THE EFFECT OF CORPORATE GOVERNANCE AND CEO'S REPUTATION ON FINANCIAL DISTRESS WITH FINANCIAL PERFORMANCE AS A MEDIATION VARIABLE

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ABSTRACT

This study aims to examine and analyze the effect of corporate governance and CEO's reputation onfinancial distress, and to know the effect of financial performance in mediating the relationship between corporate governance and CEO's reputation towardsfinancial distress. The measurement of corporate governance was referred to the Circular Letter of Otoritas Jasa Keuangan (OJK), or Financial Service Authority, 32/SEOJK.04/2015, about the guidance of the corporate governance in listed companies. The measurement of CEO's reputation used the approach by Rajgopal (2006) by utilizing the ability of CEO as a proxy of CEO's reputation. Financial distress was measured by using cash flows, liabilities and losses and financial performance was measured by using return on Asset ratio. Total of 31 and 53 samples of Manufacturing Company respectively in the period of 2016 and 2017 were obtained.They were analyzed by utilizing logistic regression and multiple linear regression with the SPSS program. The results of this study show that CEO's reputation affects financial distress and financial performance, and financial performance also affects financial distress. This study hassuccessfully proved that financial performance is able to fully mediate the influence of CEO's reputation on financial distress, however it fails to mediate the influence of corporate governance on financial distress. This study shows that financial distresshappened caused by the decline on financial performance and good reputation of the CEO will improve financial performance. Besides, good financial performance will overcome the problem of financial distress.

Keywords: Corporate Governance, CEO's Reputation, Financial Performance, Financial distress

BACKGROUND

Every company stands with a hope that it will generate profits so its business can survive and develop for a long term. However, often companies that have been operating for a certain period of time have to be dissolved or liquidated because of financial distress. Financial conditions that continuously to deteriorate will lead to bankruptcy.

Delisting is one of the cases that happened in several companies in Indonesia (Permana, Ahmad and Djaddang, 2017). There are several factors of delisting, the first factor is that the issuers are not overt enough about their companies, hence no investors are interested in investing their money. The second factor is that the issuers violate the regulations in the capital market sector, so the listed companies could be removed from the exchange's lists. That thing happens to the going public companies. The third factor is the poor fundamental performance of issuers which significantly influencesthe business continuity (Hartanto, 2017).

In 2015, Indonesia Stock Exchange forced to delist 3 companies, they were: first, PT. Dovamas Abadi, Tbk (DAVO) due to their conditions that negatively affected the continuity of business, both financially and legally which had no indication of being recovered. The second is PT. Bank Ekonomi Raharja, TBK (BAEK) because it was acquired by HSBC Asia Pacific Holdings (UK) Limited and received substantial financial support, so it did not need funding from the market anymore. Third, PT. Unitex, Tbk (UNTX) due to its operating losses over the last few years which resulted a negative equity in its balance sheet. It caused plummets in its performance and reduced the liquid shares, then finally the company could notdistribute dividends to shareholders anymore.

In 2018, the Indonesia Stock Exchange (IDX) party said that 15 companies which were threatened by forcing delisting, or known as being eliminated the companies from the capital market because they could not maintain the company's going concern or had financial distress (source: www.okezone.com). One of the examples is PT. Indo Beras Utama (PT IBU), a subsidiary of PT. Tiga Pilar Sejahtera Tbk. (TPS) which its share prices dropped up to 85% (source: www.tirto.id) and it was in debt up to 46.12 billion (source: www.cnnindonesia.com) which will be threatened with bankruptcy. IDX then called the management of Tiga Pilar with the threat of being delisted.

Companies which experience financial distress relatively have weaknesses in its corporate governance (Lu and Chang, 2009). The better the corporate governance owned by a company, it is expected to have better performance. Corporate governance is led by a CEO (Chief Executive officer). The success of a company depends on the role of the CEO. Anderson and Smith (2006) built portfolios based on CEO's reputation, and they said that buying shares from a company that has a good CEO's reputation and selling shares fromcompany that has a bad reputation of CEOis a strategy to conduce positive profits. Radbourne (2003) showed that the CEO's reputation is related to the validity of management and the company's financial health.

The company can achieve its targets if its financial performance is good. Khalique et al. (2011) said that the application of good corporate governance can strengthen firm's performance. Recruiting a CEO with a good reputation will help to improve the financial performance (Weng and Chen, 2017). Financial performance is an illustration that the implementation of corporate

governance and the reputation of CEOs in the company are good which will reduce the risk of financial distress. It encourages researchers to make financial performance as a mediating variable, which is expected to clarify the relationship between corporate governance and CEO's reputation onfinancial distress

Researches about corporate governance on financial performance is ever done by Gurdyanto, Titisari and Wijayanti (2019). From their study, they found that board of directors, independent board of commissioners, managerial ownership and institutional ownership do not affect financial performance. However, Istiana, Hasiolan and Fathoni (2018) found that board of directors, board of independent commissioners and institutional ownership have positive effect on financial performance. In contrast, the results from research conducted by Mulyadi (2016) revealed that independent commissioners have a negative effect on financial performance. This inconsistent results is caused by the implementation of corporate governance which is only fulfilling the regulatory requirements thus causing ineffectiveness in the supervisory function in which it should be carried out (Mulyadi, 2016).

Researches on corporate governance on financial distress including by Paramastri and Hadiprajitno (2017) shows a result that institutional ownership does not affect financial distress, in line with the research of Fathonah(2016) who found that institutional ownership, independent board of commissioners negatively affect the financial distress and audit committees positively affect financial distress. In contrast, Munawar (2018) discovered that institutional ownership, independent board of commissioners and audit committees have no effect on financial distress.

The inconsistency results ofthe research about corporate governance towards financial distress can be caused by the lack of serious implementation of corporate governance held by a company and only for a mere formality. This is in accordance with the results of research conducted by Carningsih (2009) that the existence of independent commissioners in a company often only fulfills the applicable provisions. This condition causes the supervisory function that should be done by independent commissioners do not work as expected. The company has practiced corporate governance, but the execution of corporate governance has not been fully executed (Putri and Firdaus, 2018). This condition tends to make corporate governance unable to predict financial distress.

This research provides a view or input for management when experiencing financial distress and gives a solution when financial distress occurs within the company. The research also offers an overview about the importance of corporate governance mechanisms to minimize or avoid the risk of financial distress. Corporate governance is not only become the fulfillment of regulations but if it is applied properly, it will become a solution to improve the performance of the company and avoid the concision of financial distress that possibly or already happens in the company.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

Jensen (1986) proposed free cash flow (FCF) hypotheses, namely managers sometimes do not want to distribute the cash owned by the company to shareholders. The FCF is a company's internal funding source which used depends on the manager's policy. Use here is referred to the payment of dividends, repurchase of company shares (stock repurchase or share repurchase), investment in fixed assets or other assets, acquisitions of other companies, or other policies that theoretically cannot increase the value of the company. Thus, the use of FCF has two possibilities, i.e. in line with or contrary with the wishes of the principal (shareholders and creditors). FCF is a problem since managers often utilize it to expand the company, even though it is not profitable. It happens because managers feel that power and job satisfaction increase with the size of the company. The reasons why managers have such behavior are (1) the existence of cash in the company gives the manager an autonomy power to use the funds, which will be lost if the company obtains it outside funding; (2) increasing the size of the company adds the prestige of the company and manager's salary as well; and (3) the tendency of companies onrewarding the middle managers through promotion rather than bonuses creates a bias towards the growth of the company (Jensen, 1986).

Based on the agency theory, the contractual relationship between the owner and the manager of a company can create a conflict of agency that is caused by the separation of functions and by the difference objectives between the owner and the manager. The separation of such functions often leads to asymmetry of information and gives the manager the opportunity to act opportunistically in order to achieve his personal goals. Therefore, the solution of agency problem is management or good corporate governance (Schauble, 2018).

According to Barney (1991), the success or failure of a company will be largely determined by the strengths and weaknesses that exist within the company, not because of the external environment, with the assumption that heterogeneity of resources within the company and some of the resources within the company are difficult to replicate (Ferreira et al ., 2011). The core of the RBV theory is competitive advantage. The company will be able to achieve competitive advantage which will lead to superior performance when they have unique and difficult resources to be imitated by its competitors, which is then processed through good company capabilities. Reputable human resources indicates that the human resources have a good performance or capabilities. This good performance from the reputable resources can immediately resolve problems such as financial distress and it will overcome the possibility of bankruptcy in a company (When and Chen, 2017).

The Effect of Corporate Governance on Financial Distress

Agency theory explains that managers of a company have more knowledge about company’s financial information. Jensen and Meckling (1986) proposed free cash flow hypotheses (FCF) where the FCF is an internal funding source set by the manager. There are two possibilities that occur in the FCF problems (Abdullah, 2018), namely FCF isparallel and also contrary to the wishes of the principal. Agency problems happen if managers do not use FCF according to principals' desires or when managers act for their own interests.

According to Wardhani (2006), poor corporate governance usually refers to a set of mechanisms that influence the decisions to be made by managers when there is a separation between ownership and control. Some of these controls lie in the functions of the board of directors, institutional ownership, and control of the market mechanism. Decision making by directors, supervision byindependent commissioners, role of creditors in granting credit can affect the possibility of financial distress.
H1: Corporate governance has a negative effect on financial distress

The Effect of CEO's Reputation on Financial Distress
The theory of Resource Based View (RBV) describes human capital, which is an asset of a company that leads to expertise, knowledge, talents and experience possessed by employees or managers in doing work (Fitriyani, 2018). A good CEO's reputation depict the performance of a good CEO (When and Chen, 2017).

The skills of a CEO in an effort to save the company's reputation are inseparable from their understanding of social media that they have used for a long time. The role of the CEO is not only in extending a business, but also a CEO also needs to pay attention to many lines in packing messages in maintaining the company's reputation. A CEO must be able to take appropriate actions, especially in the eyes of social media, to maintain the existence of his company and reduce the risk of financial distress.
H2: CEO's reputation has a negative effect on financial distress

The Effect of Corporate Governance on Financial Performance
One of the corporate governances is a supervisory function. When some of good corporate governancesare implemented, companies tend to have more effective supervisory capabilities. Effective supervision will also minimize the possibility of managers' opportunistic behavior (Mulyadi, 2016). Effective supervision will improve financial performance (Jaya, Zulfikar and Astuti, 2019).

Company's performance is determined by the extent of its seriousness in implementing corporate governance (Darwis, 2009). Theoretically, good corporate governance practices can enhance the company's financial performance. The higher the level of corporate governance in the company will produce good financial performance.
H3: Corporate governance has a positive effect on financial performance

The Effect of CEO's Reputation on Financial Performance
Based on a survey conducted by Weber Shandwick in 2012, 81% of global executives believe that CEO's involvement in a company is a new order to build company's financial performance. CEO in Indonesia or better known as the president director is the highest position in the executive levels who is responsible for all operational activities in the company (source: pride.co.id).Research by Weng and Chen's (2017) shows that the CEO's reputation has a positive impact on financial performance. The role of the CEO seems crucialon achieving good corporate financial performance. A good reputation of CEOreflects the good performance of CEO, which is likely to transmit good performance to their subordinates. Hence, the financial performance of the company that they lead will be good too.
H4: CEO's reputation has a positive effect on financial performance

The Effect of Financial Performance on Financial distress
Financial performance is the net final result of various policies and decisions, where this ratio is used as a measuring instrument of the company's ability to gain profits from every sales dollar (Widarjo and Setawan, 2009). This study measures financial performance by using profitability ratios. specifically return on assets (ROA). High ROA impliesthe efficiency of asset management, which means that the company is able to use their assets to produce profits. The generated profits can cover the company's debt. Large profits exhibit good financial performance of the company. Itdenotes that the higher the profitability ratio, then the company will increasingly avoid the conditions of financial distress (Nugroho, Bridwan and Mardiati, 2018).
H5: Financial performance has a negative effect on financial distress

The Effect of Corporate Governance on Financial Distress through Financial Performance
According to *Otoritas Jasa Keuangan*, or Financial Services Authority (2014), the efforts to supervise the companies in the financial sector can be realized with the practice of corporate governance. With the supervision of corporate governance applied in the company, it is expected that the implementation of corporate governance will be fixed and improved so that it can escalate the company's performance both financially and operationally (Financial Services Authority, 2014). Financial performance is measured by financial ratios, which is one form of essentialaccounting information which is important in the process of evaluating the performance of a company, so it can provide information on the financial condition of a company. Financial distress are the stages of dwindling the company's financial performance (Widarjo and Setiawan, 2009). Therefore, good financial performance will prevent the company from the risk of financial distress.
H6: Corporate governance has a negative effect on financial distress through financial performance

The Effect of CEO's Reputation on Financial Distress through Financial Performance
CEO's reputation is a useful tool to boost up financial performance in a company (Weng and Chen, 2017). The CEO's reputation has a positive impact on the company's financial performance even when the company's reputation is bad. The company's financial health can be reflected in its financial performance ratio (Widarjo and Setiawan, 2009). If the financial performance ratio is high, it means that the company is effective to enforce its business and can elude the risk of financial distress.
H7: CEO's reputation has a negative effect on financial distress through financial performance

RESEARCH METHOD

Population and Sample

The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016 until 2017. The reason of utilizing manufacturing companies is due to the large number of manufacturing companies in Indonesia which experiencing financial distress and the scope of manufacturing companies that are quite large in the IDX. Therefore, they will delineate clearly the influence of corporate governance on financial distress in a large population. The research sample is selected by using a purposive sampling technique. Thecriteria of samplesin this study are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2016 to 2017 without delisting.
2. Companies that use the rupiah currency in annual financial statements, to evade the results that are biased by changes in other currency rates.
3. Companies that disclose the complete data needed by this research such as information on corporate governance, financial distress and the reputation of the CEO.

Resources and Types of Data

The data in this study come from secondary data (secondary data), namely data that already exist and do not need to be collected by researchers (Sekaran and Bougie, 2017). The source of financial data in this study comes from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the company's website.

Operational Definition and The Measurement of Variable

Dependent Variable

The dependent variable is financial distress. Financial distress uses dummy variables with binomial size, specifically (1) if the company has financial distress and zero (0) if the company does not experience financial distress. If the condition of the company fulfills at least one of these conditions, it is given a value of 1 (experiencing financial distress) and if it does not meet at least one condition, it is considered not experiencing financial distress which are then given a value of 0.
According to Damodaran (2014), the company is classified as experiencing financial distress if:

1) The company has a negative cash flow. Itindicates that the company's income from operating activities is unable to cover the company's operating expenses.
2) The company undergoes successive losses. The loss experienced by the company indicates that the company's burden is greater than its income.
3) The company has a debt that is greater than its assets based on the calculation of the debt ratio by comparing total debt with total assets. The smaller the debt ratio value indicates that the company's assets can cover its debt and vice versa.

Independent variable

1. Corporate Governance

Corporate governance refers to the circular letter of the Financial Services Authority number 32/SEOJK.04/2015 regarding guidelines for public corporate governance,with the 8 principles stated in the circular. The corporate governance variable in this study uses a dummy variable. If one predetermined principle has been applied, it is given a value (1) and vice versa, if it has not been applied, it will be given a value (0), which will then be summed and divided by the total existed principle, then made a percentage.

$$\mathbf{CG} = \frac{\textbf{Total number of the applied principles}}{\textbf{number of principles based on circular letter number 32/SEOJK.04/2015}} \mathbf{\ x\ 100\ \%}$$

2. CEO's reputation

This study follows the approach proposed by Rajgopal (2006) to measure the ability of the CEO as a representative of the CEO's reputation. Rajgopal (2006) shows that CEOs with better abilities must enjoy a better reputation. Rajgopal (2006) measures CEO's reputation by using Industry adjusted ROA (IAROA). IAROA evaluates the CEO's performance in the previous 3 years with the difference between the average ROA of the company where the CEO works and the ROA of the industry where the company is classified using the formula:

$$\mathrm{IAROA}_{i,t} = \frac{1}{3}\sum_{k=1}^{3}\left[\mathrm{ROA}_{i,t-k} - \left(\frac{\sum_{j=1}^{N}\mathrm{ROA}_{j.t-k} - \mathrm{ROA}_{i,t-k}}{N-1}\right)\right]$$

$\mathrm{IAROA}_{i,t}$= *industry-adjusted* ROA perusahaan*i*padatahunke*t*
ROAi, t-k = ROA of the company where the CEO works
ROAj, t-k = ROA of the industry average
N = number of companies in the industry

Mediation Variable

The mediating variable in this study is financial performance. The financial performance of company in this study uses profitability ratios. The profitability ratio is measured by return on assets (ROA). ROA is measured by comparing the amount of net income with the total assets of the company.

$$\mathbf{ROA} = \frac{\textit{Earning Before Tax}}{\textit{Total Asset}}$$

METHOD OF DATA ANALYSIS
This study uses regression analysis, they are logistic regression and multiple linear regression KesK = $\alpha_0 + \beta_1 TKP + \beta_2 RC + \varepsilon_t$considering that financial distress are measured by dummy, while equation 2 is done by multiple linear regression tests. Data processing is assisted bysoftware program of IBM SPSS Statistics 24. Regression stages in this study are as follows:
FD = $\alpha_0 + \beta_1 CG + \beta_2 CEOR + \varepsilon_t$ (1)
FP = $\alpha_0 + \beta_3 CG + \beta_4 CEOR + \varepsilon_t$ (2)
FD = $\alpha_0 + \beta_5 FP + \varepsilon_t$ (3)
FD = $\alpha_0 + \beta_6 CG + \beta_7 CEOR + \beta_8 \text{KinK} + \varepsilon_t$ (4)
Description: FD = Financial distress, CG = Corporate Governance, CEOR = CEO's reputation,
FP = Financial Performance

Assessment of the Goodness of Fit Model
Statistically, to assess goodness of fit in multiple linear regression models. it can be done by measuring the coefficient of determination (R^2), statistical value of F and statistical value of t. Whereas for logistic regression, it can be measured with Likelihood L (-2LogL), NagelkerkeR^2, Hosmer and Lemeshow's and Overall Percentage.

1. **Coefficient of Determination (R^2)**

This test is done to find out how much the dependent variable can be explained by an independent variable. The validity of a research's result depends on whether or not the underlying assumptions are fulfilled.

2. **Model Suitability Test (F Test)**

The purpose of the F test is to test the feasibility of a model and the effect of independent variable on the dependent variable. This test is undertaken by using SPSS, and the results can be seen in the ANOVA table. The significance value of ANOVA can be said to be feasible if $\alpha \leq 0.05$.

3. **Hypothesis Test (t test)**

Hypothesis testing is done to find out whether each independent variable has an individual effect on the dependent variable. The results of this test can be seen in the SPSS output, where the significant level used is 0.05 for each independent variable. If the P-value in the Sig column is less than or equal to 0.05, H_1 is accepted and H_0 is rejected, and the other way around.

4. **Likelihood L (-2LogL)**

The Likelihood L model is the probability that the model portrays the inputted data. The SPSS output gives two values of -2LogL which is one for a model that only includes constants and the second model that has entered its independent variable. If there is a downgrading in value from the beginning to the end, it can be deduced that the model is fit with the data.

5. **NagelkerkeR^2 and Overall Percentage**

Nagelkerke $\mathbf{R^2}$ is identicalto $\mathbf{R^2}$ in multiple regression which is performed to ascertain how much the dependent variable can be explicated by the independent variable. While the value in overall percentage represents the accuracy of the model in predicting.

6. **Hosmer and Lemeshow's Goodness of Fit Test**

Hosmer and Lemeshow's Goodness of Fit Test is conducted to test the suitability of the model with data. If the value is equal to or less than 1%, it is concluded that the model is not good because it is unable to predict the value of its observations. Whereas if the value is more than 1% then the model is considered as feasible.

Mediation Effect Testing
If the influence of the independent variable on the dependent variable decreases, but still differs from 0 after controlling the mediator variable, it can be classified as partial mediation. Baron & Kenny (1986) defined the related provisions in the mediational hypothesis test known as causal step. In testing with causal step, we estimate three regression equations as follows:
M = i1 + aX + e1
Y = i2 + cX + e2
Y = i3 + c'X + bM + e3
Description: i = intercept coefficient, M = mediating variable

RESULT

Table 1: Descriptive Statistics Test Results

Variable	Minimum	Maksimum	Mean	Standard Deviatioin
Corporate Governance (GC)	60	100	89,4286	8,27580
CEO's Reputation (CEOR)	-64,88	25,04	1,1937	9,54860
Financial Performance (FP)	-180,38	70,91	3,8698	26,50795
Financial distress (FD)	0	1	02857	0,45447

The results of the descriptive analysis is shown in table 1. The results acquire that the average corporate governance measured by percentage based on the circular letter of Financial Services Authority No. 32 of 2015 amounting to 89.4286 with a maximum value of 100 and a minimum of 60 with a standard deviation of 8.27580. This indicates that the portion of corporate governance is terrific. The average value of a CEO's reputation as quantified by the average distribution between company ROA and industry ROA is 1.1937 with a maximum value of 25.04 and a minimum of -64.88. It shows that companies in Indonesia have a large deviation, because the standard deviation of 9.54860 is greater than the average value, hence it can be said that the company's

reputation data is deficient. The average value of financial performance measured by ROA or profitability ratio is 3.8698 yet the standard deviation is 26.50795 with a maximum value of 70.91 and a minimum of -180.38. Itdemonstrates that financial performance data is lamesince the data areextremely diverse. Financial distress that use dummy and are calculated based on three indicators viz. negative cash flow, losses experienced successively and the amount of debt,its maximum value is 1 and the minimum is 0. This points out that 24 companies in the sample experienced financial distress.

Hypothesis Testing Results

Table 2: Model Regression Test Results

Model	Variable	Coefficient	Significance	T	Adj R^2	Hosmer and Lemeshow's	Nagelkerke R^2	Classification Plot
Model 1						0,481	0,606	88,1
	Corporate Governance	-0,108	0,016					
	CEO's Reputation	-0,737	0,000					
Model 2					0,998			
	Corporate Governance	-0,019	0,188	1,329				
	CEO's Reputation	2,776	0,000	228,871				
Model 3						0,643	0,539	82,1
	Financial Performance	- 0,257	0,000					
Model 4						98,2	0,615	88,1
	Corporate Governance	-0,112	0,014					
	CEO's Reputation	0,271	0,796					
	Financial Performance	-0,384	0,339					

The regression results of hypothesis 1 indicate that corporate governance has a regression coefficient of -0.108 and a probability value of 0.016 (greater than 5%) which means significant. Then it can be concluded that H_1 is supported, namely corporate governance has a negative effect on financial distress. Furthermore, the results of the hypothesis 2 regression imply that the CEO's reputation has a regression coefficient of -0.737 and a probability value of 0.000 (less than 5%). So it can be terminated that H2 is supported, that is, the CEO's reputation has a negative effect on financial distress. The results of hypothesis 3 regression display that corporate governance has a regression coefficient of -0.019 and a probability value of 0.188 (greater than 5%) which means that it is not statistically significant. Then it proves that H_3 is not supported, that is, corporate governance has no effect on financial performance. The results of hypothesis 4 regression reveal the CEO's reputation has a regression coefficient of 2.776 and a probability value of 0.000 (smaller than 5%) which means statistically significant. So it confirms that H4 is supported, in particularthe reputation of the CEO has a positive effect on financial performance. The regression results of hypothesis 5 exhibit financial performance has a regression coefficient of -0.257 and a probability value of 0,000 (smaller than 5%) which means statistically significant. Then it can be determined that H_5 is supported, particularly financial performance has a negative effect on financial distress.

Based on table 2, it can be stacked up that H_6 is not supported while H_7 is supported, expressly, corporate governance has no effect on financial distress through financial performance while the CEO's reputation can fully mediate the influence of CEO's reputation and financial distress.

DISCUSSION

H_1: The results of the first hypothesis provethat corporate governance has negative effect on financial distress, so the basis of agency theory regarding free cash flow hypotheses (FCF) is supported. The results of this study support the research of Paramastri and Hadiprajitno (2017) and Fathonah (2016) who stated that corporate governance has a negative effect on financial distress. The better the corporate governance can reduce the likelihood of financial distress because based on agency theory, especially agency problems when manager acts for their own interests is minimum.

H_2: The results of the second hypothesis test show that the CEO's reputation and financial distress has a negative effect. Based on this, this hypothesis supports the theory of RBV related to human capital in the company is crucial. Expertise, knowledge, talent and experience possessed by employees or managers in doing work will prevent the company from the problem of financial

distress. The RBV theory also explains resources and capabilities become the competitive advantage compared to the competing companies. A good CEO is able to strategize well for example determining company's goals, planning, organizing and monitoring.

H_3: The results the third hypothesis indicate that corporate governance has no effect on financial performance. The results of this study support the study of Anton (2012) whoclaimed that good corporate governance management will have long term benefits and thus the impact cannot be seen directly. Furthermore, the reason why many companies still apply the principles of corporate governance is only because of regulatory incentives and not yet utilized to the extent of supporting the performance of the company. A weak bureaucratic system in Indonesia further supports the lack of seriousness of the company in implementing good corporate governance.

H4: The results of testing the fourth hypothesis exhibit the CEO's reputation has a positive effect on financial performance. This supports the RBV theory that good human capital can formulate a strategy well so that later it will have an impact on the company's performance. The CEO's reputation for financial performance has a positive effect because the better the performance or performance of a CEO is able to produce a high financial performance. The positive influence between CEO's reputation and financial performance supports the research conducted by Weng and Chen (2017) explaining the very high influence of CEOs on financial performance, where CEOs whose have good skills are able to improve the company's financial performance because The CEO is able to represent non-financial information in the form of skills, experience and important social connections. This is in accordance with the RBV theory which states that the company's income can be above normal if it has far better resources, one of which is human resources (longo and Mura, 2007). Li, Xie, and Zhou (2010) found that recruiting a star CEO for a company can encourage positive reactions from the market.

H_5: The results of testing the fifth hypothesis stipulate a negative influence of financial performance towardsfinancial distress. The results of this study support the research of Widarjo and Setiawan (2009). This study uses the ROA ratio for measuring financial performance. This shows the efficiency and effectiveness of the use of company assets because this ratio measures the company's ability to generate profits based on the use of assets (Widarjo and Setiawan, 2009). With the effectiveness of the use of assets it will reduce the costs incurred by the company, so the company will collect savings and will have sufficient funds to run the business. In that way, the possibility of companies to experiencefinancial distress will be smaller.

H_6: The results of testing the sixth hypothesis indicate that corporate governance has no effect on financial distress through financial performance. It does not support that the supervisory function in corporate governance in which can improve the company's financial performance. Anton (2012) said that in fact many of companies has already implemented corporate governance but it's not fully aimed at supporting the company's financial performance yet. Implementing corporate governance that cannot be utilized as an excuse that the companies encounterfinancial distress, even though financial performance is significant to financial distress which indicates that financial distress occur due tothe slumps in financial performance. These results also indicate that financial performance does not mediate the influence of corporate governance on financial distress.

H7: The results of testing the seventh hypothesis procures that the condition of financial distress is the process of diminishing financial performance and the reputation of a good CEO will overcome the problem of financial distress so that financial performance increases. Based on the results of this study, financial performance fully mediates the effect of CEO's reputation on financial distress. When and Chen (2017) saidthat the reputation of a good CEO will generate positive profits and willenhance the financial performance. By inflating the financial performance, it will copethe problems of financial distress.

CONCLUSION

Samples is obtained by using purposive sampling method. Total of 31 companies were collected in 2016 and 53 companies in 2017 which were then tested by utilizing logistic regression and multiple linear regression. The results of this study successfully prove the influence of CEO reputation on financial distress through financial performance. It means that the condition of financial distress which experienced by the company will be overcame when the company has a reputable CEO who will improve the company's financial performance. When a company is predicted to experience financial distress, one of its strategies is to recruit a reputable CEO, which enables on enhancingfinancial performance, thereby the company will be spared fromthefinancial distress.

This study isalso able to disclose the influence of financial performance on financial distress. It means that the problem of financial distress that ensued in the company is caused by the plummets in the financial performance of the company. This research proves that financial performance successfully becomesa mediator of CEO's reputation on financial distress. Thus this study reveals that a good CEO reputation is one of theways to boost the company's financial performance and financial performance will increase as well, henceforth the problem of financial distress will be resolved. However, the results of this study fails to prove the influence of corporate governance on financial distress through financial performance. It means that poor corporate governance will not necessarily reduce the company's financial performance, and it is the reason that causesfinancial distress.

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