



Factors to Predict The Financial Distress Condition of the Banking Listed in The Indonesia Stock Exchange

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Abstrak

Penelitian ini dilakukan dengan tujuan untuk mengetahui pengaruh dari variable yang diteliti dalam memprediksi probabilitas terjadinya financial distress sektor perbankan di Indonesia. Variabel dalam penelitian ini dipilih dengan pendekatan 5C, yang kemudian diproyeksi menjadi GCG (Good Corporate Governance), ROA (Return on Asset), LDR (Loan Deposit Ratio), CAR (Capital Adequacy Ratio), TAG (Total Asset Growth), NPL (Non Performing Loans), PER (Price Earning Ratio), PBV (Price Book Value Ratio). Populasi dari penelitian ini adalah bank yang terdaftar di Bursa Efek Indonesia periode tahun 2012-2014. Pengambilan sampel dilakukan dengan menggunakan teknik purposive sampling, hingga diperoleh 25 peristiwa financial distress pada periode penelitian. Penelitian ini menggunakan analisis regresi logistik untuk menguji pengaruh variabel independen terhadap variabel dependen. Hasil penelitian menunjukkan variabel return on asset dan capital adequacy ratio berpengaruh negatif terhadap probabilitas financial distress, sedangkan good corporate governance, loan deposit ratio, total asset growth, non performing loans, price earning ratio, dan price book value ratio tidak berpengaruh secara signifikan terhadap probabilitas financial distress.

Abstract

This research aims to analyze the effect of the variables to predict Indonesian Banks's financial distress. Those variables are chosen by using 5C methods. The 5C methods consist of GCG (Good Corporate Governance), ROA (Return on Asset), LDR (Loan Deposit Ratio), CAR (Capital Adequacy Ratio), TAG (Total Asset Growth), NPL (Non Performing Loans), PER (Price Earning Ratio), PBV (Price Book Value Ratio). The population of this study was all banks listed in Indonesia Stock Exchange (IDX) in 2012-2014. Sampling was done by using purposive sampling method, until founded there were 25 financial distress phenomena that happened in that period. This study used logistic regression analysis for testing the influence of independent variables on dependent variable. The results of this study showed return on asset and capital adequacy ratio had a negative and significant influence to the probability of financial distress, meanwhile good corporate governance, loan deposit ratio, total asset growth, non-performing loans, price earning ratio, and price book value ratio did not have significant influence to the probability of financial distress.

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INTRODUCTION

Business world competition in this globalization era is getting stronger. This can be influential in the development of the economy nationally and internationally. The existence of increasingly strong competition, company is also demanded to always strengthen the fundamental of management so that later will be able to compete with other companies. The inability of companies to anticipate global developments by strengthening management fundamentals will result in the reduction of business volumes that ultimately lead to bankruptcy of companies, including banks. Bank is a financial institution that has a quite vital effect on the economy in Indonesia. Bank is a financial institution that plays an important role in the economy of a country which affecting in a movement of economic growth with the aim of improving the living standard of many people.

The monetary crisis that occurred globally in the middle of 1997 and this condition continued in 2008 strongly hit the field of Asian economies. The monetary crisis is still leaving a bad impact for banking in Indonesia, still it also needs system rehabilitation cost which is quite significant. The monetary crisis which occurred globally has grown awareness about the importance of financial market stability and the health of the financial institutions that forms financial systems (Endri, 2009). The monetary crisis, which occurs continuously feared, will bring banks in the condition of financial distress. Financial distress is a condition of the decline in financial condition in which total liabilities exceeds the total equity in a company

Financial distress condition that is not handled properly by bank will be able to make the bank go bankrupt and must be liquidated. The monetary crisis in the middle of 1997 had at least 16 Banks in Liquidation (BDL). Some banks were liquidated because they were unable to meet the statutory reserve requirement (SRR), and even some banks were unable to provide funds to pay savings or deposits withdrawn by customers massively because in panic (Khristianti, 2013). Financial distress is the stage of declining financial conditions experienced by a company, which occurs prior to the occurrence of bankruptcy. This condition is generally characterized by, among others, delays in delivery, declining product quality, and delayed payment of bills from banks (Platt and Platt (2002) .This financial distress condition occurs prior to bankruptcy and triggers the financial condition of the company getting worse.

Basically, the management and performance of a good company will make the company able to compete with other companies so that minimize the chances of financial difficulties that cause bankruptcy of bank. The greater the company's ability in managing a good corporate performance and a good management later will improve the quality of the company and investor trust, so the bank has a good level of health. The level of Bank health can be assessed from several methods one of which is the 5C method. This 5C method looks at the condition of a company from 5 aspects, namely character, capacity, capital, collateral, and condition.

The 5C approach is usually used to assess whether the company is eligible to get credit and under what conditions (Choirina, 2015). This research uses the 5C approach due to bank has function as funds collector and distributor, and most of fund available in bank is fund owned by third party. Therefore, investors and creditors must choose a good and profitable bank in investing their capital, and not experiencing financial distress. The character aspect of this research is measured by Good Corporate Governance (GCG). The aspect of capacity is measured by Return on Assets (ROA) and Loans Deposit Ratio (LDR). The capital aspect is measured by Capital Adequacy Ratio (CAR). The collateral aspect is measured by Total Asset Growth (TAG). The condition aspect is measured by Non Performing Loans (NPL), Price Earning Ratio (PER), and Price Book Value Ratio (PBV).

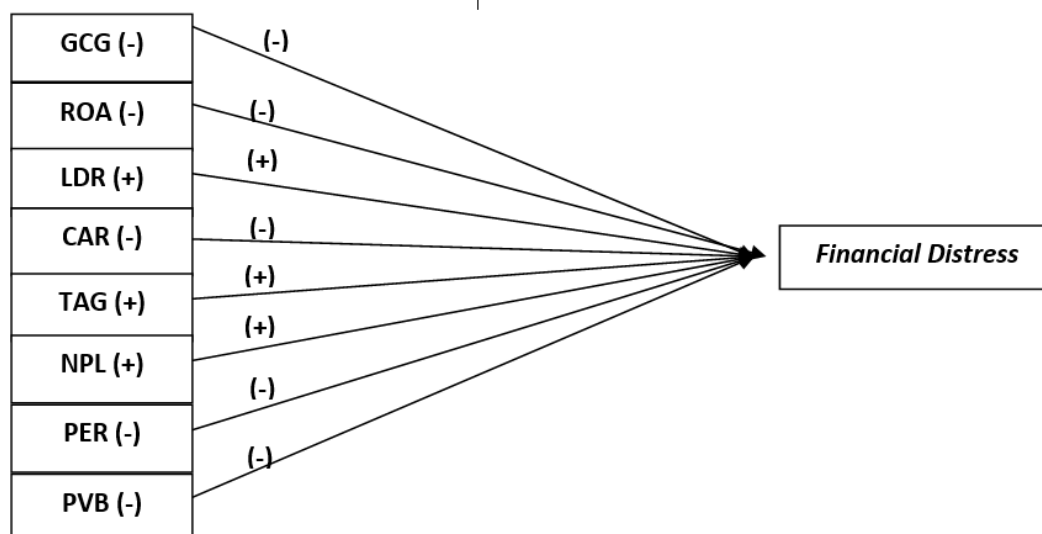


Figure 1. Theoretical Thinking Framework

Based on Figure 1 can be explained by hypothesis formulation as follows:

The principles of corporate governance mechanisms that must be applied in companies, including banks, generally consist of five principles. The five principles are transparency, accountability, responsibility, fairness, and independency. If the bank meets these five principles, then the bank is said to have good corporate governance. When a bank has good corporate governance, the bank has good management. Banks that have good corporate governance tend to have good financial performance and stock price performance. Banks with weak corporate governance will usually have a lower stock price compared to companies with good corporate governance (Tuanakotta, 2010). Companies that have good governance and management give more signals to both internal and external parties so as not to the occurrence of information asymmetry, such as investors so as not to choose the wrong in investing. The better the implementation of corporate governance mechanism, the bank will be in good monitoring condition, so it will improve the performance of the bank concerned so that it can reduce the tendency of financial distress condition in a company (Deviacita, 2012).

H1: Good corporate governance has a negative relationship on the probability of financial distress

ROA is one of profitability ratios. This ratio is used to measure the ability of bank management in obtaining profit as a whole. In the measurement of ROA, assets owned by banks are used to generate gross profit (SE BI No 12/10 / DPNP dated March 31, 2004). The greater the ROA of a bank, the greater the level of profit achieved by the bank and the better the bank's position in terms of asset use (Dendawijaya, 2009). The higher the ROA level then the possibility of banks experiencing financial distress will be smaller (Haryati, 2001). If the profit of a company is high, then the company will give a signal to internal or external parties as a good signal because it identifies good corporate conditions as well, so it will raise the value of the company and minimize the occurrence of financial distress.

H2: Return on asset has a negative relation on the probability of financial distress

Loan Deposit Ratio states how far the ability of bank to repay funds withdrawal done by depositor by relying on the credit given as a source of liquidity (Dendawijaya, 2003). According to Kurniasari (2013), LDR has a function to measure bank liquidity by dividing the amount of credit granted by banks to third parties. A high LDR ratio indicates the ability of banks to manage low liquidity and low level of health, which can lead to the possibility of banks experiencing financial

distress increased. According to the perspective of signal theory proposes about how banks should signal to users of financial statements, with high corporate liquidity then the company gives good signal to the external party because the bank in good condition so that minimize the state of financial distress.

H3: Loan deposit ratio has a positive relation on the probability of financial distress

Capital adequacy ratio is the ratio of bank performance to measure capital adequacy owned by banks to support assets that contain or generate risks, such as loans provided (Dendawijaya, 2009). CAR indicates the extent to which the decline in bank assets can still be covered by available bank equity (Achmad, 2003). Increased CAR ratio signifies an increase in bank health, thereby will lower the risk of financial distress because high capital shows low credit. The higher the level of capital the higher the cash reserves so that banks can distribute more credit and ultimately earn a large profit. The impact is the bank will give a good signal to the external party that the bank company is in good condition. Investors believe and invest their capital in banks. This makes the company get the capital to run its business and avoid financial distress.

Total asset growth is a measure of corporate growth that is reflected through the growth of assets over time. (Zaki et al., 2011). The increase in the amount of assets is usually followed by an increase in the amount of liabilities, because bank is a company that manages money owned by society. Most of the assets and funds owned by banks come from deposits and obligations that are liabilities, so that the increase in total assets growth that are not managed carefully can cause the bank to get stuck in a financial distress condition. Banks with low TAG are more likely to experience financial distress (Zaki et al., 2011).

H4: Capital adequacy ratio negatively related to the probability financial distress

The increase of bank assets from well-managed public funds one of which is to distribute bank credit services so that to obtain a large bank earning. This will give a good signal to the external party that the bank is in good condition. This will make investors believe in the bank and the state of financial distress can be avoided. The result of the research conducted by Zaki et al. (2011) shows that TAG has a significant positive effect on the probability of financial distress.

H5 : Total asset growth positively related to the probability financial distress

NPL (Non Performing Loans) ratio illustrates the ability of bank in managing its credit. This ratio indicates the size of the bad credit level owned by bank, thus indicating the quality of problematic productive assets. The NPL ratio shows the high number of bad loans in the bank. The bigger the NPL shows the higher the credit risk that must be faced by the bank, so the bigger the bank facing problematic condition and causing the company to express bad signal to external party will ultimately lower the stock price of the company. This can lead to the possibility of banks experiencing greater financial distress. (Kurniasari, 2013).

H6: Non performing loans has a positive relation on the probability of financial distress

Price Earning Ratio (PER) is one of the most basic measures in stock analysis fundamentally. Easily, PER is a comparison between stock price and corporate net profit in which the stock price of an issuer is compared to the net profit generated by the issuer within a year. Because the focus of the calculation is the net profit that has been produced by the company, then by knowing PER of an issuer, we can find out whether the price of a stock is belong to fair or not in real rather than futures or estimation. If this ratio is lower than the ratio of similar industries, it is an indication that investment in this corporate stock is more risky than the industry average. Good signals will be disclosed by management to external parties if they have high bank profits through a high PER ratio which assumes that the company has a high stock price and in good condition.

H7 : Price earning ratio has a negative relation on the probability of financial distress

Price Book Ratio is a ratio of comparison between stock price and shareholder's equity. (Jones et al.). This ratio has function as a prediction of profitability in connection with book value and book value growth. Banks with high PBV are good performing banks so that Managers are motivated to deliver good information about their company to the public as quickly as possible, for example through press conferences. If the manager can give a convincing signal, then the public will be impressed and this will reflect on the price of high corporate securities. This will enable to improve corporate earnings. So, the possibility of banks in the state of financial distress is very small. The result of the research conducted by Zaki et al. (2011) shows that PB ratio has no significant effect on the probability of financial distress

H8 : Price book ratio has a negative relation on the probability of financial distress

METHODS

The population in this study was the manufacturing companies listed on the Indonesia Stock Exchange period 2012-2014 amounted to 39 companies. The sampling technique used purposive sampling and obtained the analysis unit of 75 companies. The selection of research sample could be seen in Table 1.

Table 1. Detail of Research Sample

No	Criteria of Sample	Not Including in the Criteria	Total
1	Banks listed on the Indonesia Stock Exchange (IDX)	39	39
2	Banks that were not incorporated in a row for three years (2012-2014)	(9)	30
3	Banks that did not provide data to be used as research variables	(5)	25
4	Total sample		25
5	Units of analysis (2011-2014)		75

Source: Secondary data processed in 2016

In this study, banks that were in the category of financial distress were companies that had interest coverage ratio (ratio of business profit to interest cost) less than 1 (one) and companies that had interest coverage ratio more than 1 (one) for companies that did not experience financial distress. Classens et al. (1999) in Wardhani (2006). The measurement scale used was nominal scale. Dependent variable in this research was dummy variable. Scoring on this research variable was score one (1) in companies which experiencing financial distress and score zero (0) in non-financial distress companies. Independent variables used in this study is good corporate governance practices consisting of the size of the board of directors, boards of directors meetings, independent commissioners, audit committees, managerial ownership, and institutional ownership.

Table 2. Operational Definition of Independent Variables

No	Variables	Measurements	Scale
1	Financial distress Distress financial Classens et al. (1999) in Wardhani (2006).	ICR= Operating Profit / Interest Expense 0= Non-Financial Distress Companies 1= Financial Distress Companies	Nominal
2	Good Corporate Governance (GCG) (Choirina, 2015)	Ranking 1= Very Good, 2= Good, 3= Quite Good, 4= Less Good, 5= Tnot Good	Ordinal
3	ROA (SE BI No 12/10/DPNP dated March 31, 2004)	$ROA = \frac{\text{EARNING BEFORE TAX}}{\text{TOTAL ASSET}}$	Ratio
4	LDR (SE BI No 12/10/DPNP dated March 31, 2004)	$LDR = \frac{\text{TOTAL CREDITS}}{\text{TOTAL FUNDS OF THIRD PARTY}}$	Ratio
5	CAR (SE BI No 12/10/DPNP dated March 31, 2004)	$CAR = \frac{\text{CORPORATE CAPITAL}}{\text{TOTAL ATMR}}$	Ratio
6	TAG Zaki et al. (2011)	$TAG = \frac{\text{ASSET}_t - \text{ASSET}_{t-1}}{\text{ASSET}_{t-1}}$	Ratio
7	NPL (SE BI No 12/10/DPNP dated March 31, 2004)	$NPL = \frac{\text{PROBLEMATIC CREDITS}}{\text{TOTAL CREDITS}}$	Ratio
8	PE Zaki et al. (2011)	$PER = \frac{\text{SHARE PRICE}}{\text{EARNING PER SHARE (EPS)}}$	Ratio
9	PB Zaki et al. (2011)	$PBV = \frac{\text{SHARE PRICE}}{\text{BOOK VALUE PER SHARE}}$	Ratio

RESULTS AND DISCUSSIONS

Table 3. Estimation of Parameter
Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
gcg	.259	.729	.126	1	.722	1.295
roa	-1.710	.674	6.428	1	.011	.181
ldr	-.082	.072	1.290	1	.256	.922
car	.555	.220	6.350	1	.012	1.741
Step 1a tag	.011	.040	.075	1	.785	1.011
npl	.612	.567	1.167	1	.280	1.845
per	.002	.021	.009	1	.923	1.002
pbv	-.396	.707	.314	1	.575	.673
Constant	1.982	5.552	.127	1	.721	7.261

Source: Data processed, 2016

Table 3 showed the coefficient value of Good Corporate Governance variable was 0.259 and the significance value was 0.7222. Due to the value of significance was more than 0.05 then H1 was unacceptable. This research did not succeed to prove the effect of GCG on the prediction of financial distress at banking companies that listed in IDX period 2012-2014 because a good corporate governance at bank would give a good signal also to external party especially investor and customer. That the company was in good condition to invest so that the bank would get capital for the operational activities, but the good signal given by the bank could not be caught and taken into consideration in investing by the investor despite corporate governance of the bank was in good condition. In the end, the bank did not get the capital and stuck the condition of financial distress.

Table 3 showed the coefficient value of the Return on Assets variable was -1,710 and the significance value was 0.11. Since the significance value was less than 0.05 then H2 was acceptable. The coefficient mark generated also had a direction which was in accordance with the proposed hypothesis (negative). Therefore, this study accepted the second hypothesis. This reinforced Bank Indonesia Regulation No. 6 / 10.PBI / 2004 concerning the Rating System of Commercial Bank Health Level which implied ROA ratio to measure profitability factor in relation to the health of bank concerned. The result of this research was consistent with research of Widhiarti (2008) which stated that ROA had a significant effect on bank problematic condition. This was also in line with Sumantri and Teddy (2010) who stated that ROA had a significant effect on bank insolvency. Asmoro (2010) also stated that ROA had a significant effect on bank troubled condition. Similarly, strengthening research of Sari (2014) that ROA affected on the prediction of bank bankruptcy.

Table 3 showed the coefficient value of the Loan Deposit Ratio variable was -0.82 and the significance value was 0.256. Since the significance value was less than 0.05 then H2 was unacceptable. The LDR variable illustrated how much the ability of the bank to repay the withdrawal of funds done by depositors by relying on the credit given as a source of liquidity. The absence of insignificant results on this LDR ratio was assumed because the average of the entire bank already had a fairly low LDR by showing the mean value in descriptive statistics equal to 83.5780 or about 84%. The amount of LDR ratio allowed by Indonesian banks ranged from 50% to 110%. In this case, it was assumed that the average of the whole bank was in a healthy condition (non-financial distress).

Table 3 showed that the CAR ratio had a positive effect to predict the condition of financial distress. This could be seen from the hypothesis test that showed significant CAR value at 0.012. Thus, this research rejected the fourth hypothesis which stated that the CAR had a negative and significant effect on the probability of financial distress. The coefficient mark of the test results in this study showed sign of regression coefficient in a positive relationship was not in accordance with the proposed hypothesis. This could happen, it was assumed that the bank had high capital followed by high interest cost also, if the bank could not manage capital well, it is feared that the bank could not return the request of depositors to withdraw their money and caused the bank to experience financial distress and besides that high CAR showed that banks are not expansive enough to invest in risky assets in obtaining income for banks.

Table 3 showed from hypothesis test that showed significant TAG value at 0.785. Thus this research rejected the fifth hypothesis which stated that TAG had a positive and significant influence to financial distress probability. An increase in the amount of bank assets might result in an increase of income due to an increase in funds held by banks that could be used to perform its functions as a channelling fund. An increase in the amount of bank assets also meant an increase in bank liabilities to be paid by the bank at maturity. This increase in the number of assets could be an opportunity for banks to increase their revenues, but it could also be a bank loss when the bank could properly manage the channelling of funds obtained. The TAG variable could not be used to explain the possibility of a bank experiencing financial distress because the presence of the effect that was different of the increase in the amount of assets caused by the difference in the ability of banks to distribute the funds obtained.

Table 3 showed the coefficient value of the Non Performing Loans variable was 0.612 and the significance value was 0.280. Because the significance value was more than 0.05 then H6 was unacceptable. The mean value on the descriptive statistical result of overall banks in table 4.7 was 1.90%. This resulted in the absence of differences between the data group of banks experiencing financial distress and banks not experiencing financial distress, and this condition caused non-performing loans variable in this study was less able to predict the profitability of financial distress.

Table 3 showed the coefficient value of Price Earning Ratio variable was 0.612 and the significance value was 0.280. Because the value of significance was more than 0.05, H7 was unacceptable. The high PER did not necessarily reflect a good performance, due to high PER may be caused by a decrease in the average of corporate earnings growth which seemed to increase the PER ratio. With this case, the investors should not be easily fooled by just looking at the high PER ratio.

Table 3 showed the coefficient value of the Price Book Value Ratio variable was 0.612 and the significance value was 0.280. Because the value of significance was more than 0.05 then H8 was unacceptable. The cause factor for the unaffected PBV on the prediction of financial distress was that market price always moved up and down moved at any time. If market prices continued to rise, so the stock price was more expensive because the market price increased not because of the profitability of the company.

CONCLUSIONS

Based on the results of data analysis and discussion of the research, it can be concluded that ROA variable has a significant negative effect on the probability of financial distress while GCG, LDR, CAR, TAG, NPL, PER, and PBV variables have no effect on the probability of financial distress. Suggestions for further research should extend the period of the study and consider factors other than financial ratios, eg compliance aspects, for example, the percentage of the violations of Credit Allotment Maximum Limit, the percentage of exceeding the Credit Allotment Maximum

Limit, and Minimum Reserve Requirements. The object of this research is banking companies, further research can use other companies such as manufacturing, property and trade, so more know how the effect of corporate financial distress in Indonesia.

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