

Corporate Governance and Leverage on Financial Distress in the Indonesia Stock Exchange

Owen Tamashi Go^{1*}, Liliana Inggrit Wijaya^{2*} and Werner Ria Muhardi^{3#}

*University of Surabaya
Faculty of Business and Economics
E-mail: liliana@staff.ubaya.ac.id

Abstract

By developing a bankruptcy model with data from non-financial sector businesses registered on IDX for the years 2017–2021, this research seeks to explore the impact of good corporate governance and leverage. A quantitative method with a logistic regression model was applied. The final sample contained of 349 firms from the non-financial sector, with 1745 observations. According to the findings, leverage, institutional ownership, and board size are variables that the model takes into account. Meanwhile, managerial ownership, independent commissioner, firm size, and firm growth have no significant effect to financial distress. Although not all variables included in the model are significant to financial distress, insignificant variables are still present to improve the prediction model's accuracy. The findings revealed that this destruction model was 75.6% accurate.

Keywords: leverage, good corporate governance, financial distress

1. Introduction

In today's age of globalization, developments in technology and information are developing very rapidly, driving change and increasing competition in the business world. Another factor causing intense competition in the business world is also caused by the free trade era, which began on January 1, 2010, marked by the enactment of the ACFTA (Free Trade Area), ASEAN China) and AFTA (ASEAN Free Trade Area). With the enactment of the agreement, competition does not only occur between domestic companies but also between global companies. Intense competition forces companies to innovate in all aspects of their business, ultimately resulting in higher costs. If the business is not competitive, it will affect business performance, which sooner or later will cause the business to face financial distress and eventually go bankrupt.

Financial issues arise when a corporation is unable to pay all or a portion of its obligations by the due date (Kistini & Nahumury, 2014). A company's bankruptcy can cause losses for employees, investors, and the national economy (Al-Khatib & Al-Horani, 2012; Hertati et al, 2020; Sendur, 2023). Given the impact caused when a company goes bankrupt, it is important to examine the state of its financial issues in order for management to make the appropriate financial decisions and strategies.

conditions of the company. The company's internal factors include indicators in financial ratios. Meanwhile, the company's external factors are good corporate governance (GCG) (Cinantya & Merkusiwati, 2015). Thus, this study is here to answer the importance of leverage and GCG, because it can directly affect financial distress. Leverage is one of the financial ratios that can be used to estimate financial distress. Leverage arising from business activities that use third-party funds as debt, if not offset with income, will cause possible financial distress. Low GCG will have an impact on the sustainability of business unit performance, which will also affect the financial position and cause financial distress.

Financial ratios indicators are part of internal factor of the firm. Meanwhile Good Corporate Governance is one of the company's external factor (GCG) (Cinantya & Merkusiwati, 2015). Therefore, addressing the issue of leverage and GCG is critical since it may have a direct impact on financial distress. This research builds on prior research that used financial ratios or good corporate governance in projecting financial crisis (see Table I).

Financial distress can arise from internal and external

TABLE I
RESEARCH RESULTS ON THE EFFECT OF FINANCIAL RATIOS AND
GOOD CORPORATE GOVERNANCE ON FINANCIAL DISTRESS

Independent Variable	(Younas, UdDin, Awan, & Khan, 2021)	(Khurshid, Sabir, Tahir, & Abrar, 2019)	(Ernawati, Handoyo, & Murhadi, 2018)	(Dianova & Nahumury, 2019)
Cash Ratio	-	-	-	Insig (-)
Current ratio	-	-	-	Insig (-)
EB/TA	-	-	Sig (-)	-
Leverage	Sig (-)	Sig (-)	Sig (+)	Insig (-)
CL/TA	-	-	Insig (+)	-
Asset turnover	-	-	Sig (-)	-
BV/MV	-	-	Sig (+)	-
Managerial Ownership	-	Sig (+)	Sig (-)	Insig (-)
Institutional Ownership	Sig (+)	Sig (+)	-	Insig (-)
Independent Commissioner	-	Sig (+)	-	Insig (-)
Board Size	Sig (-)	Sig (+)	-	-
Audit Opinion	-	-	Insig (-)	-
Insider Directors	-	Sig (-)	-	-
CEO Duality	-	-	-	-
Blockholder Ownership	Sig (-)	-	Sig (+)	-
Family Ownership	Sig (-)	-	-	-
Individual Ownership	-	Sig (-)	-	-
Control Variable	-	-	-	-
Firm Size	Sig (+)	Sig (-)	-	-
Firm Growth	Sig (+)	-	-	-

Based on (Younas et al., 2021), (Khurshid et al., 2019), (Ernawati et al., 2018), and (Dianova & Nahumury, 2019), It was found that there was a difference in the results of the influence of leverage variables and corporate governance on financial distress. Therefore, the focus of this study is filled several research gaps were found that met the criteria, namely leverage and corporate governance variables that are ownership institutional, managerial ownership, independent commissioners, and board size. Company size and growth are used as control variables, while the dependent variable applied is financial distress. The current research, financial distress are investigated using Z-score model build by (Younas et al., 2021), where the company is in a safe condition with a value when $Z (>) 1.81$ which is marked with the number "1" and a condition of financial distress with a value $Z (<) 1.81$ marked with the number "0".

2. Research Methods

Because this study entails testing, modifying, and developing theories as well as previous studies, it is considered as basic research. This study includes as a

causal study that examines the causative relationship among leverage, managerial ownership, institutional ownership, board size, firm size, and firm growth under financial distress (see Figure 1). This study is also quantitative in the sense that it can be quantified, and all data utilized to support research findings is quantitative.

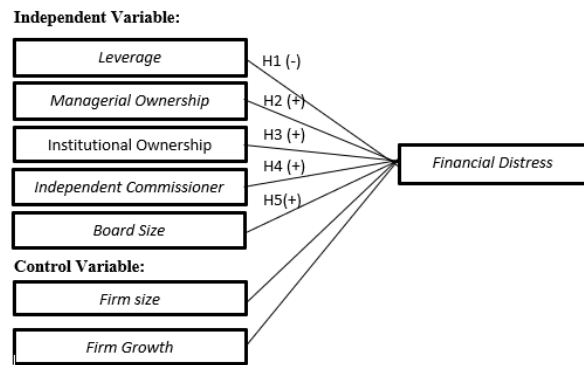


Figure 1: Research Framework

Hypothesis Development:

Effect of *Leverage* on Financial Distress (H1):

Sourced from research by Younas et al., (2021) which shows that leverage has a significant negative influence on financial distress. The argument is that the higher the total debt, the higher the chance of the company to experience financial distress because the risk of debt default also increases. Udin et al., (2017) explained that leverage can reduce profitability due to implied interest costs and increase the risk of financial hardship.

H1: *leverage* has a negative influence on financial distress

Effect of *Managerial Ownership* on Financial Distress (H2)

Based on the research of Khurshid et al., (2019) showed that there was a significant positive influence on the variable of managerial ownership on financial distress. Jensen & Meckling, (1976) explained that conflicts between shareholders and managers occur because managers have a tendency to distribute the company's resources to their individual needs. The existence of managerial ownership can help reduce problems between the interests of managers and investors to reduce agency costs and minimize the possibility of financial distress (Jensen, 1993).

H2: Managerial ownership has a positive influence on financial distress

Effect of *Institutional Ownership* on Financial Distress (H3)

Based on the research of Khurshid et al., (2019) shows that there is a significant positive influence on the variable of institutional ownership on financial

difficulties. Companies can reduce the problem of agency theory between owners and managers through institutional ownership and other corporate governance mechanisms. Greater institutional ownership allows for more efficient use of the company's assets, thereby minimizing potential financial problems. Financial difficulties can be avoided because the institution can supervise the management in carrying out operational activities (Cinantya et al., 2015). Parulian, (2012) in Cinantya et al., (2015) stated that the existence of institutional ownership allows management to better supervise the company's operational activities to avoid financial difficulties.

H3: Institutional ownership has a positive effect on financial distress

The Effect of Independent Commissioners on Financial Distress (H4)

Based on the research of Khurshid et al., (2019) showed that there is a significant positive influence of independent commissioners on financial difficulties. With the existence of an independent commissioner, it is hoped that it can avoid conflicts between agents and principals that occur due to Asymmetric Information. The large number of independent commissioners will make the company achieve better corporate governance. Hanifah and Purwanto, (2013) stated that the potential for financial difficulties will be smaller when the number of independent commissioners in a company increases, this is because there are independent parties who can supervise the implementation of company management.

H4: Independent commissioners have a positive influence on financial distress

Effect of Board Size on Financial Distress (H5)

Based on the research of Khurshid et al., (2019) showed that there was a significant positive influence of board size on financial distress. According to Jackling and Johl, (2009) the size of the board is an important determinant of the effectiveness of corporate governance. Larger board sizes are expected to have skills, knowledge, and expertise that in turn can contribute to the role of monitoring and servicing the company (Corbetta and Salvato, 2004). In addition, a large board size can counteract the influence of the CEO (De Maere et al., 2014). As per the agency's theory, which supports that a larger board of directors can increase their disciplinary control over the CEO.

H5: Board size has a positive influence on financial distress

Dependent Variable

To quantify the dependent variable, the Altman Z-Score model is employed and a result of Z (>) 1.81 indicates that the firm is in a secure situation, which is marked with the number "1" and a condition of financial distress with a value of Z (<) 1.81 which is marked with the number "0". With the following formula:

$$Z\text{-Score}_{it} = 1.2 X1_{it} + 1.4 X2_{it} + 3.3 X3_{it} + 0.6 X4_{it} + X5_{it} \quad (1)$$

X1 = Net working capital / Total assets

X2 = Retained earnings / Total assets

X3 = EBIT / Total assets

X4 = Market value to equity / Book value to total liabilities

X5 = Sales / Total assets

I = Company (i)

t = To time (t)

Independent Variable

Leverage

Leverage is an alternate finance method that is frequently applied by corporations to carry out operational activities in non-financial sector companies listed on IDX from 2017 to 2021. Using the formula below:

$$DAR_{it} = \frac{\text{Total Debt}_{it}}{\text{Total Asset}_{it}} \quad (2)$$

Managerial Ownership

Managerial ownership is defined as the proportion of company ownership held by management in non-financial sector companies registered on IDX from 2017 to 2021. Using the formula below:

$$KM_{it} = \frac{\text{number of shares owned by the management}}{\text{number of shares outstanding}} \quad (3)$$

Institutional Ownership

Institutional ownership was interpreted as the percentage of share ownership owned by institutions such as insurance companies, pension funds, mutual funds, banks, or legal entities in non-financial sector companies registered on IDX for the years 2017 through 2021. Using the following formula:

$$KI_{it} = \frac{\text{number of shares owned by the institution}_{it}}{\text{number of shares outstanding}_{it}} \quad (4)$$

Independent Commissioner

In non-financial sector firms registered on IDX for the 2017–2021, independent commissioners are from external parties who are separate from members of the board of directors, stakeholders, and major shareholders.

$$KN_{it} = \frac{\text{number of independent commissioner}_{it}}{\text{number of commissioner}_{it}} \quad (5)$$

Board Size

Board size is the number of commissioners in non-

financial sector companies listed on IDX from 2017 to 2021. Using the formula below:

$$BS_{it} = \sum \text{Board of Commissioner}_{it} \quad (6)$$

Control Variable

Firm Size

Company size is quantified by the size of the company's total assets in non-financial sector companies registered on IDX for the 2017-2021. Using the formula below:

$$FS_{it} = \text{Ln}(\text{Total Asset})_{it} \quad (7)$$

Firm Growth

Firm growth is a scale determined by revenue growth from time to time in non-financial sector companies registered on IDX for the 2017-2021. Using the formula below:

$$FG_{it} = \frac{\text{Sales}_{(t)} - \text{Sales}_{(t-1)}}{\text{Sales}_{(t-1)}} \quad (8)$$

3. Result and Discussions

This study included 1745 observations in non-financial organizations, with four independent variables, namely leverage, managerial ownership, institutional ownership, independent commissioner, and board size, and two control variables, firm size and firm growth. The descriptive data of the study are discovered in Table II.

TABLE II

DESCRIPTIVE STATISTICS

	N	Min	Max	Mean	Std. Deviation
FD	1745	0	1	,62	,485
LEV	1745	,00	,99	,4519	,20970
MAN_OW N	1745	,00	,87	,0462	,12531
INS_OWN	1745	,00	1,00	,6403	,24951
KOM_IND	1745	,17	1,00	,4058	,10295
BS	1745	2	17	4,22	1,873
FS	1745	20,34	33,54	28,8466	1,71509
FG	1745	-2,43	8,57	,1082	,62422
Valid N (listwise)	1745				

Source: Data processing with SPSS 24 for Windows.

Multivariate Discriminant Analysis Test Results

TABLE III

TEST OF EQUALITY OF GROUP MEANS

	Wilks' Lambda	F	df1	df2	Sig.
LEV	,712	703,620	1	1743	,000

MAN_OWN	1,000	,516	1	1743	,472
INS_OWN	,983	30,211	1	1743	,000
KOM_IND	1,000	,159	1	1743	,690
BS	,999	1,497	1	1743	,221
FS	,992	13,732	1	1743	,000
FG	1,000	,320	1	1743	,571

TABLE IV

BOX'S TEST OF EQUALITY OF COVARIANCE MATRICES

FD	Rank	Log Determinant
Distress	7	-13,734
Non Distress	7	-14,651
Pooled within-groups	7	-14,202
Test Results		
Box's M		182,326
F	Approx.	6,482
	df1	28
	df2	6760664,133
	Sig.	,000

Source: Data processing with SPSS 24 for Windows

The discriminant analysis assumes that the variance between the independent variables in each group is the same and between the independent variables must also be the same. Therefore, the group covariances matrices should be the same. If the significance is <0.05%, then the assumption is unmet. Meanwhile, the assumptions can be met if the significance is > 0.05%.

From Table IV on the test results, the significance is below 0.05, so the data does not meet discriminant analysis because the group covariances matrices are relatively unequal. Then the most different variables were removed gradually, but the data still did not meet the discriminant analysis. Therefore, this study uses logistic regression to create a predictive model.

Logistic Regression Test Results

Nagelkerke's R Square value in Table 6 is 0.405, indicating that the independent factors in the research model explain 40.5% of the dependent variable and other independent variables outside the model explain the remaining 59.5%. When the findings of -2 log likelihood are compared between Blocks 0 and 1, it is clear that -2 Log L in Block 0 is bigger than that of Block 1. This signifies that the model employed fits the data. The chi-square value is 12.570, with a 0.128 significance level. Based on these findings, it is possible to conclude that the regression model in research is feasible. This is due to the fact that the significant result obtained from the Hosmer and Lemeshow tests is more than 0.05 or 5% (see Table VII).

TABLE V
CASE PROCESSING SUMMARY

Unweighted Cases ^a		N	Percent
Selected Cases	Included in Analysis	1745	100,0
	Missing Cases	0	0,0
	Total	1745	100,0
Unselected Cases		0	0,0
Total		1745	100,0
-2 Log likelihood			Value
Block 0			2310,555
Block 1			1695,440

TABLE VI

NAGELKERKE'S R SQUARE VALUE

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	1695,440 ^a	,297	,405

Source: Data processing with SPSS 24 for Windows

TABLE VII

HOSMER AND LEMESHOW TEST

Step	Chi-square	df	Sig.
1	12,570	8	,128

Source: Data processing with SPSS 24 for Windows

TABLE VIII

ACCURATION OF CLASSIFICASSION TEST

Observed	Predicted	FD		Percentage Correct
		Distress	Non Distress	
		FD	Distress	404
	Non Distress	174	915	84,0
	Overall Percentage			75,6

The Wald test is used in this study to evaluate hypotheses by examining the value of its significance and the value of the beta coefficient (β). The Wald test significant value may be used to measure the level of significance of the independent variable's influence on the dependent variable. While the beta value will be a parameter in the research model, the outcomes of hypothesis testing are displayed in Table IX.

TABLE IX

HYPOTHESIS TESTING RESULTS

Variable	Coefficient	Significant
LEV	-7,224	,000
MAN_OWN	,778	,132
INS_OWN	1,391	,000
KOM_IND	,620	,287
BS	,133	,000
FS	-,020	,033
FG	,160	,640
Constant	2,837	,018

Source: Data processing with SPSS 24 for Windows

The outcomes of the logistic regression model in this study may be retrieved from the results of hypothesis testing as follows:

$$\ln \left[\frac{P(FD)}{1-P(FD)} \right] = 2,837 - 7,224 \text{DAR} + 1,391 \text{INS_OWN} + 0,133 \text{BS} \quad (11)$$

LN = Natural Logarithm

P = Probability

e = Real number constant whose value is close to 2,71828

LEV = Leverage

INS_OWN = Institutional Ownership

BS = Board Size

Based on the classification accuracy test results in the table above, the correct data is found on the table's diagonal. The classification accuracy test findings in this study were interpreted as follows: the samples that did not suffer bankruptcy (non-distress) were 915 companies from 1089 companies, and the samples that did experience bankruptcy (distress) were 404 companies from 656 companies. Thus, overall the estimated accuracy or accuracy of the classification in the research model is 75.6%. The classification rate achieved much above 50%, indicating that the model has good predictive validity.

Results of the Effect of Leverage Variables on Financial Distress

Leverage is calculated from the ratio of total liabilities divided by the company's total assets. The findings indicate that leverage has significantly and negatively affect financial issues, with a significance of 0.000. The lower the ratio, the lower the likelihood of financial issues. The findings support the basic premise that leverage has significantly and negatively affect financial distress. This study's findings are also similar with the findings of (Younas et al., 2021) and (Khurshid et al., 2019), who revealed a significant negative relationship between leverage and financial distress.

Leverage is a proxy for the financial risk that describes a business entity using debt as a funding source to finance its assets. The bigger the amount of debt a corporation has, the greater the likelihood of financial issues and bankruptcy. This is because companies with high loan rates will be pressured to pay high interest and liabilities to reduce profitability (Alifiah, Salamudin, & Ahmad, 2013). When this condition cannot be overcome with adequate company income, it rises the risk of default and causes financial distress for the company.

Results of the Influence of Institutional Ownership Variables on Financial Distress

The findings for the institutional ownership follow the initial hypothesis: institutional ownership has significantly and positively affected financial distress. The findings reveal that institutional ownership has a

significant positive influence on financial distress, with a significance of 0.000. The larger the institutional ownership, the less likely financial troubles are. The findings of this study are also aligned by the findings of (Younas et al., 2021) and (Khurshid et al., 2019), who discovered that institutional ownership has a significant positive influence on financial distress.

Institutional ownership measures the equity held by legal entities or financial institutions, including insurance companies, pension funds, banks, etc. Ownership of larger institutions can reduce agency conflicts that occur within the company. This is due to the fact that institutional shareholders might become management supervisors in carrying out the firm's operational activities so that shareholders or the company itself are not harmed (Cinantya & Merkusiwati, 2015). As a result, institutional ownership is able to convince management to determine that it is by business goals and can prevent management fraud or opportunistic behavior.

Results of Effect of Board Size Variable on Financial Distress

The initial hypothesis is supported by the study findings for the board size variable. In particular, the size of the board has significantly and positively affected financial distress. The findings of this study reveal that board size has significantly and positively affect financial distress, with a significance of 0.000. The larger the board size, the less likely financial crisis will occur. These findings are corroborated by (Younas et al., 2021), which discovered a significant and positive association between board size and financial distress.

In the current research, board size (BS) is measured by the number of members of the company's board of commissioners. The size of the board is critical in defining the company's management and performance quality (Mariano, Izadi, & Pratt, 2021). This is due to the board of commissioners' position as a supervisor of the company's management. In order to lessen agency conflicts and information asymmetries that exist inside the corporation, a board of commissioners must exist. A large board size will also generally have diverse skills, knowledge, and expertise, which in turn can contribute to a monitoring and service role to the company.

Results of the Influence of Independent Commissioner Variables on Financial Distress

The independent commissioner variable research results do not support the initial premise; the independent commissioner has a major impact on financial suffering. The findings of this study demonstrate that the independent commissioner has

no significant positive influence on financial troubles, with a significance of 0.238. This explains why a corporation with numerous or at least independent commissioners cannot cover the likelihood of financial issues. These findings contradict (Khurshid et al., 2019), which found that independent commissioners had a significant positive influence on financial distress.

Independent commissioners (KOM_IND) are from external parties unrelated to board of director's members. The IDX has regulated the existence of independent commissioners in Indonesia through the BEJ Regulation of July 1, 2000. According to the rule, a registered corporation must have at least 30% of the total number of independent commissioners from all members of the board of commissioners. As consequence, the number of independent commissioners in the corporation is restricted to complying with existing regulations, which has no effect on financial issues (Pandapotan & Puspitasari, 2022). The independent commissioner does not affect financial distress because no accounting background can affect the supervision of financial statements. The independent commissioner also holds positions in other public companies, so his work is focused on something other than accompanying the company (Joshua & Ary, 2019).

Results of the Effect of Managerial Ownership Variables on Financial Distress

The research findings for the management ownership variable contradict the initial hypothesis, which stated that managerial ownership had a major impact on financial distress. The findings suggest that with a significance of 0.125, management ownership has no significant positive influence on financial distress. This explains why a large or at least management ownership in a corporation cannot protect against the likelihood of financial issues. These findings contradict (Khurshid et al., 2019), which found that independent commissioners has significantly and positively affect financial distress.

Managerial ownership (MAN_OW) is the proportion of company shares owned by commissioners and directors compared to percentage of total company shares. The descriptive table shows that the average managerial ownership in the 1745 sample data has a value of only 4.62%. This proves that the industry in Indonesia still needs to implement the policy of owning company shares for management. In addition, the company also sometimes gives bonuses to management in the form of MSOP (management stock option plan), which are relatively limited in number. (Kusumaningrum & Kurnia, 2022) argues that managerial ownership is connected to management's ability to manage the company's financial performance as well as the quantity of share ownership held by management.

Results of the Effect of Firm Size Variable on Financial Distress

The natural logarithm of a company's total assets is utilized to calculate its size (FS). The findings revealed that firm size had no significant negative influence on financial distress, with a significance of 0.640. This explains why a company's scale cannot compensate for the likelihood of financial issues. These findings contradict Younas et al. (Younas et al., 2021), who discovered that the size of a corporation had a strong positive influence on financial distress.

Company size is determined by total assets, total sales, total earnings, tax costs, and other factors (Brigham & Houston, 2001). Companies with significant assets are inseparable from the danger of financial issues arising from economic risk, hence firm size has no influence on financial troubles (Putri & Ardini, 2020). These economic risks can arise from external factors of the company in the form of inflation, fluctuations in the rupiah exchange rate, and changes in interest rates. Then the bigger a company, the more problems that will occur will also be more complex, thus requiring more significant resources. One of the resources the company needs is debt as a source of finance. If large companies are funded using debt, this will also pose a significant risk of default. As a result, organizations with significant assets may be unable to mitigate the risk of financial distress.

Results of the Effect of Firm Growth Variables on Financial Distress

The company's growth results from calculating revenue growth from time to time. The findings revealed that the company's growth had no significant positive influence on financial challenges, with a significance of 0.102. This explains that the company's high or low sales growth will not reflect a condition of financial distress. These findings contrary to (Younas et al., 2021), which revealed that company growth has significantly and positively affect financial distress.

Company growth has no impact on financial distress, which can be caused by high or low company sales growth, sometimes needing to be followed by profits earned by the company (Utami, 2021). High expenses can sometimes follow increased sales, so the profit generated only contributes a little to the company's financial condition. The sample data from PT can also support this. Fortune Mate Indonesia Tbk had a revenue growth value of -2.43% in 2017 but is declared a healthy company (non-distress). This is because the company is still experiencing profits that year. This is different for PT. Central Omega Resources Tbk had a revenue growth value of 8.2% in 2018 but was declared a distressed company because, in 2018, the company experienced

losses.

4. Conclusions

Three variables are added in the financial distress model based on the logistic regression analysis findings that were processed and discussed. Those are leverage, institutional ownership, and board size. These three variables are dominant indicators in determining the financial distress of non-financial sector companies listed on the IDX for 2017-2021. One variable in the model shows significant negative results (leverage), and two variables show significant positive results (institutional ownership and board size). In addition, four variables show insignificant results: managerial ownership, independent commissioner, firm size, and firm growth.

The previous chapter's data processing leads in the development of a financial distress model that can forecast the company's financial distress with an accuracy of 75.7%. According to this model, three variables have a positive impact on financial distress. These variables are institutional ownership, board size, and firm growth. This indicates that the greater the institutional ownership and board size, the fewer opportunities for financial distress. In addition, one variable harms financial distress, namely leverage. This indicates that the more outstanding the debt to total asset ratio, the greater the chances of financial distress.

Theoretical Implication

This study uses agency theory with good corporate governance proxy in calculating financial distress. The results of this study show that agency theory is proven to support a significant positive influence on board size and institutional ownership on financial distress. This is also evident in the research of Khurshid et al., (Khurshid et al., 2019) and Younas et al., (Younas et al., 2021) in Pakistan. Then the agency theory is not proven to support the influence of managerial ownership and independent commissioners on financial distress, this is because companies in Indonesia still apply little about the policy to own company shares for management.

In addition, the existence of independent commissioners in Indonesia has been regulated by the IDX, where companies listed on the Exchange must have independent commissioners of at least 30% of all members of the board of commissioners. So that the number of independent commissioners in the company is only limited to following existing regulations, so it does not affect financial distress.

The results of the study for leverage have a significant negative effect on financial distress. The higher the debt will cause a greater financial burden for the company, the probability of the company

experiencing financial distress will be higher.

Managerial Implication

Leverage has a significant negative effect on financial distress. For companies, the greater the level of leverage of the company, it will have an impact on default, causing financial distress. For investors, the greater the leverage owned by the company so that the impact is that investors have no interest in investing in the company.

Institutional ownership positively affects financial hardship. For companies, the greater the ownership owned by the institution can have an impact on the more effective the use of company assets, the ability of financial distress can be minimized, this is because supervision to management in carrying out operational activities can be carried out by the institution. For investors, greater ownership by the institution will provide interest in investing in the company.

The size of the board positively affects financial distress. For companies, a large board size will generally also have diverse skills, knowledge and expertise, and in turn can contribute to the monitoring and service role of the company. For investors, the greater the number of board sizes in a company will provide interest in investing in the company.

References

- Al-Khatib, H. B., & Al-Horani, A. (2012). Predicting financial distress of public companies listed in Amman Stock Exchange. *European Scientific Journal*, 8(15).
- Alifiah, M. N., Salamudin, N., & Ahmad, I. (2013). Prediction of financial distress companies in the consumer products sector in Malaysia. *Sains Humanika*, 64(1).
- Brigham, E. F., & Houston, J. F. (2001). *Manajemen Keuangan*. Buku 1 edisi 8. Jakarta: Erlangga.
- Cinantya, I., & Merkusiwati, N. (2015). Pengaruh corporate governance, financial indicators, dan ukuran perusahaan pada financial distress. *E-Jurnal Akuntansi Universitas Udayana*, 10(3), 897-915.
- Dianova, A., & Nahumury, J. (2019). Investigating the effect of liquidity, leverage, sales growth and good corporate governance on financial distress. *Journal of Accounting and Strategic Finance*, 2(2), 143-156.
- Ernawati, E., Handojo, S. E., & Murhadi, W. R. (2018). Financial performance, corporate governance, and financial distress. Paper presented at the 15th International Symposium on Management (INSYMA 2018).
- Hertati, L., Widiyanti, M., Desfitriana, D., Syafarudin, A., & Safkaur, O. (2020). The effects of economic crisis on business finance. *International journal of economics and financial issues*, 10(3), 236.
- Khurshid, M. K., Sabir, H. M., Tahir, S. H., & Abrar, M. (2019). Impact of ownership structure and board composition on financial distress of Pakistan stock exchange listed manufacturing firms. *International Transaction Journal of Engineering, Management, & Applied Sciences & Technologies*, 11(2), 1-14.
- Kistini, D. S., & Nahumury, J. (2014). The effect of public accounting firm size, financial distress, institutional ownership, and management change on the auditor switching in manufacturing companies listed in Indonesia Stock Exchange. *The Indonesian Accounting Review*, 4(2), 185-194.
- Kusumaningrum, R. A., & Kurnia, K. (2022). PENGARUH LEVERAGE, LIKUIDITAS DAN KEPEMILIKAN MANAJERIAL TERHADAP FINANCIAL DISTRESS. *Jurnal Ilmu dan Riset Akuntansi (JIRA)*, 11(7).
- Mariano, S. S. G., Izadi, J., & Pratt, M. (2021). Can we predict the likelihood of financial distress in companies from their corporate governance and borrowing? *International Journal of Accounting & Information Management*, 29(2), 305-323.
- Pandapotan, F., & Puspitasari, F. (2022). The Effect of Cash Flow, Board Independence, and Company Size on Financial Distress. *Saudi Journal of Economics and Finance*, 6(9), 311-318.
- Putri, D., & Ardini, L. (2020). Pengaruh Kinerja Keuangan Dan Ukuran Perusahaan Terhadap Financial Distress. *Jurnal Ilmu dan Riset Akuntansi (JIRA)*, 9(6).
- Şendur, Y. (2023). The reasons for financial failure and bankruptcy. In *Bankruptcy and reorganization in the digital business era* (pp. 1-9). IGI Global.
- Utami, Y. P. (2021). Pengaruh Rasio Keuangan, Arus Kas Operasi, dan Struktur Kepemilikan Terhadap Kondisi Financial Distress. *SINTAKSIS: Jurnal Ilmiah Pendidikan*, 1(2), 24-34.
- Younas, N., UdDin, S., Awan, T., & Khan, M. Y. (2021). Corporate governance and financial distress: Asian emerging market perspective. *Corporate Governance: The International Journal of Business in Society*, 21(4), 702-715.