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The Effect of Corporate Governance Quality on Default Risk of Companies Listed In Indonesia Stock Exchange (IDX) Period 2013-2017

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ABSTRACT : *This study aims to explain the effect of quality corporate governance on the risk of default companies in Indonesia for the period 2013-2017. The quality of Corporate governance in this study is proxied by using quality indicators of the application of corporate governance contained in Horwath Report (2002). The default risk in this study is measured using the calculation of Default risk by the Risk Managament Institute (RMI) NUS. In addition to using the main variables, there are also control variables used in the study namely Profitability, Leverage, Liquidity, Age of the Company and Corporate Size. The object of research is companies listed on the Indonesia Stock Exchange for the period 2013-2017 respectively. This study uses a regression model with three estimates, namely Ordinary Least Square (OLS), Fixed Effect Model (FEM), and Random Effect Model (REM). The results of this study indicate that the measured quality of corporate governance has a significant negative effect on the possibility of company defaults in Indonesia for the period 2013-2017.*

KEYWORDS: *Default Risk, Quality of Corporate Governance, Horwath Report*

I. INTRODUCTION

The Default is a situation where the debtor cannot pay maturing debts and interest to creditors (Downes and Goodman, 2014) [1]. When this condition occurs, the creditor who has "receivables" to the debtor can submit a claim right against the debtor's assets to cover the debt that cannot be paid. Because default is a condition, it is possible that this condition can occur or not. This is also called default risk, which is the risk that creditors will not receive interest and principal at maturity (Downes and Goodman, 2014) [1].

Defaults have many effects on conditions, especially for debtors. Brogaard, Li, & Xia, (2017) state that defaults on a company can disrupt supply chain and productivity [2]. According to Argenti (1976) default cases affect the entire business field as customers become reluctant to buy products, employees lose motivation to work and this can also affect the psychology of managers and business owners [3]. Kwak and Mo (2018) even found that when a company will experience the risk of a high default probability, managers who will retire tend to take action and even engage in corporate pension management to protect the pension they will receive from the possibility of defaulting on the company [4].

Many researchers have observed the risk linkages of default. Vassalou and Xing (2004) in the results of his research stated that default risk has a relationship with the size of book-to-market (BM) companies where BM small companies have a greater default risk compared to BM of large companies [5]. Wang and Chiu (2018) showed in their findings that when there is an increase in debt maturing in the future, the likelihood of default is also greater, especially in the Pacific Basin countries (Australia, South Korea, Malaysia, Singapore and Taiwan) [6]. From these studies it is known that the risk of default affects many or is influenced by various factors. This shows that default risk can affect or be influenced by various types of quantitative and qualitative variables.

Default is a threat to every company. Like the bankruptcy case that happened to OneTel, one of the largest telecommunications companies in Australia in 2001. According to the Monem (2011) study, OneTel that went bankrupt occurred due to a lack of internal governance, including weaknesses in internal structure and processes, audit quality, and board supervision management commissioner[7]. The scandal that befell the company is often associated with the problems of the company's internal governance mechanism so that at that time there were many reforms in existing governance activities (Kang, Cheng, & Gray, 2007) [8].

Defaults in Indonesia are not the last few years. Already many companies that experience default in Indonesia are motivated by various things. As a case of default by Tiga Pilar Sejahtera Food Tbk (AISA) which happened behind the AISA subsidiary related to several problems, fraudulent practices of rice sales carried out by PT Indo Beras Unggul and PT Jatisari Sri Rejeki related to rice cases which disrupted the flow company cash in paying company debts. PT Sunprima Nusantara Pembayaran (SNP Finance, which was declared unable to pay interest on bonds (in this case the medium term notes/MTN) that were due so that it harmed various parties, both investors and banks that became creditors, suspected unsynchronized financial statements between OJK, investors and companies. Financial reports are important matters that are questionable, because in audited financial statements it can be seen that the company can pay off its bond debt. However, in reality what happens is the company fails to pay / default.

Looking at the background of the various default cases that afflict companies other than the companies described earlier, what needs to be outlined is that there are problems in terms of existing governance. Scandals and legal cases affecting the company show that the existence of agency risk that occurs due to differences in responsibilities between the owner of the company and company managers (Agency Theory by Jensen and Meckeling, 1976) [9]. Company managers, in this case managers may not implement good corporate governance that affects company policy. The existence of agency risk results in the emergence of asymmetrical information (Ashbaugh-Skaifea et al., 2006) between the owner and manager of the company so that the owner of the company will have a suspicion of the manager and this will affect the movement of cash flows [10]. According to Ali et al (2018) the possibility of default increases if the cash flow decreases in value or there is an unstable cash flow movement [11]. Ali et al (2018) explained that one of the consequences of information asymmetry is that corporate governance is not properly implemented so that corporate governance can affect the risk of default [11].

In Indonesia, assessment of the implementation of Corporate governance in companies is still very rare. One of them is the one carried out by the Indonesian Institute for Corporate Governance (IICG) which conducted a survey on the implementation of Corporate Governance in Indonesia, which was named the Corporate Governance Perception Index (CGPI). However, the survey was still very little followed by companies because of its volunteer nature, so even though IICG had given an invitation to participate, few companies tried it. In fact, information about corporate governance is very important to find out how much influence corporate governance has on the risks that will be experienced by companies, especially the risk of Default.

Indonesia is a country that is very suitable for researching related corporate governance mechanisms with a risk of default. It has been explained earlier about the relationship between default risk management and following the framework of thinking Ali et al. (2018), that management influences the possibility of defaults from management decisions that affect cash flow so that it also affects company owners, all of which are managed in a mechanism corporate governance or corporate governance [11]. Research in Indonesia regarding the corporate governance mechanism with the possibility of default risk is still not done. Researchers have looked for and have not found direct research related to corporate governance with the risk of default in Indonesia in accordance with the reference study, Ali et al (2018).

There are a lot of research on the effect of corporate governance on other company risks such as bankruptcy and financial distress. Miglani et al., (2010) examined the corporate governance mechanism for financial distress in Australia [12]. Platt & Platt (2012) which examines the composition of the board of commissioners with the risk of corporate bankruptcy [13]. Some of the same studies also deal with CEO duality, that someone who has a position as a board of directors and also a board of commissioners has a lot of influence on the bankruptcy of the company (Daily and Dalton, 1994a, Daily and Dalton, 1994b, Darrat et al., 2016) [14] [15] [16], But still, very rare study have examined the effect of corporate governance on the risk of default.

There are two findings regarding the effect of corporate governance on the risk of default. First proposed by Schultz et al., (2017) which states that there is no influence between corporate governance and the risk of default [17]. Meanwhile, Ali et al. (2018) found that corporate governance had an effect on determining the default risk [11]. What is interesting from the researchers is the difference in results caused by differences in data and methods used so that it influences the results of the study even though it was conducted in the same country.

Schultz et al., (2017) uses data from large capitalized companies, corporate governance variables such as Board Structure, Director and Executive Remuneration, and Ownership Structure, and default risk variables, Probability of Default and Distance to Default [17]. While Ali et al. (2018) uses all company data which is divided into three capitalization categories, small, medium and large, using corporate governance variables, Quality of Corporate Governance and Default Risk Variables, Probability of Default, Distance to Default, and Credit Default Swap [11]. In some previous studies there was also the use of control variables so that the relationship of the dependent and independent variables was not bound by other variables not examined. The variables used in general are profitability, leverage, and liquidity. According to Chen (in Campbell et al. 2008) explains that high profitability, low leverage, and high liquidity will influence in reducing the possibility of default risk faced by the company, so that this variable is used as a control variable [18].

This study uses the same concept of thinking as the research of Ali et al., (2018) by using the Indonesian context. With actual and factual conditions that occur at this time, researchers want to try doing research on the Effect of Quality Corporate Governance on the Risk of Corporate Defaults in Indonesia.

II. LITERATURE REVIEW

2.1 Corporate Governance

The concept of Corporate Governance is closely related to the theories of Jensen and Meckeling. According to Jensen and Meckling (1976), agency relationship is defined as a contract agreement between one or several owners of capital (principal) with other parties who are referred to as managers (agents) to do something for the benefit of the principal [9]. In practice, between owners and managers certainly have their own interests so that conflicts of interest arise. This difference in interests in the agency relationship theory will cause agent problems. This Agency Problem is a complicated problem because if it is not handled it will disrupt the company's performance and can even bring the company on the verge of bankruptcy. For this reason, a method is needed to reduce agency problems which, when viewed from the agency relationship theory, are called agency costs. Thus, agency cost is the amount of monitoring costs incurred by the principal, the amount of the bonding cost incurred by the agent and the amount of the residual lost (Jensen and Meckling, 1976) [9]. Monitoring costs are costs incurred by the owner and usually in the form of incentives given to the manager so that the owner can press and supervise the manager to work in accordance with the wishes of the owner. However, this method certainly will not always be profitable. If the manager can get what he wants is greater than the monitoring costs incurred by the owner then this method will not be optimal. Therefore, a solution is needed so that this problem does not become a burden especially for capital owners. One solution to reduce agency problems is to implement good corporate governance (GCG) practices in a company. This has been proven by empirical research in almost all the world and direct testimony from companies that do it themselves. So it can be concluded that the implementation of GCG can contribute positively to the performance and value of the company in the long run.

Corporate Governance according to the OECD is a system used to direct and control the business activities of the company. Corporate Governance regulates the distribution of rights and obligations of all interested parties in the company and also confirms the provisions and procedures that must be considered in making decisions related to the life of the company. According to Sutojo and Aldrige (2008), the purpose of Corporate Governance is to protect the rights and interests of shareholders and stakeholders who are not shareholders, increase the value of the company and shareholders and improve the effectiveness and quality of work relations Board of directors and company management [19].

There is no definite terminology about corporate governance quality. However, in general if talking about this, what is seen in is the application (best practice) of corporate governance in accordance with regulations made by the company or government regulations where the company is located. According to Beeks and Brown (2006) that the increase in the quality of corporate governance is actually the company is approaching the standards of corporate governance that should be [20]. Lokman et al (2009) explained that companies with high quality corporate governance are defined as companies that have corporate governance standards set by the government [21].

Table 1 Quality Criteria for Corporate Governance According to Horwath Report (2002)

	The most desirable results	**The most unwanted results**
Board (BOD, because Australia adheres to a one-tier system)	• Board with a majority of independent individuals	• The Council in the absence of independent individuals
	• Chairperson who is an independent individual	• Directors who also serve as Chairpersons of the Board
	• Meet at least 6 times a year	• Meet below 6 times a year
Audit Committee	• The existence of committees in company organs	• Do not have a committee
	• All members, including the chairperson, are independent individuals	
	• The committee chairman is not the chairman of the BOD	
	• The committee consists of 3 members including the chairman	
	• The Committee is not the whole of BOD	
	• Meet at least 4 times a year	
Remuneration Committee	• The existence of committees in company organs	• Do not have a committee
	• All members, including the chairperson, are	

	independent individuals • The committee consists of 3 members including the chairman • The Committee is not the whole of BOD	
Nomination Committee	• The existence of committees in company organs • All members, including the chairperson, are independent individuals • The committee consists of 3 members including the chairman • The Committee is not the whole of BOD	• Do not have a committee

Source: Horwath Report, 2002 [22]

The world has a variety of standards about measuring implementation that are the basis of the quality of corporate governance. Like The RoB Index (Bozec, 2010) which aims to see the importance of the effectiveness of the application of corporate governance. Javid and Eghbal Index (2007) look at 22 corporate governance mechanisms, and many other indexes created by researchers. However, the basis of measurement is the basis of the quality of corporate governance from Horwath Report. Horwath Report is a report made by the public accounting firm Horwath in collaboration with The University of Newcastle Australia from researcher Jim Psaros and Michael Seamer, which discusses the implementation of quality corporate governance [22]. This report is based on the principles of implementing corporate governance both in Australia and at the international level such as the Investment and Financial Services Association of Australia (1999), the USA Blue Ribbon Committee Report (1999), the UK Hempel Report (1999), the OECD Report (2001), and the Ramsay Report (2001). This report explains that looking at the quality of corporate governance can be seen from the independence of the council and the committees overseen by the council. In this report, the object of corporate governance quality is the BOD (Board of Director), Audit Committee (Audit Committee), Remuneration Committee (Remuneration Committee), and Nomination Committee [22]. The four objects in this report have their own criteria that are measured to show the quality of the application of corporate governance within the company. These criteria can be seen in Table 1 before.

This criteria is the research criteria used but there is an exception. Because this criteria is a criteria of previous researchers Ali et al (2018) which has the object of research, companies in Australia, which adhere to a one-tier system where the board of commissioners and directors are in the same group [11], which is different in Indonesia which adheres to the system two tier, the object to replace the BOD is the BOC (Board of Commissioner).

2.2 Default Risk

The Default Risk concept has a fairly broad meaning. Default is a condition where the debtor cannot pay on time the interest and principal debt at maturity or when fulfilling some provisions of the bond contract. In the case of defaults, bondholders may submit claims against the bond issuer's assets to recoup their loan principal (Downes and Goodman, 2014) [1]. Meanwhile, default risk is the risk that debt holders (bonds) will not receive interest and pbrincipal at maturity (Downes and Goodman, 2014) [1]. There is a lot of literature that has discussed the default risk relationship.

In measuring default risk can use various proxies such as Z-score (Roy, 1952; Laeven and Levine, 2009) [23][24], five-year CDS spreads (Carlson and Lazrak, 2010; Switzer and Wang, 2013) [25][26], the standard deviation of stock returns (Demsetz et al., 1997) [27], credit ratings (Ashbaugh-Skaife et al., 2006; Liu and Jiraporn, 2010) [10][28], and cumulative default probabilities (Switzer and Wang, 2013) [29]. In this study, researchers used the Probability of default calculation from Duan et al. (2012) which is also called the forward intensity model [30]. This model is used by the Credit Research Initiative (CRI) as a basis for providing information about probability of default. The Credit Research Initiative (CRI) is an institution under the Risk Management Institute (RMI) at the National University of Singapore (NUS). Founded in July 2009 by Professor Duan Jin-Chuan and his assistant Dr. Oliver Chen. CRI positions itself as a credit risk research institute and provides credit analysis to the market. CRI has several data, Probability of Default (PD), Actuarial Spread (AS), and Corporate Vulnerability Index (CVI). These data are updated daily with 68,000 companies studied in various parts of the world. CRI uses scientific methods to make the data needed either as information or research data. The results of the probability of default CRI calculation will be used as research variable data regarding the risk of default.

2.3 Default Risk and Corporate Governance

The company's default risk depends on the company's future cash flow enough to cover its debt. According to Ali et al (2018) the possibility of default risk increases if the company's future cash flows experience a decline in value of movement or the cash flow becomes unstable [11]. According to Jensen and Meckling (1967) in the framework of agency theory explained, in modern companies there is a separation between ownership and control of the company which raises the problem of information asymmetry between management and company owners [9]. In this case, managers have information that is not owned by shareholders. Switzer and Wang (2013) explain that the existence of information asymmetry will create a moral hazard where managers have their own interests and transfer the company's wealth to themselves and sacrifice stakeholders [29]. According to Ashbaugh-Skaifea et al., (2006) the behavior of selfish managers will increase agency risk to shareholders thereby reducing the expected value of future cash flows and causing increased cash flow volatility. Thus, the default risk that occurs will also increase in a company [10].

Ali et al (2018) explained that information asymmetry is one of the results of poor corporate governance [11]. In companies with better corporate governance, managers must be closely monitored, thereby reducing information asymmetry and increasing the effectiveness of managerial decision making. Effective managerial decisions are more likely to increase the expected cash flow and reduce the volatility of cash flows, thereby reducing the possibility of default risk.

III. RESEARCH METHODOLOGY

The research approach used is a quantitative approach. Researchers examine pre-existing theories, the influence of the quality of corporate governance and on the possibility of default risk. This is in accordance with Creswell's (2003) statement, in a quantitative approach, researchers begin research starting with existing theories and then the theory becomes a guideline on research which will then be tested [31]. The theory used by researchers is a theory of corporate governance, in this case the quality of corporate governance and the default risk theory.

The data collection used in this study is the study of literature and the data used in this study is secondary data. The population in this study is all companies listed on the Indonesia Stock Exchange (IDX). While the sample used was taken using a purposive sampling method, which is taking samples according to predetermined criteria. According to Saunders (2009) states that purposive sampling allows the basic use of assessment from researchers in choosing samples in terms of answering research questions and adjusting to the objectives of the research to be achieved [32]. The criteria used in this study refer to previous studies,

- Companies that have reported annual reports to the Indonesia Stock Exchange and Otoritas Jasa Keuangan (OJK) and have been audited starting from 2013 to 2017. This is intended to validate and support data for research variables
- Companies in the financial sector are excluded from the sample. Referring to previous research (Schultz et al., 2017; Ali et al., 2018) [17][11] that issued financial sector companies because they have high leverage characteristics and differ from other companies so that the characteristics of this leverage affect the characteristics of corporate governance and default risk possessed.
- Companies whose new IPOs (Initial Public Offering) from 2013 to 2017 were excluded from the sample due to the type of time series research.

Dependent variable in this study is the default risk (DEFAULT). The proxy that will be used in measuring default risk is the probability of default obtained from the results of the Risk Management Institute (RMI) at the National University of Singapore against the possibility of default risk that occurs in companies throughout the world.

The Independent variable used in this study is the Quality of Corporate Governance (CGQ) as seen from the Corporate Governance Score. Corporate governance Score is a score that researchers made by replicating the same score as used in the study of Ali et al (2018). In Ali et al's research (2018), the scores used used the criteria of the 2008 Horwarth Report which consisted of 17 criteria [11]. Each criteria is rated 1 if what is meant is in the condition of the company and given a value of 0 if it is not in the condition of the company. Total value will be the result of representation of the quality of the implementation of Corporate governance.

In addition to the main variables, this study also uses control variables to control the relationship between independent variables with dependent variables. The control variable used is Profitability seen from Return On Assets (ROA), Leverage (LEV), Liquidity (LIQUID), Firm Age (LN_AGE), Firm Size (LN_SIZE). Chen (in Campbell et al. 2008) explains that high profitability, low leverage, and high liquidity will affect reducing the possibility of default risks faced by the company. The following is a summary of the measurement of each variable used in the study.

Table 2. Variable Definitions

Notation	Variable	Measurement
Dependent Variable: Default Risk (DEFAULT)		
PD	Probablity of Default	Obtain from Risk Managament Institute

Independent Variable: Corporate Governance Quality (CGQ)		
CGQ	Corporate Governance Quality	CGQ Score is based on 17 criteria contained in the Horwarth Report, with a range of 0 to 17 each year.
Control Variables:		
ROA	Profitability	Net income divided by total assets
LEV	*Leverage*	Total Liabilities divided by total assets
LIQUID	Liquidity	Current assets divided by current liabilities
LN_AGE	Corporate Age	Natural logarithm of the age of the company since it was listed on the IDX
LN_SIZE	Corporate Size	Natural logarithms of book value of company assets

Source : Ali et al, 2018 [11]

The research model contained in this study uses a linear regression model. The choice of this model is in line with the research objectives, to see the relationship between the dependent variables, Risk Defaults and independent variables, the quality of Corporate governance. The research model used in this study is as follows:

$$DEFAULT_{it} = \beta_0 + \beta_1\, GCQ_{it} + \beta_2\, ROA_{it} + \beta_3\, LEV_{it} + \beta_4\, LIQUID_{it} + \beta_5\, LN(AGE)_{it} + \beta_6\, LN(SIZE)_{it} + \varepsilon_{it}$$

This study uses three estimators, ordinary least square (OLS), fixed effect model (FEM) and random effect model (REM). This study also uses several tests, hypothesis testing and classical assumption. Hypothesis testing consisting of F test, t test, and quadratic coefficient test. Classic assumption test consisting of autocorrelation test, heterocedasticity test, and multicollinearity test.

Several previous studies have examined the effect of corporate governance on default risk (Schultz et al., 2017; Switzer et al., 2018; Ali et al., 2018) using different corporate governance variables. Schultz et al. (2017) use corporate governance variables : board structure, director and executive remuneration, and ownership structure and default risk variables : probability of default from Merton models [17]. The results showed that the corporate governance variables used were not problematic, except that these variables proved not to have an effect on the company's default risk. Switzer et al. (2018) uses corporate governance variables, institutional holding, insider holding, board independence, board size, and CEO duality and the default risk variable used is probability of default Merton Model and CDS Spread [33]. The results showed that each corporate governance variable used by Switzer et al. (2018) had a different influence on the two default risk variables. Insider ownership, CEO duality, and positive board size are related to the probability of default [33]. While institutional holdings and board size against CDS spreads are robust.

Meanwhile, Ali et al. (2018) conducted a study using the quality variables of corporate governance from measuring quality of corporate governance from Horwath Report and used the default risk variable, distance to default and probability of default (obtained from the Risk Management Institute at the National University of Singapore) [11]. The results of the study indicate that the quality of corporate governance has a significant influence on the possibility of the company being exposed to the risk of default. Referring to the study of Ali et al.(2018), the hypothesis in this study is as follows :

H0: The Quality of Corporate Governance does not have an influence on the possibility of the company's default risk

H1: The Quality of Corporate Governance has an influence on the possibility of the company's default risk

IV. EMPIRICAL RESULT

This research uses objects, 248 companies found on the Indonesia Stock Exchange (IDX) which are seen for 5 years. The first analysis that is seen is descriptive statistical analysis that gives an overview of the average value (mean), middle value (median), maximum value, minimum value and standard deviation of each variable used in the study which consists of the following**:**

Table 3 Descriptive Statistic

	DEFAULT	CGQ	ROA	LEV	LIQUID	LN_AGE_	LN_SIZE_
Mean	48.5448	8.346774	0.038186	0.528881	2.291846	2.540422	28.90944
Median	23.22967	7.000000	0.031219	0.497658	1.317127	2.772589	28.89745
Maximum	1658.188	17.000000	1.907750	8.307725	161.0279	3.688879	33.32018

Minimum	0.000019	3.000000	-1.211000	0.007623	0.009058	0.000000	24.89924
Std. Dev.	94.21211	2.888971	0.130815	0.42452	7.448834	0.706881	1.62595
Observations	1240	1240	1240	1240	1240	1240	1240

Source: data processed by researcher, 2018

From Table 3, we can see the value of descriptive statistics for each variable used in the study. Next is estimating using the three previously mentioned estimators, ordinary least square (OLS), fixed effect model (FEM) and random effect model (REM). By using the model selection test, Chow test, Haussman test, and Langrange Multiplier test, the results obtained are using the fixed effect model (FEM) model. But, before making this result to be analyzed, it is necessary to do a classic assumption test consisting of three tests, autocorrelation test, heterocedasticity test, and multicollinearity test. From the three classic assumption tests, it turns out that this study has two violations of classical assumptions, autocorrelation and heterocedasticity. For this reason, improvements in research are needed when using estimates. The final results of the regression model after improvement are as follows.

Table 4 Regression Test Results

Independent Variable	**Dependent Variable *DEFAULT***			
	Coefficient	Std. Error	t-Statistic	Prob
C	-70.72523	31.71182	-2.230248	0.0260**)
CGQ	-0.696456	0.118946	-5.85525	0.0000*)
ROA	-23.66067	2.935034	-8.061461	0.0000*)
LEV	0.235272	0.244823	0.960987	0.3368
LIQUID	-0.07526	0.064066	-1.17473	0.2404
LN_AGE	8.933853	1.525472	5.856451	0.0000*)
LN_SIZE	3.574576	1.15654	3.09075	0.0021*)
R-squared		0.869839		
Adjusted R-squared		0.836441		
F-statistic		26.04451		
Prob (F-statistic)		0.000000		

Indicate statistical significance= *) 1% & **) 10%

Source : data processed by researcher, 2018

V. DISCUSSION

In this study, we found some explanatory findings. The coefficient of determination seen from R-squared (R2) is 0.869839 or 86.98% which indicates that the testing variables used in the study can explain the dependent variable DEFAULT is 86.98%. The prob value (F-statistic) is 0.000000 so it can be concluded that the hypothesis H0 is rejected and H1 is accepted where the quality of Corporate governance has an influence on the possibility of the risk of company default. And from the t test it can be seen that there are 4 significant variables, the Quality of Corporate Governance (CGQ), Return on Assets (ROA), Age of the Company (LN_AGE), Company Size (LN_SIZE) and two non-significant variables Leverage Ratio (LEV) and Liquidity Ratio (LIQUID).

The regression results indicate that the Corporate Governance Quality (CGQ) variable that uses a scoring system with the indicators used in the Ali et al (2018) has a probability value of 0.0000 and a coefficient of -0.696456 which indicates that this variable is significantly negative for the Default variable [11]. That is, if the Quality of Corporate Governance has increased, then the likelihood of a Default company will decrease by 69.64% in companies in Indonesia from 2013 to 2017. With these results, it will illustrate that the quality of corporate governance has a considerable influence on the possibility of the company experiencing a default

The results of this study indicate similarities with the research of Ali et al (2018) where the Corporate Governance Quality variable used in the study had a significant negative effect on the possibility of default companies in Australia [11]. In this study it was found that an increase of 1 point from Corporate Governance Quality would affect the possibility of the Default company around 4.69%. Of course this value is smaller than the results found by the researchers even though the number of observations in Ali et al (2018) is more than the total observations in this study.

This analysis also shows that H1 is accepted means that where the quality of corporate governance has an influence on the possibility of company defaults in the period 2013 to 2017. The results of this study are also consistent with previous studies such as those conducted by Switzer & Wang (2013) [26] where the better the corporate governance mechanism of the company, it will reduce the agency problems that occur so that it ends in reducing the possibility of default risk.

This can be seen from the condition of corporate governance and the possibility of default risks that occur in Indonesia. When researchers conduct research, there are several findings that researchers get to Indonesian conditions related to the variables used in the study. The condition of corporate corporate governance in Indonesia when viewed by measuring the quality of corporate governance from Howarth Report, researchers found that Indonesian companies still have scores that are still in the midpoint (see table 3), which means corporate governance in Indonesia still has a number of points weakness. The researcher found that the Audit Committee, which is one of the elements of measuring the quality of corporate governance, has been well implemented in accordance with the criteria of Horwath Report (2002). Almost all companies in Indonesia have high scores on the implementation of audit committees that fit the criteria. But indeed the measurement of the Board of Commissioners which is also one of the criteria has the least value for the company. On average, many companies do not have BOC criteria according to the research criteria. Many companies in Indonesia have commissioners who are largely not independent. Many commissioners in Indonesian have relationships with companies (such as ownership, family etc.). However, this does not indicate that the system of the Board of Commissioners is not good because what is seen from this criteria is limited to the independence and composition of the board only (Table 1) and does not cover everything.

VI. CONCLUSION

After conducting this research, there are conclusions in accordance with the established hypothesis that the quality of corporate governance has a significant influence with a negative direction on the possibility of Indonesian companies experiencing defaults from 2013 to 2017. Improving the quality of corporate governance will reduce the possibility of default risk in Indonesian companies listed on the IDX.

VII. SUGGESTION

There are some suggestions from researchers for this study. Seeing the limited assessment of the quality of corporate governance in Indonesia, the suggestion for further research is to use other CGQ measurements so that they are more varied considering the measurements made by researchers are limited to responsibility and independence from the application of corporate governance to companies in Indonesia. Further research can consider including the quality criteria for implementing other corporate governance related such as transparency, responsibility, and reasonableness that have different measurements, but if combined, it will strengthen the quality criteria for implementing a more complex corporate governance.

In addition to further research, this research also provides a view of corporate governance that affects the risk of default to interested parties. For Investors, by looking at the results of this study, investors can consider the use of corporate governance as the basis for investment decisions. For the company, through the results of this study, it can provide information that the corporate governance found in the company can affect the condition of the possibility of default that will be faced by the company. For the government, through OJK, as a regulator, it can begin to apply a quality assessment program for Corporate Governance that is mandatory so that the implementation of Good Corporate Governance is increasingly known by all interested parties and can also find out the closeness of the company to corporate governance.

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