



Factors Influencing Financial Distress and Its Impact on Company Values of the Sub-Sectors Firms in Indonesian

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Abstract

Objective – The purpose of this study is to determine the influence of corporate governance, profitability, and firm size on financial distress and its impact to the company value of the sub-sectors companies in infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange for the period of 2011-2015.

Design/methodology – The secondary data in the form of financial statements are collected from the sub-sector companies in infrastructure, utilities, and transportation thand from the Indonesian Capital Market Directory (ICMD). The data is taken from the companies listed in Indonesia Stock Exchange in period of 2011-2015. Samples are determined by using purposive sampling method and the samples are selected based on certain considerations or criteria. The analysis model used in this study is path analysis.

Results – The results show that in the first line; corporate governance, profitability and firm size, both partially and simultaneously have significant influence on financial distress of the sub-sector companies on infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange. In the second track, corporate governance, profitability, firm size and financial distress both partially and simultaneously have significant influence on the company value in the sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.

Research limitations/implications – The time of observation of the study is only 5 years and it does not properly reflect the actual phenomenon. The samples of the study are only limited to Sub-Sector companies in Infrastructure, Utilities, Transportation even though there are still many other companies that are listed in Indonesia Stock Exchange.

Keywords Corporate Governance, Profitability, Firm Size, Financial Distress.

1. Introduction

The development of the company as an effort to anticipate the sharp competition in an increasingly global market like today will always be carried out by companies, both large and small companies. Entering the capital market is one such effort, because the capital market has an important role in economic activities, especially in the countries that adhere to the market economy system. The capital market is one of the sources of economic progress as it can be a source and alternative financing to get capital at a relatively low cost for the companies. Public companies that are listed in the stock exchange every year must submit annual reports both monetary and non-monetary to the Stock Exchange and investors.

This is evidenced by the increasing number of go public companies that are listed in the stock exchange and the increasing number of Indonesian people who are starting to get involved with capital markets. There are several adverse impacts that can be felt from global financial crisis in 2008 which resulted in weakening the business activities in general. Most countries around the world suffered a setback and financial disaster due to the outbreak of the financial crisis. The financial crisis had caused bankruptcy of several public companies in the United States, Europe, Asia and other countries. The impact of the financial crisis can influence the decline in the company value as a result of a decrease in sales so that if the company does not sur-

vive the crisis, the company will be de-listing from the stock exchange (Alimilia, 2004).

Company value is very important because it reflects the company performance. Company value is the market value of company equity plus debt market value (Hermuningsih, 2012: 232). Thus, the addition to the amount of the company equity and company debt can reflect the company value. To find out how much the company value can be done by looking at an overview of a company that is by looking at financial ratios as an investment evaluation tool (Anggitasari, 2012). The financial ratio reflects the high and low of company value.

The company value is influenced by many factors, one of which is the condition of corporate governance. Corporate governance is a guideline for managers to manage a company in best practice. Managers will make financial decisions that can benefit all parties (stakeholders). Managers work effectively and efficiently so as to reduce capital costs and to be able to minimize risks (Djatmiko, 2002). The implementation of good corporate governance influences positively on the company value, meaning that the better the corporate governance, the higher the company value and vice versa the lower the level of corporate governance, the lower the company value (Siallagan et.al, 2006).

Company value is also influenced by profitability (Brigham and Houston, 2009: 101). Profitability is the ability of a company to make a profit in relation to sales, total assets and its own capital (Sartono, 2001). Santika and Kusuma (2002) profitability has positive influence on company value, meaning that the greater the profitability, the greater the company value and vice versa, the smaller the profitability, the smaller the company value. The increase in profitability will increase company profits. This profit increase will automatically increase the company value itself.

In addition, company value is also influenced by firm size (Mardiyah, 2001). Firm size is a scale in which small companies can be classified according to various ways, including: total assets, log size, stock market value, and others (Mardiyah, 2001). Large-scale companies have a broader base of stakeholders, so that the policies of the large-scale companies will have a greater impact on public interest than the small companies.

Another factor that also influences the company value is financial distress. Financial distress is a decrease stage of corporate financial conditions that occur before bankruptcy or liquidation (Platt and Platt, 2002). If financial distress increases, it will influence the decrease in the company value and vice versa, the lower the financial distress, the more the company value will increase (Brahmana, 2007).

The phenomenon of financial distress also occurs in the companies at Indonesia Stock Exchange, meaning that not all companies are always safe and have well-established financial problems. Of course, the companies that experience financial distress over a long period of time will make them go bankrupt and must exit the capital market. And, this also happened in Indonesia Stock Exchange.

The purpose of this article is to examine the influence of Corporate Governance, Profitability and Firm Size to Financial Distress and Its Impact on Company Value of Sub-Sectors companies of Infrastructure, Utilities, Transportation Listed in Indonesia Stock Exchange both simultaneously and partially, in the period of 2011 – 2015.

The research hypothesis can be formulated as follows:

- H1: Corporate governance, profitability and firm size simultaneously influence company financial distress in the sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- H2: Corporate governance, profitability, firm size and financial distress simultaneously influence company value of sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.

- H3: Corporate governance influences company financial distress of sub-sectors of infrastructure, utilities, and transnational that are listed in Indonesia Stock Exchange.
- H4: Profitability influences company financial distress of sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- H5: Company size influences company financial distress of sub-sector of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- H6: Corporate governance influences company value of sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- H7: Profitability influences company value of sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- H8: Firm size influences company value of sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- H9: Financial distress influences company value of sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.

2. Research Method

The data in this study are secondary data in the form of financial statements of sub-sectors companies in infrastructure, utilities, and transportation. The data also includes the overview of financial statements to determine the ratio value which is obtained from the sites of www.idx.co.id and Indonesian Capital Market Directory (ICMD). The data collection process is carried out through documentation by downloading the annual report from the company on sub-sectors of infrastructure, utilities, transportation that are listed in Indonesia Stock Exchange in 2011-2015 which is obtained from the official website at www.idx.co.id.

The population of this study are the companies in manufacturing category that are listed in Indonesia Stock Exchange during 2011-2015. Samples are determined by using purposive sampling method which is a non-random sampling method and the samples are selected based on certain considerations or criteria.

The operational variable in this study which consists of intervening variable (Y) is financial distress and independent variables are corporate governance (X1), Profitability (X2) and firm size (X3) while dependent variable (Z) is company value. Data analysis was performed using path analysis which is then processed by using SPSS (Statistical Package for Social Science). Path analysis is a statistical technique that is used to examine the causal relations between two or more variables, and is also used to see the direct and indirect influences of a set of variables as causal variables on a set of other variables which are consequent variables (Nadirsyah, 2006: 73). It is a statistical technique that is used to examine the influence between two or more variables and to see the influence simultaneously and partially.

$$Y = \rho_{yx1}X1 + \rho_{yx2}X2 + \rho_{yx3}X3 + e1$$

$$Z = \rho_{zx1}X1 + \rho_{zx2}X2 + \rho_{zx3}X3 + \rho_{zy} + e2$$

Of which:

X1	=	Corporate governance
X2	=	Profitability
X3	=	Firm Size
Y	=	Financial Distress
Z	=	Company Value
e	=	error item
ρ	=	Path Coefficient

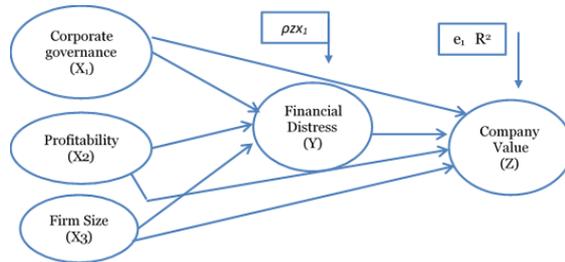
To determine whether to accept or reject the hypothesis that is proposed, a statistical test is performed. It is a classic assumption test consisting of Normality Test,

autocorrelation test, multicollinearity test, heteroscedasticity test. The design of hypothesis testing is carried out in two stages: the design of hypotheses testing altogether (simultaneously) and the design of hypotheses testing separately (partial). To examine the influence of independent variables (X1 and X2) simultaneously on dependent variable (Y) is done by the following steps:

The magnitude influence in a direct variable of a variable that influences the affected variable is called path coefficient. Path coefficient is given the symbol P_{ij} of which i is the dependent variable and j is the independent variable (Sarwono, 2006: 149). The important stage in regression analysis is to determine how good the regression line represents the data because it determines whether the regression line which is obtained matches the data to be analyzed. According Supranto (2007: 212), this match is determined by Pearson index which is called determination coefficient (R^2) whose value ranges from 0 to 1. This Pearson index is close to 1 if the data is very close around the Pearson index regression line.

The determination coefficient (R^2) is often referred to as a measure of the compatibility level of regression line (goodness of fit test) and also shows the magnitude contribution of independent variable X to Y variation (up and down), but it does not indicate the direction of the relations between X and Y. It is shown by a simple correlation coefficient with the symbol ρ (Rho), as the actual correlation coefficient (parameter) and r as an estimate. Because the actual coefficient value is often unknown, then it is estimated by r .

To test the hypothesis, it can be made a complete structure that describes the causal relations between independent variable and the dependent variable through the path diagram.



The First Hypothesis Testing

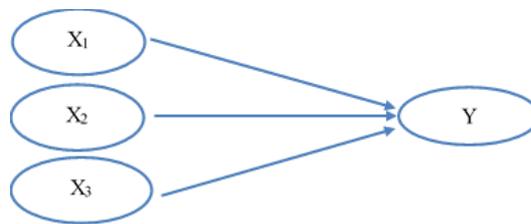


Diagram 1
Sub-structures of Relations among X1, X2 and X3 to Y

The diagram above shows the causal relations among variables X1, X2, and X3, to Y. To see the magnitude of direct influence in X1, X2 and X3 to Y, it is expressed by squaring the path coefficients of ρ_{Y1X1} , ρ_{Y1X2} , and ρ_{Y1X3} . To test this first hypothesis, a structural equation can be made as follows.

$$Y = \rho_{X1Y}X_1 + \rho_{X2Y}X_2 + \rho_{X3Y}X_3 + e$$

The statistical hypotheses that are tested are:

$$H_0 : \rho_{YX_i} = 0$$

$$H_a : \rho_{YX_i} \neq 0 ; i = 1, 2, \dots, k$$



The Second Hypothesis Testing

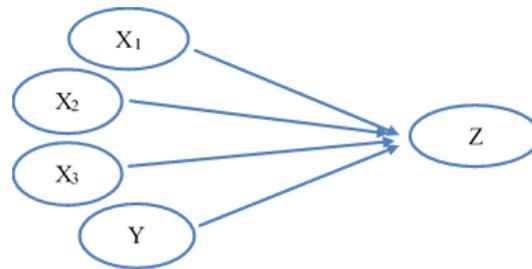


Diagram 2
Sub-structures of Relations among X₁, X₂, X₃ and Y to Z

The diagram above shows the causal relations among variables X₁, X₂, X₃ and Y to Z. To see the magnitude of direct influences of X₁, X₂, X₃ and Y to Z. Each is expressed by squaring the values of path coefficient ρ_{ZX1} , ρ_{ZX2} , and ρ_{ZX3} and ρ_{ZY} . To test this second hypothesis, a structural equation can be made as follows.

$$Z = \rho_{ZX1}X_1 + \rho_{ZX2}X_2 + \rho_{ZX3}X_3 + \rho_{ZY}Y + \rho_Z e$$

The statistical hypotheses that are tested are:

H₀ : $\rho_{ZXi} = 0$

H_a : $\rho_{ZXi} \neq 0 ; i = 1, 2, \dots, k$ and

H₀ : $\rho_{ZY} = 0$

H_a : $\rho_{ZY} \neq 0$

4. Result and Discussion

4.1. The Result of Hypothesis Testing on Sub-Structure I

To see the influence of corporate governance, profitability, and company size on financial distress and its impact to company value on the Companies of Sub-Sectors in Infrastructure, Utilities, and Transportation in Indonesia Stock Exchange will be analyzed by using path analysis. The first path analysis is to examine the influence of corporate governance, profitability and firm size on financial distress to the Companies of Sub-Sectors in Infrastructure, Utilities, and Transportation in Indonesia Stock Exchange. Based on the findings by using path analysis, it can be explained as follows.

Variables	Standardized Coefficients Beta	Value of t count	Significance
Corporate governance	-0.091	-5.954	0.003
Profitability	-0.105	-7.104	0.002
Firm Size	-0.195	-8.074	0.001
R Value = 0,743			
R Square = 0,552			
F-count = 12,260		Sig F = 0.00	

Table 1
Results of Determinant test (R²) on Sub-structures I

Based on the table above, it shows that the determinant coefficient (R²) of 55.2% illustrates that the influence of corporate governance, profitability, and firm size on financial distress of companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange is 55.2% and the remaining 44, 8% is influenced by other variables outside this research model.

Simultaneous testing results obtain significance value of 0.00, meaning that the hypothesis in this study accepts H_a and rejects H₀. It means that corporate govern-

ance, profitability, and firm size simultaneously have significant influence on financial distress of companies in Sub-Sectors of Infrastructure, Utilities, and Transportation in Indonesia Stock Exchange.

The significance value of corporate governance variable is 0.003, meaning that partially corporate governance has significant and negative influence on financial distress of Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The significance value of profitability variable is 7.104 with significance value of 0.002, meaning that partially profitability has significant and negative influence on financial distress of Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The significance value of firm size variable is 0.001, meaning that partially firm size has significant and negative influence on financial distress of Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The framework of the empirical causal relations among X1, X2 and X3 to Y can be made as structural equation as follows:

$$\begin{aligned} \text{Structure I: } Y &= \rho_{yx1}X_1 + \rho_{yx2}X_2 + \rho_{yx3}X_3 + e_1 \\ &= -0,091X_1 - 0,105X_2 - 0,195X_3 - 0,448 + e_1 \\ R^2_{y \text{ x1x2 x3}} &= 0,552 \end{aligned}$$

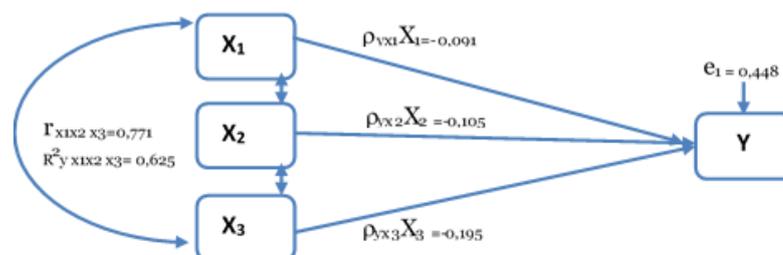


Diagram 3
Sub-structures of Relations among X₁ and X₂ to Y

Based on the calculation results of the structural path analysis, it provides objective information, namely:

- 1) Corporate governance (X₁) directly influences on financial distress of Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Y) at $-(0.091)^2 = 0.828\%$. Influence of 0.828% is in very low category.
- 2) Profitability (X₂) directly influences on financial distress of Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Y) at $-(0.105)^2 = 1.102\%$. Influence of 1.102% is in very low category.
- 3) Firm size (X₃) directly influences on financial distress of Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Y) at $-(0.195)^2 = 3.802\%$. Influence of 3.802 is in very low category.

The magnitude influence of corporate governance (X₁), profitability (X₂), and company size (X₃) simultaneously have direct influence on financial distress (Y) of Companies in Sub-Sectors of Infrastructure, Utilities, and Transportation in Indonesia Stock Exchange. For more details, see Table 2.

Table 2
Path Coefficients, Direct Influences, Total Influences and Shared Influences of Corporate governance (X₁), Profitability (X₂) And Firm Size (X₃) on Financial Distress (Y) Companies of In Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange

Variables	Path Coefficient	Direct	Total (%)	(R ² _{y x1x2 x3x4})
X ₁	-0.091	-0.091	-0.828	-
X ₂	-0.105	-0.105	-1.102	-
X ₃	-0.195	-0.195	-3.802	-
ε	0.448	0.448	44.8	-
X ₁ , X ₂ , and X ₃	-	-	-	0.552 = 55.2 %

4.2. The Result of Hypothesis Testing on Sub-Structure II

In the second analysis, the path analysis is the influence of corporate governance, profitability, firm size, and financial distress on company value in Sub-Sectors of Infrastructure, Utilities, and Transportation in Indonesia Stock Exchange.

Financial Distress

Table 3
Results of Determinant Test (R²) on Sub-structure II

Variables	Standardized Coefficients Beta	Value of t count	Significance
<i>Corporate governance</i>	0.004	7.045	0.004
Profitability	0.039	9.391	0.007
Firm Size	0.066	6.672	0.003
<i>Financial distress</i>	-0.038	-7.382	0.003
R Value = 0.890			
R Square = 0.792			
F-count = 15.217		Sig F = 0.00	

The table above shows that the determinant coefficient (R²) is 79.2%, which illustrates that corporate governance, profitability, firm size and financial distress influence the company value in Sub-sectors of Infrastructure, Utilities, and Transportation in Indonesia Stock Exchange at 79.2% and the remaining 20.8% is influenced by other variables outside this research model.

F-count value is obtained at 12.260 with a significance value of 0.00, meaning that the hypothesis in this study does not reject H_a or reject H₀, which means that corporate governance, profitability, firm size and financial distress simultaneously influence the company value in Sub-sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The value of t-count for corporate governance variables is 7.045 with significance value of 0.004, meaning that partially corporate governance has positive influence on the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The t-count value for profitability variables is 9.391 with significance value of 0.007, meaning that partially profitability has significant and positive influence on the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The value of t-count for firm size variables is 6.672 with significance value of 0.003, meaning that partially firm size has significant and positive influence on the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The value of t-count for financial distress variables is 7.382 with a significance value of 0.003, meaning that partially financial distress has significant and negative influence on the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange.

The framework of the empirical causal relations among X₁, X₂, X₃ and Y to Z can be made as structural equation as follows:

$$\begin{aligned} \text{Structure: } Z &= \rho_{zx1}X_1 + \rho_{zx2}X_2 + \rho_{zx3}X_3 + \rho_{zy}Y + e_2 \\ &= 0,004X_1 + 0,039X_2 + 0,066X_3 - 0,038Y + 0,208 e_1 \\ R^2_{yx1x2} &= 0,792 \end{aligned}$$

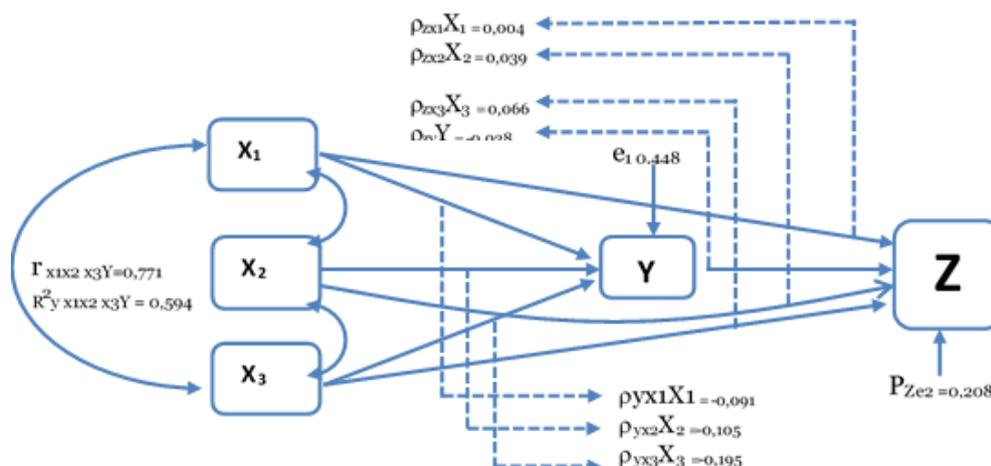


Diagram 4
Sub-structures of Relations among X₁, X₂, X₃, and Y to Z

The calculation results of path analysis provide objective information, namely:

- 1) Corporate governance (X₁) directly influences the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Z) of $(0.004)^2 = 0.0016\%$. Influence of 0.0016 is in very low category.
- 2) Profitability (X₂) directly influences the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Z) of $(0.039)^2 = 0.152\%$. Influence of 0.152 is in very low category.
- 3) Firm size (X₃) directly influences the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Z) of $(0.066)^2 = 0.435\%$. Influence of 0.435 is in very low category.
- 4) Financial distress (Y) directly influences the company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Z) of $(-0.038)^2 = -0.144\%$. Influence of 0.144 is in very low category.

The magnitude influence of corporate governance (X₁), profitability (X₂), corporate governance (X₃) and financial distress (Y) simultaneously influence directly and indirectly financial distress (Z) on Companies in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange which can be seen in table 4.

Table 2
Path Coefficients, Direct Influences, Indirect Influences, Total Influences and Shared Influences of Corporate governance (X₁), Profitability (X₂), Firm size (X₃) and Financial distress (Y) on Corporate Value (Z) in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange

Variables	Path Coefficients I (Direct)	Path Coefficients II (Indirect)	Indirect	Standardized Coefficients		
				Total of Direct Path I (%)	Total of Direct Path II (%)	Total of Indirect (%)
X ₁	-0.091	0.004	0.0034	0.828	0.0016	0.34
X ₂	-0.105	0.039	0.0039	1.102	0.152	0.39
X ₃	-0.195	0.066	0.0074	3.802	0.435	0.74
Y	-	-0.038	-	-	0.144	-
ε ₁	0.448	-	-	37.5	-	-
ε ₂	-	0.406	-	-	0.386	-

Shared Influence (R²) X₁, X₂, and X₃ = 0.625 = 62.5 % (First Path)

Shared Influence (R²) X₁, X₂, X₃ and Y = 0.594 = 59.4 % (Second Path)

From Table 4, it can be explained the indirect relations as follows:

- 1) Corporate governance (X₁) indirectly or through financial distress influences company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange at 0.34%.
- 2) Profitability (X₂) indirectly or through financial distress influence company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange at 0.39%.

- 3) The magnitude influence of firm size (X₃) indirectly or through financial distress influences company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange at 0.74%.
- 4) Corporate governance, profitability, company size and financial distress influence company value in Sub-Sectors of Infrastructure, Utilities, Transportation in Indonesia Stock Exchange (Z); $0.792 = 79.2\%$ and the remaining 20.8% is influenced by other variables that are not explained in this study.

4.3. *The Influence of Corporate Governance on Financial Distress*

The results show that corporate governance has negative influence on company financial distress. These findings are in line with Wayan and Merkusiwati (2014) mechanisms of corporate governance negatively influence financial distress. According to Porter, 1991 (in Agusti, 2013) the reason for a company to be successful or failed is more due to the strategies that are set by the company, such as the implementation strategy of corporate governance. Corporate governance aims to ensure that company managers always take appropriate and selfless actions, and they aim to protect company stakeholders. The implementation of good mechanisms in corporate governance will minimize the risk of companies having financial distress. Mechanisms of corporate governance negatively influence financial distress (Al-Haddad et al. 2011). Putri (2015) in her research also says the same thing is that corporate governance has significant and negative influence on financial distress.

4.4. *The Influence of Profitability on Financial Distress*

The results show that profitability has negative influence on company financial. These findings are in line with the findings of Widarjo and Setiawan (2009) who find that profitability has negative influence on financial distress. This shows the efficiency and effectiveness of asset use. With the effectiveness of using company assets, it will reduce the costs that are incurred by the company. Reduced costs have the influence of saving and sufficient funds to run a business, so the possibility of a company having financial distress will be small.

Profitability is used to measure company value resulting in the higher the profitability, the lower the financial distress of the company (Ardiyanto, 2011). In line with the opinion of Hanifah (2013) who says the higher the profitability, the lower the probability of financial distress in company.

4.5. *The Influence of Company Size on Financial Distress*

The results show that company size has negative influence on financial distress. These findings are in line with Wayan and Merkusiwati (2014), company size has negative influence on financial distress, meaning that the greater company size, the smaller company risk having financial distress and vice versa the smaller company size the greater company risk having financial distress. Other research that is conducted by Almila and Kristijadi (2003), Fitdini (2009), and Triwahyuningtias (2012), shows that the larger the company, the more companies are protected from the threat of having financial distress.

Agusti (2013) in her research also states that company size which is measured by using total assets gives negative influence on financial distress, because the greater the total assets which are owned by the company, the more ability to pay off the company obligations in the future, so that the company can avoid financial problems.

4.6. *The Influence of Corporate Governance on Company Value*

The results of the study show that corporate governance has positive influence on company value. This finding is in line with the findings of Report (1994) who finds that in the perspective of agency theory, agents who are risk adverse and who tend to be selfish will allocate resources that do not increase company value. This agency problem will indicate that company value will increase if ordinary business owners

control management behavior so as not to waste company resources, either in the form of improper investment, or in the form of shirking. Corporate governance is a system that regulates and controls companies that are expected to provide and increase the company value to shareholders. Thus, the implementation of corporate governance is believed to increase company value. Report (1994) suggests that effective corporate governance in the long run can significantly increase company value and benefit shareholders.

4.7. The Influence of Profitability on Company Value

The results show that profitability has positive influence on company value. These findings are in line with the study results of Mas'ud (2008), as well as Suharli, (2006), which shows that profitability has positive influence on company value. With good profitability, it will increase company value. Then also in line with the study results of Santika and Kusuma (2002), which shows that profitability has positive influence on company value. Because with increasing profitability, it will increase ROA and ROE which is an example of a proxy of profitability ratio. Hermuningsih (2012) also says the same thing, profitability has positive influence on company value.

4.8. The Influence of Firm Size on Company Value

The results show that firm size has positive influence on company value. These findings are in line with the study results of Mas'ud (2008), of which firm value is positively influenced by firm size. The larger the firm size, the higher the company value and the smaller the company size, the greater the company value. Then also in line with the study results of Hermuningsih (2012), of which firm size has positive and significant influence on company value. Soliha and Taswan (2002) also produce the same thing, company size has positive influence on company value.

4.9. The Influence of Financial Distress on Company Value

The results show that financial distress has significant and negative influence on company value. These findings are in line with the study result of Bastomi (2015) stating that financial distress has negative influence on company value. Financial distress is caused by capital loss resulting in a decrease in financial performance which results in a decrease in company value. The analysis results show that the capital structure cannot explain the indirect relations of financial distress on company value. This happens because the use of capital structure proportion does not cause business risk which will lead to financial distress so that it does not cause the movement of company value as it is indicated by the value of stock prices.

5. Conclusion, Research Limitation and Suggestion

5.1. Conclusion

Based on the description of the results of this study it is thus can be concluded that:

- 1) Corporate governance, profitability and firm size simultaneously influence negatively financial distress on companies in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 2) Corporate governance, profitability, firm size and financial distress simultaneously influence negatively company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 3) Corporate governance influences negatively on financial distress on companies in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 4) Profitability has influence negatively financial distress on companies in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.

- 5) Firm size influences negatively financial distress on companies in sub-sectors of infrastructure, utility, and transportation that are listed in Indonesia Stock Exchange.
- 6) Corporate governance influences company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 7) Profitability influences company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 8) Company size influences company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 9) Financial distress has negatively influenced company value in sub-sectors of infrastructure, utility, and transportation that are listed in Indonesia Stock Exchange.
- 10) A negative Financial distress mediates the influence of Corporate governance to the increasing of company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 11) A negative Financial distress mediates the influence of profitability to the increasing company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.
- 12) A negative Financial distress mediates the influence of company size to the increasing company value in sub-sectors of infrastructure, utilities, and transportation that are listed in Indonesia Stock Exchange.

5.2. Research Limitation

The time of observation which is used in this study is only 5 years. The conclusion drawn was only based on the selected years of observation hence it may not truly reflect the actual phenomenon. Then the company which is studied only in the Sub-Sector of Infrastructure, Utilities, Transportation even though there are still many other companies that are listed in Indonesia Stock Exchange with longer years of observation.

5.3. Suggestions

- 1) The findings of this study imply that all independent variables (corporate governance, profitability, firm size) negatively influence on financial distress, therefore to reduce financial distress it is expected that corporate management to implement strategies or policies to improve corporate governance, to increase profitability and firm size.
- 2) All independent variables (corporate governance, profitability, firm size) have positive influence on company value except financial distress. It is expected that company management needs to pay attention to these variables in order to increase company value.
- 3) Future studies are suggested to not only focus on the Sub-Sector industries of Infrastructure, Utilities, Transportation but also on other companies that listed in Stock Exchange. The incorporation of other variables outside this research model such as return on assets, company size and others may also give more meaningful findings.

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