroeconomic factors that cause companies to experience financial distress conditions 3) Companies that are unable to adapt to the presence of new technology make it difficult to be competitive, so that companies will be left behind 4) Companies are subject to legal regulations that does not comply with the penalty imposed on the rules regarding export and import trade quotas so that it will result in the condition of the company experiencing financial distress. (F.T. Kristanti, 2019).

The differentiation formula regarding financial difficulties according to Altman Z-Score is a statistical method formula that was modified in 1995 by formulating the most appropriate and successful ratio used by all types of industries, both those that have listed their shares so the stock exchange and those that have not been listed. In estimating financial distress (AltmannE.L, Hotchkiss,E and Wang, W. (2019). The Atlman Z-Score model can be seen in the following formula;

$$Z = 6.56 X1 + 3,26 X2 + 6,72 X3 + 1,05 X4 \quad (1)$$

The results of the categories are: If the Z-Score value > 2.60 = enter the safe zone category, if $1.10 < Z\text{-Score} < 2.60$ = enter the gray zone category, if $Z\text{-Score} < 1.10$ = enter distress category (Edward Altman et al, 2019).

Liquidity

Liquidity is a condition where the company has the ability to pay its short-term debt which will expire, or also the ability of the entity to be able to pay off its short-term obligations when billed (S. Munawir, 2014).

The method used to predict the level of liquidity in the entity, namely; 1) the current ratio is a ratio that is often used to predict the ability of the entity to pay off short-term debt. (Kasmir, 2019), 2) the quick ratio is the ability of the entity to meet its current liabilities with current assets and ignore the amount in inventory (Kasmir, 2019), 3) the quick ratio is more effectively used as a measure of the entity's ability to pay off its current debt, because for the calculation all part of the amount in inventory is used to pay off debts (Hanafi and Halim, 2018), 4) the cash ratio is the most current asset (cash fund) compared to current liabilities (Kasmir, 2019). The cash ratio or cash ratio is a measurement used to find out how much cash is available to pay off obligations. The availability of cash funds can be seen from the presence of cash or cash equivalents, including checking accounts or funds at banks that can be withdrawn at any time (Kasmir, 2019).



Corporate Governance

Corporate Governance is a systematics or mechanism applied by a company in its efforts to obtain added value for the entity in a sustainable, continuous and prolonged manner so that the needs of stakeholders are still fulfilled in accordance with applicable ethics, culture, norms and orders. (Indonesian Institute of Corporate Governance, 2012).

The concept of GCG contains the following meanings; 1) is a forum for organizations, such as government, social and corporate, 2) is a process, a set of rules, systems and models, values as well as principles, which underlie healthy business implementation, 3) has the aim of increasing operational capabilities and added value for all stakeholders, overcoming and minimizing fraud and substantial errors in the management of the company and optimizing the business so that stakeholders can benefit, 4) Mechanisms, regulate and clarify responsibilities, authorities, roles and relationships between all stakeholders (A. Kadim and Adji Soeratman , 2018).

The objectives and benefits of implementing a good corporate governance system include; 1) facilitate opportunities for foreign and domestic investors, 2) obtain an efficient cost of capital, 3) improve financial performance for the entity by providing better decisions, increasing the trust and certainty of stakeholders towards the entity and providing protection for commissioners and directors from all lawsuits (Sukrisno Agoes and I Cenik Ardana, 2013).

Proportion of Independent Commissioners

Independent Commissioner is a party outside the company who is appointed based on the decision of the General Meeting of Shareholders, is not affiliated with any party, both members of the Board of Directors and/or other members of the Board of Commissioners, especially the controlling shareholder and is regulated in the articles of association, has legal standing as an independent commissioner within the scope of the member structure. the board of commissioners and carry out functions and duties for the benefit of the company (Sukrisno Agoes and I Cenik Ardana, 2013). The results of the evaluation activities carried out by the board of commissioners will be used as guidelines for operating and managing the company by the management. (T. Lestari and A. Wahyudin, 2021). The large proportion of independent commissioners shows that the company has implemented the concept of good corporate governance, so it is hoped that the financial performance of the entity will be conducive, so that it is free from financial difficulties (AK Putri and FT Kristanti, 2020), according to research (R. Yulianti and A. Rahmatiasari, 2021)

Audit Committee Educational Background

Based on the Circular issued by the Capital Market Supervisory Agency No. SE-03 / PM / 2000, recommends that to implement Good Corporate Governance, for public companies to carry out the



formation of an audit committee. The contents of the circular explain that the audit committee has the function and task of assisting the board of commissioners to express competent opinions in order to improve the quality of company performance and can minimize errors that can occur within the scope of company management. With educational competence in accounting and finance owned by each member of the audit committee, the performance of each member is expected to be more optimal and effective (Pambayun and Januarti, 2012). The audit committee is expected to take part in assisting the board of commissioners to carry out a monitoring function that aims to minimize the agent's efforts to commit fraud on data related to accounting and financial procedures and monitor the actions of managers related to financial strategies so as to avoid agency conflicts in the company in order to avoid the condition of financial difficulties. This is in accordance with the research of I. Yanti, M. Asnawi and A.M.A. Simanjuntak (2018).

Managerial ownership

The existence of managerial ownership means that the entity applies the concept of GCG. The large portion of ownership by managers will avoid opportunistic actions by managers. The proportion of managerial ownership is calculated from the comparison or proportion of the ownership of the manager, the board of directors and the board of commissioners (Okta Kusanti, 2015). With managerial ownership in the company, it indicates that the implementation of good corporate governance will minimize agency conflict because the company's management is able to balance the interests of shareholders and management. So that the interest of investors to invest in the entity's shares will increase. Managers will also focus more on improving the supervisory function of the company's operations and implementation of governance (seen from the influence of low interest). These results are in accordance with the research of R. Mulansari and W. Setyorini (2019) and (R. Yulianti and A. Rahmatiasari, 2021)

Institutional Ownership

One of the corporate governance mechanisms, namely institutional ownership, can be used by companies and managers in order to reduce agency conflict, so that the company's financial difficulties can be avoided by not causing agency costs in the company (Okta Kusanti, 2015). With high institutional ownership in companies, it can encourage supervisory actions so that every policy making by companies is always influenced by institutional parties (A.K. Putri and F.T. Kristanti, 2020). The supervisory function carried out can influence policy making to be more pro-investor and the company will avoid the opportunity for financial distress because the company's financial performance will increase so that it has an impact on the company's financial health. This description is in accordance with the results of research (Sanny and Warastuti, 2020), (Mulansari and Setyorini 2019) and (Intan Nilasari, 2021). R. Yulianti and A. Rahmatiasari (2021).³

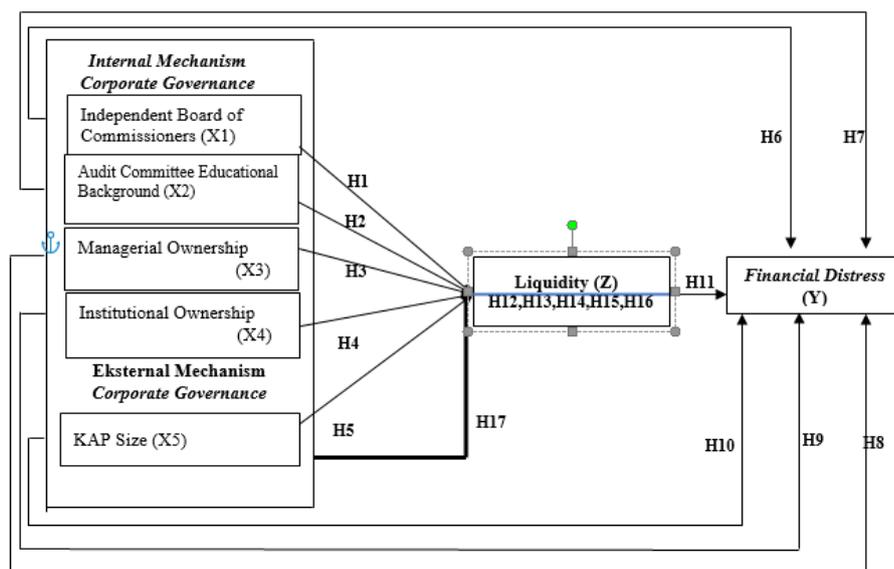
KAP Size

Before conducting an audit of its financial statements, an entity will choose a Public Accounting Firm by considering everything such as the reputation of the auditor, the personal quality of the auditor, the type of services related to the audit to be performed, the auditor's special expertise in the industry in accordance with the company's activities. If financial distress that occurs in the company is caused by misstatement of data in the financial statements in the balance sheet and income statement, then a good quality auditor will quickly detect and reduce this condition (I Yanti, M. Asnawi and A.M.A. Simanjuntak, 2018). The competent expertise possessed by the auditor will immediately be able to detect and notify mis statements in the company's financial statements as the cause of financial distress conditions. Opinions on audit results issued by competent and high-integrity public accounting firms can be used by management to apply good corporate governance principles in order to maintain company value and business continuity.

Framework

With the implementation of good internal and external corporate governance mechanisms, namely the proportion off independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size can reduce the occurrence of agency conflicts and balance interests between agents and principals so as to increase the trust and interest of investors to invest in the entity's shares in the capital market will ultimately have an impact on increasing the company's liquidity which will improve the financial health of the company so that it will avoid the occurrence of financial distress conditions.

Fig.1. Framework





RESEARCH HYPOTHESIS

(H1-H5), There is an effect of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size on liquidity in shipping sector companies listed on the IDX in 2016-2020. (H6-H10), There is an effect of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size on financial distress in shipping sector companies listed on the IDX in 2016-2020. (H11), There is an effect of liquidity on financial distress in shipping sector companies listed on the IDX in 2016-2020. (H12-H16) There is an effect of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size on financial distress mediated by liquidity in shipping sector companies listed on the IDX in 2016-2020. (H17), There is a simultaneous effect of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size on financial distress mediated by liquidity in shipping sector companies listed on the IDX in 2016-2020.

RESEARCH METHODS

Research Population

The shipping sector companies listed on the IDX in 2016-2020 were the population in this research and 26 companies were obtained.

Research Sample

In this research, the researcher chose to use purposive sampling technique in collecting samples with the provisions that have been set, namely; The shipping sector companies listed on the IDX in 2016-2020 were 26 companies, minus seven (7) companies that were not consistently listed on the Indonesia Stock Exchange, minus three (3) companies that were delisted from the Indonesia Stock Exchange, minus zero (0) companies that were listed on the Indonesia Stock Exchange. does not issue audited financial statements and annual reports, minus seven (7) companies that do not experience financial distress. So that obtained a sample of 9 companies with a total data of 45 sample data.

Research variable

In this research, the variables used by the researcher are independent variables consisting of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size. The intervening variable is liquidity, while the dependent variable is financial distress.

The list below is a group definition of the variables used by researchers in this research, namely:

Table 1. Definition of Variables and Operational Variables

Variable	Definition	Indicator
<i>Financial Distress (FD)</i> Dependent Variable	Decline in the company's financial condition	$Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$
Proportion independent Board of commissioners (PDKI) Independent Variable	Number of independent commissioners in the company	Independent Commissioner / Total Board of Commissioners x 100%
Audit committee educational background (LBPKA) Independent Variable	The educational background of the audit committee in the field of finance or accounting to be more effective.	Audit Committee with Educational Background in Accounting or Finance / Total Audit Committee
Managerial ownership (KEPMAN) Independent Variable	Number of shares owned by management in the company	Number of shares owned by management / total shares outstanding x 100%
Institutional Ownership (KEPINST) Independent Variable	The number of company shares owned by the government, overseas institutions, legal entities, trust funds, and other institutions.	Company shares owned by institutions / total company shares x 100%
KAP Size (UKKAP) Independent Variable	The size of the KAP is divided into two, namely the Big Four KAP and the Non Big Four KAP	\sum KAP Partners
Liquidity (CR) Intervening Variables	Description of the company's ability to meet its short-term obligations	Current Assets / Current Liabilities x 100%

This research is a type of quantitative research that uses correlational methods. The secondary data used in this research was obtained from the annual reports of shipping sector companies listed on the Indonesia Stock Exchange for 2016-2020 at www.idx.co.id and from the websites of shipping sector companies. The tool used to analyze and test research using a data system in the form of numbers. Especially about something or what has been researched before. While the correlational method is used to see the relationship between two or several variables with other variables. While the tools for statistical analysis are supported by Eviews 10 software as a technique for analyzing panel data used



in the research model.

Model Selection Consists of three methods to test hypotheses in panel data regression analysis with Eviews 10 software, namely Common Effect Model or CEM, Fixed Effect Model or FEM and Random Effect Model or REM. To find out the most suitable estimation method to use before making the model, the first test was carried out by applying the Chow test and then the Hausman test. For model 1, the study shows the effect of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size on liquidity. For model 2 the study shows the effect of liquidity on financial distress. Model 3 research shows the effect of the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership and KAP size on financial distress. Mathematically, model 1, model 2, and model 3 are written as follows. (YAI Workshop, 4, September 2021).

Model 1:

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon_1$$

Model 2:

$$Y = \beta_0 + \beta_2 Z + \epsilon_2$$

Model 3:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 Z + \epsilon_2$$

(2)

Classical Panel Data Assumption Test

There are several test tools used in the classical assumption test, including; The normality test is carried out with the aim of ensuring that the distribution of data on the independent variable and the dependent variable or both in a regression model has data that is normally distributed or data is not normally distributed. If the results from the normality test are > 0.05 , then the assumption of normality can be accepted (Ghozali, 2018). Heteroscedasticity test is a condition in which all the obstacles that arise in the role of regression in the population do not have the same variation. Heteroscedasticity test can be applied by using the Glejser test, which is regressing the dependent variable with its absolute residual. If the value of $\text{Obs} \cdot R\text{-S-squared} > 0.05$, it means that there is no heteroscedasticity (Ajija, 2011). The multicollinearity test was carried out with the aim of analyzing the relationship between independent variables and knowing whether there were indications of multicollinearity or not. If the VIF value between each independent variable is > 10 , it can be interpreted that there is a strong multicollinearity between variables (Ghozali, 2018)

Hypothesis testing

The partial regression significance test (t test) was applied to determine the partial effect between the independent variable and the dependent variable.

Path Analysis describes the development of multiple linear regression analysis to describe the quality relationship between previously defined variables.

The Sobel test is used to estimate the value of the intervening or mediating variable that is fairly spread out. The mediating or intervening variable gives an influence between the dependent variable and the independent variable (Ghozali, 2018)

Simultaneous regression test (F test) was applied to assess the effect of the independent variables simultaneously or simultaneously on the dependent variable.

The Coefficient of Determination Test (R²) is applied with the aim of estimating the extent to which the model describes the variance of the dependent variable related to the independent variable (Ghozali, 2018)

FINDINGS AND DISCUSSION

FINDINGS

Model Selection

The use of the chow test was applied to test between the Fixed Effect Model (FEM) and the Common Effect Model (CEM). The decision is taken if the p-value Cross-section F < 0.05 then FEM will be selected, and vice versa if the p-value Cross-section F > 0.05 then CEM will be selected.

Table.2. Chow test

Uji Chow				
Model	Effect Test	Statistic	d.f.	Prob.
Model 1	Cross-section F	5.778117	(8,31)	0.0002
Model 2	Cross-section F	13.819514	(8,35)	0,0000
Model 3	Cross-section F	33.171509	(8,31)	0.0000

Source: Eviews 10 Data Processing Results, 2022

The results of the Chow test in Table 2, the results of the Prob. Cross-section F in model 1 are worth 0.0002, in model 2 it is worth 0.0000 and in model 3 it is 0.000 where each value is < 0.05, so the decision is Ho is rejected. and the best model chosen is FEM.

The use of the Hausman test was applied to test the Fixed Effect Model (FEM) and the Random Effect Model (REM). The decision is taken if the p-value of the random cross-section is <0.05, then FEM will be selected, and vice versa if the p-value of the random cross-section is > 0.05, REM will be selected.

Table. 3 Hausman test

Uji Hausman				
Model	Test Summary	Chi-Sq. Statistik	Chi-Sq. d.f.	Prob.
Model 1	Cross-section random	12.560098	5	0.0279
Model 2	Cross-section random	5.521937	5	0,0335
Model 3	Cross-section random	18.664192	1	0.0022

Source: Eviews 10 Data Processing Results, 2022

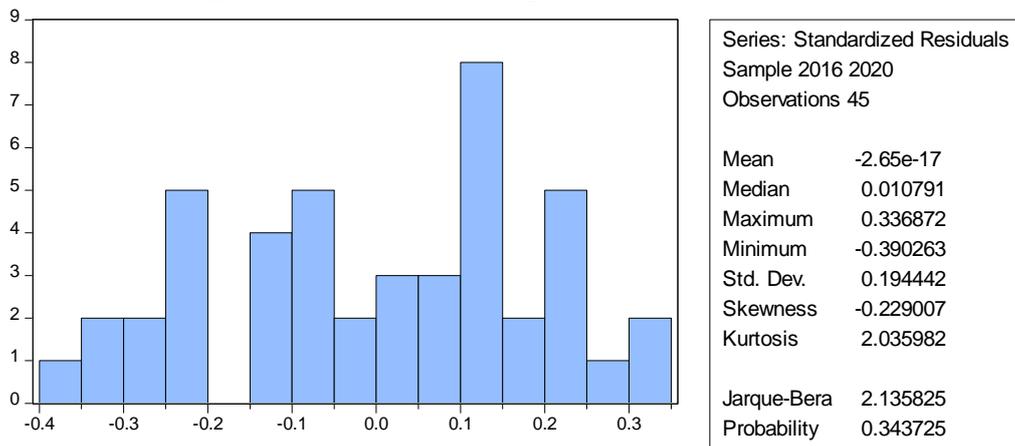
The results of the Hausman test in Table 3, obtained the results of a random Prob. Cross-section in model 1 worth 0.0279, in model 2 worth 0.0335 and in model 3 worth 0.0022 where each value is < 0.05, so the decision is Ho is rejected. and the best model chosen is FEM.

Sourced from table.2 and table.3. proves that the decisions of the Chow test and Hausman test are H0 rejected and Ha accepted so that the most suitable panel data regression analysis method is FEM. because the estimation of FEM uses the least squares method which requires classical assumptions to obtain the best estimation results, so the Langrange multiplier test is no longer needed.

Classic assumption test

Normality test

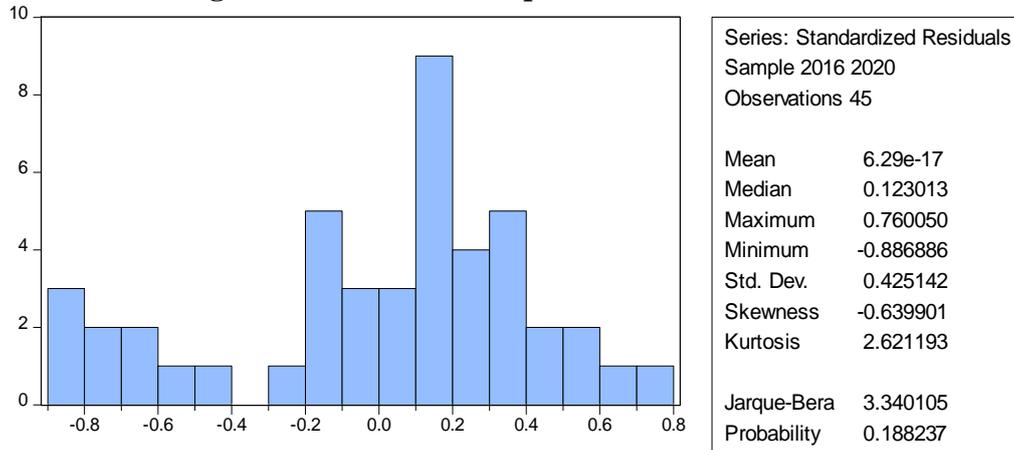
Fig.2. Test Results of Jarque-Berra Model 1 FEM



Source: Eviews 10 Data Processing Results, 2022

Sourced from Figure 2, the probability value of the Jarque-Bera test is 0.343, so > 0.05 significant. So that the assumption of normality is met in model 1.

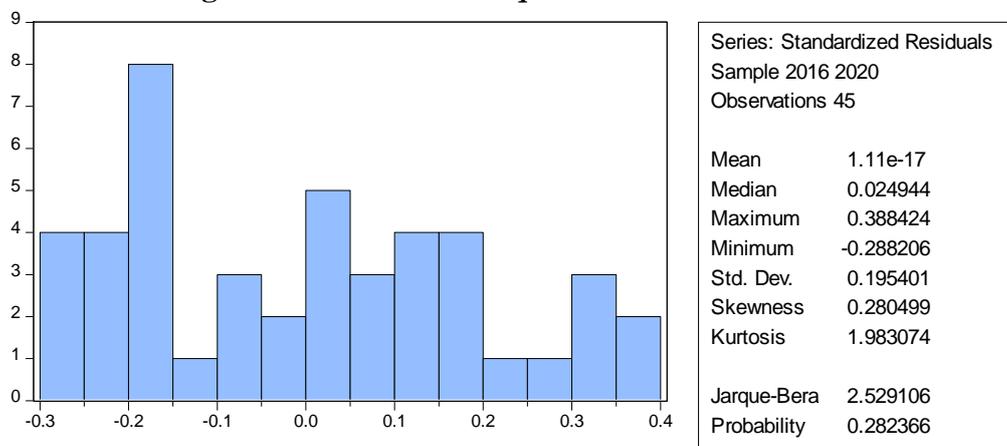
Fig.3. Test Results of Jarque-Berra Model 2 FEM



Source: Eviews 10 Data Processing Results, 2022

Sourced from Figure 3, the probability value of the Jarque-Berra test is 0.188, so > the significant level is 0.05. So that the assumption of normality is met in model 2.

Fig.4. Test Results of Jarque-Berra Model 3 FEM



Source: Eviews 10 Data Processing Results, 2022

Sourced from Figure 4, the probability value of the Jarque-Berra test is 0.282, so it is > 0.05 significant level. So that the assumption of normality is met in model 3.

Heteroscedasticity Test

Table.4. Glacier Test Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.184259	0.229440	-0.803081	0.4280
PDKI (X1)	-0.124158	0.118100	-1.051302	0.3012
LBPKA (X2)	0.157129	0.144821	1.084988	0.2863
KEPMAN (X3)	-0.673408	2.130021	-0.316151	0.7540
KEPINST (X4)	0.066570	0.108324	0.614544	0.5433
UKKAP (X5)	0.087230	0.065642	1.328870	0.1936

Source: Eviews 10 Data Processing Results, 2022

Sourced from the Glejser test in Table 4, it proves that the probability value of the PDKI variable is 0.301, LBPKA is 0.286, KEPMAN is 0.754, KEPINST is 0.544, and UKKAP is 0.194. This value > a significance level of 0.05. So, it can be said that model 1 has fulfilled the non-heteroscedasticity assumption.

Table.5. Glacier Test Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.321414	0.048609	6.612181	0.0000
CR (Z)	-0.094258	0.054458	-1.730837	0.0923

Source: Eviews 10 Data Processing Results, 2022

Sourced from the Glejser test in Table 5, it proves that the value of the liquidity variable probability (CR) is 0.09. This value > a significance level of 0.05. So, it can be said that model 2 has fulfilled the non-heteroscedasticity assumption.

Table.6. Glacier Test Model 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.417170	0.235581	1.770814	0.0864
PDKI (X1)	0.002915	0.121261	0.024037	0.9810
LBPKA (X2)	0.040949	0.148697	0.275389	0.7848
KEPMAN (X3)	-1.295714	2.187033	-0.592453	0.5578
KEPINST (X4)	0.021162	0.111224	0.190262	0.8503
UKKAP (X5)	-0.086035	0.067399	-1.276510	0.2113

Source: Eviews 10 Data Processing Results, 2022

Sourced from the Glejser test in Table 6, it proves that the probability value of the PDKI variable is 0.981, LBPKA is 0.785, KEPMAN is 0.558, KEPINST is 0.850, and UKKAP is 0.211. This value >

a significance level of 0.05. So, it can be said that model 3 has fulfilled the non-heteroscedasticity assumption.

Multicollinearity Test

Table.7. Variable VIF Test

Variable	Centered VIF
PDKI	1.998232
LBPKA	1.584442
KEPMAN	1.932269
KEPINST	1.669904
UKKAP	2.083705
CR	2.558677

Source: Eviews 10 Data Processing Results, 2022

Based on the VIF test in Table 7, it is known that the VIF value of the PDKI variable is 1.998, LBPKA is 1.584; KEPMAN worth 1,932, KEPINST worth 1,670, UKKAP worth 2,084; and CR worth 2,559; where the VIF value is still less than 10. This proves that there is no high collinearity between the independent variables.

Hypothesis testing

t-test

Table 8. T-test – Fixed Effect Model (Model 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.602801	0.107121	-5.627275	0.0000
PDKI	0.404454	0.137515	2.941160	0.0061
LBPKA	0.040644	0.197872	0.205408	0.8386
KEPMAN	7.073056	2.924500	2.418552	0.0216
KEPINST	-0.032389	0.075383	-0.429660	0.6704
UKKAP	0.328794	0.050797	6.472670	0.0000

Source: Eviews 10 Data Processing Results, 2022

Table 9. T-Test – Fixed Effect Model (Model 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	0.703540	0.065648	10.71689	0.0000
CR	0.319155	0.084347	3.783813	0.0006

Source: Eviews 10 Data Processing Results, 2022

Table 10. T-test – Fixed Effect Model (Model 3)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.633132	0.277382	9.492802	0.0000
PDKI	-0.013594	0.102082	-0.133165	0.8949
LBPKA	0.404933	0.192978	2.098334	0.0441
KEPMAN	1.929495	2.502708	0.770963	0.4466
KEPINST	-1.960154	0.083350	-23.51707	0.0000
UKKAP	-0.177162	0.101627	-1.743259	0.0912

Source: Eviews 10 Data Processing Results, 2022

Sourced from tables. 8, 9 and 10 Lujitt's results prove that;

In model 1 the p-value of the PDKI variable is $0.006 < \text{level } 0.05$, meaning that PDKI has an effect on liquidity so that H1 is proven. The p-value of the LBPKA variable is $0.839 > \text{level } 0.05$, meaning that LBPKA has no effect on liquidity so H2 is not proven. The p-value of the KEPMAN variable is $0.02 < \text{level } 0.05$, meaning that KEPMAN has an effect on liquidity so that H3 is proven. The p-value of the KEPINST variable is $0.670 > \text{level } 0.05$, meaning that KEPMAN has no effect on liquidity so that H4 is not proven. And the UKKAP variable worth $0.00 < \text{level } 0.05$ means UKKAP has an effect on liquidity so that H5 is proven. In model 3 the p-value of the PDKI variable is $0.895 > \text{level } 0.05$, meaning that PDKI has no effect on financial distress so H6 is not proven. The p-value of the LBPKA variable is $0.044 < \text{level } 0.05$, it means that LBPKA has an effect on financial distress so that H7 is proven. The p-value of the KEPMAN variable is $0.447 > \text{level } 0.05$, it means that KEPMAN has no effect on financial distress so H8 is not proven. and the p-value of the KEPINST variable is $0.000 < \text{level } 0.05$, it means that KEPINST has an effect on financial distress so that H9 is proven. The p-value of the UKKAP variable is $0.091 > \text{level } 0.05$, which means that UKKAP has no effect on financial distress, so H10 is not proven. In model 2, the p-value of the liquidity variable is $0.0012 < \text{level } 0.05$, meaning that liquidity affects financial distress, so H11 is proven.

Path Analysis

Direct Influence

Sourced from tables 8, 9 and 10 of the Fixed Effect Model t-test results, derived from the coefficient

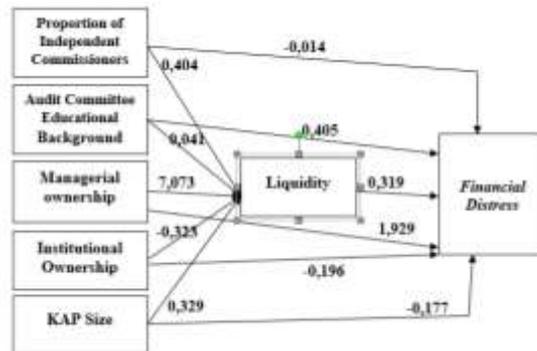
number of each variable, the equations in model 1, model 2 and model 3 can be presented to analyze the indirect effect, namely;

Model 1 $CR = -0,603 + 0,404 PDKI + 0,041 LBPKA + 7,073 KEPMAN - 0,323 KEPINST + 0,329 UKKAP$

Model 2 $FD = 0,704 + 0,319 CR$

Model 3 $FD = 2,633 - 0,014 PDKI + 0,405 LBPKA + 1,929 KEPMAN - 0,196 KEPINST - 0,177 UKKAP$

Picture. 5 Path Analysis



Direct Influence

- PDKI → CR = 0,404
- LBPKA → CR = 0,041
- KEPMAN → CR = 7.073
- KEPINST → CR = -0.323
- UKKAP → CR = 0,329
- CR → FD = 0,319
- PDKI → FD = -0,014
- LBPKA → FD = 0,405
- KEPMAN → FD = 1,929
- KEPINST → FD = -0.196
- UKKAP → FD = -0,177

Indirect Influence
Table 11. Analysis of Indirect Effect Paths

Path	Path Coefficient (Indirect Relationship)
PDKI through CR against FD	$0,404 \times 0,319 = 0,129$
LBPKA through CR against FD	$0,041 \times 0,319 = 0,013$
KEPMAN through CR against FD	$7,073 \times 0,319 = 2,257$
KEPINST through CR against FD	$-0,032 \times 0,319 = -0,010$
UKKAP through CR against FD	$0,329 \times 0,319 = 0,105$

Source: Eviews 10 Data Processing Results, 2022

Sobel Test

Sourced from the Sobel test calculation, the results are obtained in the table below;

Table.12. Sobel Test Results

Jalur	Koefisien	t-hitung	Keterangan
Jalur			
PDKI → CR → FD	0.129	2,58	Proven hypothesis
LBPKA → CR → FD	0.013	0,217	Hypothesis not proven
KEPMAN → CR → FD	2.257	1,994	Proven hypothesis
KEPINST → CR → FD	-0.010	0,417	Hypothesis not proven
UKKAP → CR → FD	0.105	3,180	Proven hypothesis

Source: Eviews 10 Data Processing Results, 2022

Sourced from table 12, the t value for the variable proportion of independent commissioners (PDKI) > t table value is $2.58 > 1.977$, this indicates that there is an effect of the proportion of independent commissioners on financial distress (FD) mediated by liquidity (CR.), so H12 is proven. The t value of the audit committee educational background variable (LBPKA) > the t table value of $0.217 < 1.977$, this indicates that there is no influence the audit committee educational background on financial distress (FD) mediated by liquidity (CR), so H13 is not proven. The t value of the managerial ownership variable (KEPMAN) > t table value of $1.994 > 1.977$, this indicates that there is an effect of managerial ownership on financial distress (FD) mediated by liquidity (CR), so that H14 is proven.

The t value of institutional ownership variable (KEPINST) < t table value of 0.417 < 1.977, this indicates that there is an influence of institutional ownership on financial distress (FD) mediated by liquidity (CR), so H15 is not proven. The t-count value of the KAP Size variable (UKKAP) > the t-table value of 3.180 > 1.977, this indicates that there is an effect of KAP size on financial distress (FD) mediated by liquidity (CR), so that H16 is proven.

Table 13. F-Test - Fixed Effect Model

Model	<i>Prob. F-Stat</i>	F.Statistics	Alpha Level (a = 5 %)	Final decision
Model 1	0.0000	11,895	0.0000 < 0.05	Simultaneous Effect
Model 2	0.0000	12,285	0.0000 < 0.05	Simultaneous Effect
Model 3	0,0000	63,0402	0,0000 < 0,05	Simultaneous Effect

Source: Eviews 10 Data Processing Results, 2022

In Table 12, the results of the F test prove that the p-value of model1, model2 and model3 each is 0.000 where the results are < 0.05 level, meaning that simultaneously PDKI, LBPKA, KEPMAN, KEPINST, and UKKAP have an influence on financial distress. with liquidity mediation. So H17 is proven.

Table 14. Coefficient of Determination Test (R2)

Model	<i>R-squared</i>	<i>Adjust R-squared</i>
Model 1 (FEM)	0,8330	0.76297
Model 2 (FEM)	0,7596	0.69774
Model 3 (FEM)	0,9636	0.94827

Source: Eviews 10 Data Processing Results, 2022

The R-squared result in model 1 is 0.8330, this result means that the level of diversity of the financial distress variable can be described by the variables PDKI, LBPKA, KEPMAN, KEPINST, and UKKAP together equal to 83.30% while the remaining 16.70 % influenced by other variables. The R-squared value in model 2 is 0.7596, this result means that the level of diversity of the financial distress variable can be described by the Liquidity variable as much as 75.96%, the remaining 224.04% is influenced by variables not included in the research model. Furthermore, the R-squared value in model 3 is 0.9636, this result means that the level of variability of the Liquidity variable can be described by the variables PDKI, LBPKA, KEPMAN, KEPINST, and UKKAP together of 96.36% and the remaining 3.64 % is influenced by variables not included in this study.



DISCUSSION

This study aims to examine the effect of internal and external corporate governance mechanisms (proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership, KAP size) on financial distress with liquidity as an intervening variable. According to the results of testing and hypotheses that have been carried out, the researchers will explain in this discussion.

H1, the proportion of independent commissioners (PDKI) has a significance value of $0.006 < 0.05$ and a coefficient value of 0.404 which means that PDKI partially affects liquidity. With a positive coefficient value, it means that increasing PDKI tends to increase liquidity. In accordance with the research of Khorunisa and A. Karina (2021) and Oktaviani (2020).

H2, the educational background of the audit committee (LBPKA) has no effect on liquidity. It is indicated by a coefficient value of 0.041 and a significance value of $0.838 > 0.05$. With a positive coefficient value, it means that increasing LBPKA tends to decrease liquidity. This result is consistent with research conducted by M. Nuryono, A. Wijayanti, Y.C. Samrotun (2019), Widyaningsih (2018) and Syafitri (2018)

H3, with a p-value of $0.02 < 0.05$ and a coefficient of 7.073, managerial ownership has an influence on liquidity. With a positive coefficient value, it means that the increasing managerial ownership tends to increase liquidity. These results are consistent with the T.D. Sari, K.H. Titisari and S. Nurlela (2020).

H4, Institutional ownership has no effect on liquidity with a p-value of $0.670 > 0.05$ and a coefficient of -0.032. With a negative coefficient value, it means that increasing institutional ownership tends to decrease liquidity. this study is in line with the research of Prantama et. al (2015) and Sejati (2018) and by M. Nuryono, A. Wijayanti, Y.C. Samrotun (2019).

H5, KAP size has an influence on liquidity with a p-value of $0.000 < 0.05$, and a coefficient value of 0.329. The audit results produced by a competent and high-integrity KAP will increase investor confidence in the financial statements issued by the entity.

H6, the proportion of independent commissioners has no effect on financial distress with a coefficient value of -0.014 and a p-value of $0.895 > 0.05$. These results are in accordance with the research of A. K. Putri and F.T. Kristanti (2020), Lili Whardani (2017) Retno and Wahyu (2019) Tri Lestari and Agus Wahyudin (2021) and R. Ridhoyani Gaos and R. Mudjiyanti (2021)



H7, the educational background of the audit committee has an influence on financial distress with a coefficient value of 0.405 and a p-value of $0.044 < 0.05$. An audit committee that has members who are experts in accounting or finance is considered more reliable in supervising the company's financial operational performance so that financial distress can be minimized. These results are in accordance with research conducted by Irma Yanti, Meinarni and Aaron (2018).

H8, managerial ownership has no effect on financial difficulties as evidenced by the coefficient value of 1.929 and p-value of $0.447 > 0.05$. These results are in accordance with the research of L. W. Harahap (2017), A.K. Putri and F.T. Kritianti (2020), Sanny and Warastuti (2020), I. Nilasari (2021) R. Ridhoyani Gaos and R. Mudjiyanti (2021) and inconsistent with research by R. Mulansari and W. Setyorini (2019), R. Yulianti and A. Rahmatiasari (2021), R. Ridhoyani Gaos and R. Mudjiyanti (2021).

H9, institutional ownership has an effect on financial difficulties as evidenced by the coefficient value of -1.960 and p-value of 0.000 or < 0.05 . Consistent with the results of R. Mulansari and W. Setyorini (2019), Sanny and Warastuti (2020), I. Nilasari (2021), R. Yulianti and A. Rahmatiasari (2021) and inconsistent with research by LW Harahap (2017), AK Putri and FTK Kristianti (2020) and C. Alexander, Margaretha, Sanchia, Jehnifer, William, C. Median (2021)

H10, KAP size has no effect on financial distress. It is indicated by a coefficient value of -0.177 and a p-value of $0.091 > 0.05$. In line with the research results of Irma Yanti, Meinarni and Aaron (2018). H11, liquidity has an influence on financial difficulties. It is evident from the coefficient number of 0.919 and p-value of $0.001 < 0.05$. The high level of liquidity ratio owned by the company, the ability to pay off current liabilities will be even greater. In line with the research results of Wulansari and Setyorini (2019), Sanny and Warastuti (2020), AKPutri, FT Kristanti (2020), Laksmita, Komala (2017), Atika, Jumaidi AW, Kholis (2019) and I. Nilasari (2021).

H12, the proportion of independent commissioners has a statistical effect on financial difficulties with a liquidity mediating effect indicated by a coefficient value of 0.129 and a t-count value of $2.58 > 1.977$.

H13, the educational background of the audit committee has no statistical effect on financial difficulties with a liquidity mediating effect as evidenced by a coefficient value of 0.013 and a t-count value of $0.217 < 1.977$.

H14, managerial ownership has an effect on financial distress with a liquidity mediating effect and is statistically significant as evidenced by the coefficient value of 2.257 and the t-count value of 1.994



<1.977. The high proportion of managerial ownership owned by the company will increase the activities of improving corporate governance by management.

H15, institutional ownership has no statistical effect on financial difficulties with the mediating effect of liquidity shown in the coefficient value -0.010 and a significance value of 0.417 <1.977.

H16, KAP size has a statistical effect on financial difficulties with the liquidity mediating effect proven at the coefficient value of 0.105, and t-count 3.180 > 1.977. The large size of the KAP is believed to have better and more reliable independence so that the level of credibility can improve the quality of the auditor's opinion that can be trusted by users of financial statements, especially shareholders and creditors, so that the occurrence of financial difficulties can be minimized.

H17, liquidity mediation simultaneously affects the relationship between the proportion of independent commissioners, audit committee educational background, managerial ownership, institutional ownership, KAP size on Financial Distress. With internal and external corporate governance mechanisms simultaneously or simultaneously, it will encourage monitoring activities of the organization and management in order to avoid agency problems along with high liquidity ratios, it will be able to reduce the possibility of financial distress conditions.

CONCLUSION

The purpose of this study is to analyze whether liquidity can mediate the effect between the proportion of independent commissioners, audit education background, managerial ownership, institutional ownership and KAP size on financial difficulties in 9 shipping sector companies that experience financial distress and are listed on the IDX (stock market). Indonesia) in 2016-2020. From the results of data processing and hypothesis testing carried out in this study, model 1 shows the proportion of independent commissioners, managerial ownership and KAP size have an influence on liquidity. Meanwhile, the educational background of the audit committee and institutional ownership have no effect on liquidity. Model 2 in the study shows that liquidity has an influence on financial distress. And model 3 shows the educational background of the audit committee, and institutional ownership has an influence on financial distress, while the proportion of independent commissioners, managerial ownership and KAP size have no effect on financial distress. For the mediation test, the Sobel test shows that liquidity is able to mediate between the proportion of independent commissioners, managerial ownership and KAP size to financial difficulties and liquidity is not able to mediate between the educational background of the audit committee and institutional ownership of financial difficulties



SUGGESTION

Suggestions that can be given by researchers from the results of testing and discussion in this study are; 1) Further research should use other variables in the concept of corporate governance to predict the possibility of financial distress such as the board of directors, company size and macro variables such as inflation, interest rates, and new regulations from the government, both fiscal and monetary. 2) Further research can use more varied research objects by using other sector companies other than shipping sector companies listed on the Indonesia Stock Exchange to obtain more valid results.

IMPLICATIONS

The application of the principles of Good Corporate Governance in shipping sector companies can avoid conflicts of interest and also balance the interests between agents and principals which is characterized by a low conflict of interest so that it will increase investor confidence to invest their capital in company shares, consequently increasing company liquidity and financial condition. Distress can be avoided. While the results of the Z-Score can be used as a description of the company that is the investment destination and become a consideration in investment decisions by investors.

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