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Assessing Financial Distress Drivers: Financial Metrics and Corporate Practices in Indonesian Manufacturing Companies

Paula Fazila*
Tanjungpura University, Jl. Prof. Dr. H Jl. Profesor Dokter H. Hadari Nawawi, Bansir Laut, Kec. Pontianak Tenggara, Kota Pontianak, West Kalimantan 78124, Indonesia

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ABSTRACT: *Understanding the factors that contribute to financial distress is crucial for assessing the financial health of companies. This research examines, validates, and analyses the influence of leverage, liquidity, profitability, sales growth, good corporate governance (GCG), and corporate social responsibility (CSR) on financial distress. The study utilizes secondary data derived from financial statements. The sample consists of 310 financial reports from manufacturing companies listed on the Indonesia Stock Exchange (IDX) over five years (2015-2019), selected through purposive sampling. Logistic regression analysis was applied in this study. The findings indicate that leverage, liquidity, profitability, and CSR significantly impact financial distress. In contrast, sales growth and GCG do not substantially affect financial distress. These results suggest that companies should focus on managing leverage and liquidity while enhancing profitability and CSR practices to mitigate financial distress risks. On the other hand, policymakers need to establish regulations and incentives that encourage responsible financial management and social responsibility initiatives. It is important to prevent financial distress and provide a direction for companies and policymakers to enhance financial stability and sustainability.*

Keywords: *CSR, financial distress, GCG, leverage, liquidity, profitability, sales growth.*

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*Corresponding author: Paula Fazila: paulafazila@gmail.com

INTRODUCTION

Unstable economic conditions can be an obstacle for a company to still operate. Lately the world is experiencing extraordinary panic because of the emergence of the coronavirus outbreak commonly called COVID-19. Corona is a virus originating from China, precisely in the city of Wuhan (Liputan6.com, 2021). The virus pandemic resulted in many people falling ill and dying. Apart from that, the epidemic too rocked the world economy. World economic growth was previously predicted to be positive by 3.3%, then revised in 2020 to minus 3%. The spread of the corona virus has resulted in world economic growth experiencing revised again in June 2020, namely minus 4.9%. This proves that the impact of the corona virus has caused the world economy to become unstable (Liputan6.com, 2021). Unstable economic conditions place demands on every company to be able to maintain its survival. To be able to survive in the middle, competition is getting tougher in the midst of a pandemic like now; companies have to look for a way to create a strategy to move forward and maintain company stability. Matter This was done as an effort by the company to be able to maintain competition survival so that the company's goals can be achieved well (Tyaga & Kristanti, 2020).

Financial distress is the process of decreasing a company's financial condition or the final stage before bankruptcy occurs or better known as liquidation (Platt & Platt, 2002). Therefore, by studying the company's financial problems since early, management can make better choices for the survival of the company (Suryani, 2020). Financial distress can be caused by several factors before the company experiences bankruptcy (Ridanti & Suryaningrum, 2021). There are factors that indicate a company is experiencing financial distress includes acquisitions, mergers and delisting of existing companies listing its shares or what is usually called listing on the Indonesian Stock Exchange (Wibowo & Susetyo, 2020). The phenomenon of financial distress that occurs in Indonesia is also related with companies experiencing delisting. Delisting is a deletion listing of shares on the Indonesian Stock Exchange (BEI). According to Sahamok.net (2020), from 2015 to 2019, there were 7 manufacturing companies that experienced delisting on the Exchange Indonesian Securities (BEI). Table 1 shows the companies that are vulnerable to bankruptcy.

Manufacturing companies consist of three sectors, namely the basic industrial and chemical sectors, various industrial sectors as well as the goods and consumption sector. Of the three sectors, the most vulnerable to experiencing financial distress, namely the various industrial and consumer goods sectors (Cnnindonesia.com, 2019). Leverage measures a company's capacity to fulfill its commitments (Hery, 2015:166). Research conducted by Ananto et al. (2017) found that the leverage ratio impact on financial distress. The research conducted by Kartika et al. (2020) found that leverage has a positive impact on financial distress. This is starting behind research conducted by Widhiari & Merkusiwati (2015) said that the leverage ratio has no impact on financial distress. Liquidity is a company's ability to pay short-term commitments according to schedule (Mafiroh & Triyono, 2016). Research conducted by Widhiari & Merkusiwati (2015), shows that liquidity has a negative impact on financial distress. Meanwhile, research conducted by Fahlevi & Mukhibad (2018) says that liquidity has no impact on financial distress. The profitability ratio is a ratio used to measure ability a company in generating profits. Research conducted by Chrissentia & Syarief (2018) shows that profitability has a negative impact on financial distress. However, research conducted by Mafiroh & Triyono (2016) shows that profitability does not impact financial distress. Sales growth is a statistic that shows a company's investment performance in the previous period and can predict its success in the future (Widhiari & Merkusiwati, 2015). Based on research conducted by Widhiari & Merkusiwati (2015) shows that increasing sales has a negative impact on financial tensions. This research does not agree with Dianova & Nahumury (2019), who state that sales growth does not impact financial distress.

Table 1. Companies Vulnerable to Bankruptcy

No.	Name	Z-*Score*
1.	PT Pindad (Persero)	1,02
2.	PT Industri Kereta Api (Persero)	0,92
3.	PT Industri Kapal Indonesia (Persero)	0,89
4.	PT Barata Indonesia (Persero)	0,83
5.	PT Krakakatau Steel (Persero) Tbk	0,47
6.	PT PAL Indoneisa (Persero)	-0,1
7.	PT Dirgantara Indonesia (Persero)	-0,84
8.	PT Dok Perkapalan Surabaya (Persero)	-1,23
9.	PT Dok dan Kodja Bahari (Persero)	-1,72

Source: Cnnindonesia.com (2019)

Based on Table 1, there are nine state-owned companies in the various industrial sectors that are vulnerable to bankruptcy. This condition can be known through the Z-Score value of < 2.99 owned by the nine companies. Where companies with a Z-Score of < 2.99 are categorized as experiencing financial distress, and vice versa if the company has a Z-Score of > 2.99 is not categorized as experiencing financial distress (Purwaningsih & Aziza, 2019). Of the nine companies that are vulnerable to bankruptcy in table 1.2, one of them, PT Dirgantara Indonesia (Persero), has a Z-Score of -0.84. This score is categorized as a company that is vulnerable to bankruptcy so that it gets a red Z-Score predicate.

The financial distress conditions experienced by a company can be predicted as Good Corporate Governance (GCG). To achieve organizational goals, GCG regulates relationships between various interested parties, such as shareholders, board of commissioners, and directors (Affiah & Muslih, 2018). According to Li et al. (2020), said that GCG is capable predict financial distress accurately. Research conducted by Fathonah (2016) which shows that GCG has an impact on financial distress. Meanwhile, according to research conducted by Dianova & Nahumury (2019) shows that GCG does not impact on financial distress. A company cannot be separated from its surrounding environment. Therefore, apart from pursuing profits, management must also pursue other aspects such as responsibility social and environmental responsibility. In this case, it is important for management to implement CSR (Corporate Social Responsibility). According to Boubaker et al. (2020) companies with levels High CSR can avoid financial distress. In addition, research was carried out by Purwaningsih & Aziza (2019) shows that CSR has a negative impact on financial distress.

It is important to understanding the factors contributing to financial distress is critical for assessing the financial health and sustainability of companies. Despite extensive research on financial distress, there remain gaps in understanding how different factors collectively influence it, particularly within the context of manufacturing companies in emerging markets. This study aims to bridge this gap by examining the impact of leverage, liquidity, profitability, sales growth, good corporate governance (GCG), and corporate social responsibility (CSR) on financial distress among manufacturing firms listed on the Indonesia Stock Exchange (IDX). This research is novel in its comprehensive approach, analyzing a broad range of factors simultaneously and utilizing a substantial dataset of 310 financial reports from manufacturing companies over a five-year period (2015-2019). The use of logistic regression analysis provides robust insights into the relationships between these variables and financial distress. This study contributes to the theoretical framework by providing empirical evidence on the multifaceted influences on financial distress, particularly in emerging markets like Indonesia. It validates the significance of traditional financial metrics while integrating the roles of corporate governance and social responsibility. By addressing these contributions, this research provides a comprehensive understanding of the factors influencing financial distress and offers actionable recommendations for companies and policymakers to enhance financial stability and performance.

LITERATURE REVIEW

Agency and Signaling Theory

Agency theory describes the interaction between investors and management as principal and agent. In this case, the principal provides authority in the delegation of responsibility to managers as agents to carry out functions according to agreement in running the company (Jensen & Meckling, 1976). There is the possibility that a company could experience losses due to agents taking selfish actions by making decisions without thinking about the interests of the principal (Hidayat & Meiranto, 2014). Differences in interests between the agent and principal can cause a problem called agency problem. The cause of agency problems is information asymmetry. Information asymmetry occurs when the information that reaches the principal and agent is different so it can trigger problems (Affiah & Muslih, 2018).

Signal theory was first proposed by Michale Spence. According to Spence (1973), by giving a signal, the owner of the information will try to provide information that is useful to the recipient of the information. There are two types of signals, namely signals in the form of good news or bad news that the company conveys to external parties (Gantyowati & Nugraheni, 2014). In this case, management always has the desire to provide a positive signal to potential investors regarding the company's achievements with the aim is to increase the confidence of investors and potential investors in the company (Muflihah, 2017).

Leverage and Financial Distress

Before filing for bankruptcy, a company has financial problems or, more precisely, financial distress. Financial distress is a process of decline the company's financial condition or the final stage experienced before the company experiences it bankruptcy or better known as liquidation (Platt & Platt, 2002). As for another definition of financial distress is where a company's financial condition is poor unhealthy or experiencing a crisis (Moleong, 2018). Every company in running its business certainly needs resources funding. These funding sources can be obtained from both internal and external parties external. The use of external funds can be obtained through debt. Thus, leverage is a company's debt-based funding source for asset financing (Ananto et al., 2017).

H1: Leverage positively influences Financial Distress

Liquidity and Financial Distress

According to Kartika et al. (2020), liquidity is the ability of a company to pay off short-term liabilities or current liabilities using current assets before or at maturity. So, it can be concluded that liquidity describes the extent to which a company is able to pay off its short-term obligations when they fall in due. Liquidity can be defined as a ratio that provides an overview of the company's ability to pay off short-term obligations (Wibowo & Susetyo, 2020). Research conducted by Chrissentia & Syarief (2018) shows that financial distress is negatively influenced by liquidity. Due to the fact that the company's current assets are enough to cover its short-term commitments, liquidity is considered to be negatively impacted in financial distress. Agustini & Wirawati (2019) said that a company that has high liquidity is a signal in the form of good news to external parties such as creditors, which indicates the company is able to pay off its term obligations in short and it is possible that the company will not experience financial distress.

H2: Liquidity negatively influences Financial Distress

Profitability and Financial Distress

Profitability is used to measure the extent to which a company is capable generate profits (Chrissentia & Syarief, 2018). According to Ananto et al. (2017), profit is one of the indicators that shows how good a company's performance is company. The greater the company's ability to generate profits shows, the better the company has good performance and management. Profitability is one indicator in measuring the performance success of a company in generating profits (Fahlevi & Mukhibad, 2018). Research conducted by Saputra & Salim (2020) shows that profitability has a negative impact on financial distress. This statement is supported by Mahaningrum & Merkusiwati (2020), which states that the greater the profit a company obtains, the more the company is able to meet all company operational costs so that the company is likely to avoid financial distress. High profits can be a positive signal in the form of good news for external parties, namely investors investing in the company (Agustini & Wirawati, 2019).

H3: Profitability negatively influences Financial Distress

Sales growth is a reflection of a company's investment performance in previous periods and can be used to anticipate future growth future (Widhiari & Merkusiwati, 2015). Companies that have sales levels High indicates that the company has successfully implemented its strategy (Saputra & Salim, 2020). Sales growth, better known as sales growth, describes the investment success of a company in the past (Dianova & Nahumury, 2019). Research conducted by Widhiari & Merkusiwati (2015) shows that sales growth negatively and significantly impacts financial distress. That statement is supported by (Harahap, 2011), who states that companies with high sales growth show that the company's financial condition is sufficient. In these conditions a company can be said to be stable so that there is a small possibility that the company will experience financial difficulties or financial distress.

This is in line with agency theory put forward by Jensen & Meckling (1976), which states that the principal gives responsibility to the agent to manage the company well in order to increase sales growth. According to Agustini & Wirawati (2019), companies that have high sales growth can be a good signal to external parties, such as investors and creditors, that they are interested in investing and providing credit to companies. So, the possibility is that the company experiences financial distress.

H4: Sales growth negatively influences Financial Distress

Li et al. (2020) state that corporate governance is very important for company performance. According to the National Committee for Governance Policy (KNKG) in its Guidelines General Good Corporate Governance Indonesia (2006:8) states that integrity is important for long-term GCG performance. Thus, a code of ethics is very important for helping organizations and workers integrate business principles

and ethics into the culture of the company. Thus, it can be concluded that GCG is a system that was created to regulate the relationship between interested parties so that common goals can be achieved well. Good corporate governance (GCG) commonly referred to as corporate governance, is a system that regulates the relationships between various interested parties, especially in a narrow scope such as the relationship between the board of commissioners, board of directors, and shareholders so that organizational goals can be achieved well (Affiah & Muslih, 2018). According to research conducted by Fathonah (2016) shows that good corporate governance has an impact on financial distress. This aligns with the agency theory proposed by Jensen & Meckling (1976). According to Fathonah (2016) good corporate governance can reduce agency problems. One of them is the governance system companies that provide added value for interested parties and eliminate agent-principal conflicts (Fahlevi & Mukhibad, 2018). So, reduced conflict between agents and principals is expected to create a conducive company to achieve company goals and avoid financial losses and distress.

H5: Good Corporate Governance negatively influences Financial Distress

According to Purwaningsih & Aziza (2019), CSR helps strategy a company's reputation. CSR ensures that the company cares about the environment and profit. CSR also informs stakeholders. The company will get money and credit to improve performance by overcoming stakeholder demands. Companies can outline and describe CSR efforts (Sari & Nuzula, 2019). Corporate social responsibility (CSR) is a company's ability to communicate with stakeholders, including shareholders, government, supplier workers, and the community. To enhance its reputation, a Company can use CSR. Stakeholders trust the company with a good reputation (Utami et al., 2021). CSR implementation is in line with the signaling theory proposed by Spence (1973). Utami et al. (2021) stated that in this case, managers, as agents, will provide a positive signal regarding CSR implementation to all. One of the stakeholders is potential investors. In addition, the company's social performance well can attract investors' interest to invest so this can Minimize the possibility of the company experiencing financial distress.

H6: Corporate social responsibility negatively influences Financial Distress

RESEARCH METHOD

Population and Sample

This research is quantitative research because it uses data in the form of numbers, which is used as a tool for analysis. This research aims to test the influence of leverage, liquidity, profitability, sales growth, good corporate governance and corporate social responsibility for financial distress. The population of this research is all manufacturing companies listed on the Indonesia Stock Exchange (BEI) in the period 2015-2019. The population of manufacturing companies consists of 3 sectors, namely the basic industrial sector and chemical, for as many as 80 companies; various industrial sectors for as many as 52 companies; and sectors of consumer goods for 61 companies.

Table 2. Purposive Sampling Method

Description	Total
Manufacture companies' period 2015-2019	193
Companies do not report FS period 2015-2019 sequentially	(55)
Companies with foreign currency in the FS	(29)
Companies with negative income period 2015-2019	(47)
Sample total	**62**

Source: Data processed from www.idx.co.id

Based on Table 2, the total population in this study was 193 companies. The sampling technique used in this research was purposive sampling. The sampling criteria in this research are manufacturing companies that published complete financial reports for the 2015-2019 period respectively, manufacturing companies that published financial reports in rupiah and manufacturing companies that have positive profit values during the 2015-2019 period. The number of samples that met the criteria determined by the researchers was 62 company. Thus, researchers used 62 financial reports for 5 periods (2015-2019). So, the data used in this research was 310. This study uses logistic regression data analysis techniques. The logistic regression equation is:

Ln (p/(1-p)) = β0 + β1X1 + β2X2 + β3X3 + β4X4 + β5X5 + β6X6 + e 1

Where:
Ln(p/(1-p) = Company financial distress probability
β0= Constanta
β1, β2, β3, β4, β5, β6= Regression coefficient
X1= Leverage
X2= Liquidity
X3= Profitability
X4= Sales growth
X5= Good Corporate Governance (GCG)
X6= Corporate Social Responsibility (CSR)

Operational Definition and Measurement of Variables
Table 3 shows the operational definition and measurement of variables. The dependent variable is financial distress. The independent variables are leverage, liquidity, profitability, sales growth, good corporate governance, and corporate social responsibility.

Table 3. Operational Definition and Measurement of Variables

Variables	Indicators	Scales
Leverage (X_1) (Saputra & Salim, 2020)	DAR = $\frac{\text{Total liabilities}}{\text{Total asset}}$	Ratio
Liquidity (X_2) (Wibowo & Susetyo, 2020)	*Current ratio* = $\frac{\text{urrent assets}}{\text{Current liabilities}}$ x 100%	Ratio
Profitability (X_3) (Kasmir, 2019:206)	$ROE = \frac{Income\ after\ tax}{Total\ equeties}$ x 100%	Ratio
Sales Growth (X_4) (Dianova & Nahumury, 2019)	*Sales Growth* = $\frac{Sales_t - Sales_{t-1}}{\text{Sales}_{t-1}}$	Ratio
Good Corporate Governance (X_5) (Fathoni et al., 2014)	$KM = \frac{Management\ ownership}{Total\ stocks}$ x 100%	Ratio
Corporate Social Responsibility (X_6) (Utami et al., 2021)	*Index* GRI G4	Ratio
Financial Distress (Y) (Suryani, 2020)	*Z-Score* = 1,2 X_1 + 1,4 X_2 + 3,3 X_3 + 0,6 X_4 + 0,99 X_5 • If *Z-Score* > 2,99 categorized as *no financial distress* and the value is "0" • if *Z-Score* < 2,99 categorized as *financial distress* and the value is "1"	Nominal

Source: Previous Research

Hypothesis testing
Hypothesis testing using logistic regression involves several key steps to determine whether there is a significant relationship between the predictor variables and the binary outcome variable.

Assess the Model Fit.
Evaluate the overall fit of the logistic regression model using goodness-of-fit tests (e.g., Hosmer-Lemeshow test). Check the model's classification accuracy, sensitivity, specificity, and other relevant metrics to understand how well it predicts the outcome.

Perform Hypothesis Testing for Each Predictor
For each predictor variable, perform a Wald test or likelihood ratio test to assess its significance in the model. Obtain the p-values corresponding to the Wald test statistics for each predictor. The Wald test checks whether the estimated coefficient (β) for each predictor is significantly different from zero.

Interpret the Results

Compare the p-values to your chosen significance level (usually 0.05). If the p-value for a predictor is less than the significance level, you reject the null hypothesis for that predictor, indicating that it has a significant effect on the outcome. For significant predictors, interpret the coefficients (log odds). Exponentiating the coefficients gives the odds ratios, which describe the change in odds of the outcome occurring for a one-unit increase in the predictor.

Draw Conclusions

Summarize the findings by stating which predictors significantly influence the outcome and the direction of their influence (positive or negative). Discuss the implications of these results for your research question or hypothesis.

RESULT AND DISCUSSION

Results

Descriptive Statistics

The description of the variables in the descriptive statistics used in this study includes the minimum, maximum, mean, and standard deviation of one dependent variable, namely financial distress and six independent variables, namely leverage, liquidity, profitability, sales growth, good corporate governance, and corporate social responsibility (see Table 4).

Table 4. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	310	0.09	0.93	0.3941	0.18102
Liquidity	310	58.42	2170.50	275.7654	227.38293
Profitability	310	0.05	224.46	16.5823	25.03980
Sales Growth	310	0.00	134.06	9.0484	12.20163
Good Corporate Governance (GCG)	310	0.00	3.36	0.0724	0.28471
Corporate Social Responsibility (CSR)	310	0.19	0.40	0.3065	0.04927
Financial Distress	310	0	1	0.35	0.477
Valid N (lis twiste)	310				

Source: Data processed

Based on table 4, The number of samples used is 310 samples. The results of the first analysis of leverage have a mean value of 0.3941 which shows that the average company has a change in leverage of 39%, a minimum value of 0.09, and a maximum value of 0.93 with a standard deviation of 0.18102, so the variable distribution ranges from 0.3941-0.18102 to 0.3941+0.1802. The results of the second analysis of liquidity have a mean value of 275.7654 which shows that the average company has a change in liquidity of 27.576%, a minimum value of 58.42, and a maximum value of 2170.50 with a standard deviation of 227.38293, then the distribution of variables ranges from 275.7654-227.38293 to 275.7654+227.38293. The results of the third analysis of profitability have a mean value of 16.5823 which shows that the average company has experienced a change in profitability of 1.658.

Overall Model Fit

The first step is to assess the entire model, which aims to determine whether it fits the data. The statistics are based on the likelihood function (see Table 5).

Table 5. Overall Model Fit Results

Iteration		-2 Log likelihood	Coefficient					
			X1	X2	X3	X4	X5	X6
Step 1	1	261.694	4.684	-0.002	-0.022	0.004	0.349	-7.823
	2	225.445	6.165	-0.004	-0.045	0.013	0.601	-10.422
	3	211.987	6.568	-0.007	-0.070	0.024	0.818	-11.664
	4	209.318	6.719	-0.009	-0.088	0.029	0.961	-12.109
	5	209.174	6.828	-0.010	-0.096	0.029	0.999	-12.050
	6	209.174	6.842	-0.010	-0.096	0.029	1.000	-12.030
	7	209.174	6.842	-0.010	-0.096	0.029	1.000	-12.029

Source: Data processed

Based on Table 5, in this test, a comparison of the value between 2 Log Likelihood (-2LL) at the beginning (Block Number= 0) and the value of -2 Log Likelihood (-2LL) at the end (Block Number= 1) was carried out. Based on Table 5, the initial -2LL value is 261,694. After the six independent variables were included, the final -2LL value decreased to 209.174. A decrease in likelihood (-2LL), or in other words, an initial -2LL greater than the final -2LL value, indicates a better regression model, or, in other words, the hypothesized model fits with the data.

Nagelkerke R Square

The value of Nagelkerke R Square indicates the magnitude of the determination coefficient value in the logistic regression model. This test also explains the proportion of variation of the dependent variable described by the independent variable (see Table 6).

Table 6. Nagelkerke R Square

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	209.174[a]	0.461	0.635

Source: Data processed

Based on Table 6, the results of statistical testing by assessing the entire model can be found that the Nagelkerke R Square value is 0.635, which means that the variability of the dependent variable that the independent variable can explain is 63.5%, while other variables outside the study explain the remaining 36.5%. Future research may add other variables that can affect financial distress, such as fluctuations in inflation, interest rates, Gross National Product, credit availability, employee wage levels, etc.

Hosmer and Lemeshow's Goodness of Fit Test

The regression model's feasibility test, combined with Hosmer and Lemeshow's test, is used to assess the logistic regression model's feasibility (see Table 7).

Table 7. Hosmer and Lemeshow's Goodness of Fit Test Results

Step	Chi-square	df	Sig.
1	9.923	8	0.270

Source: Data processed

Based on Table 7, the test results show a Chi-square value of 9.923 with a significance level (p) of 0.270. Based on the above results, it can be seen that the significance value is greater than 0.05 so that the regression model is suitable for use in the next analysis. The results show that the model is able to predict the value of its observations.

Classification Matrix Test

The classification table matrix test shows the predictive power of the regression model to predict the possibility of financial distress carried out by the company (see Tale 8).

Table 8. Classification Matrix Test

	Observe		Predicted
			Percentage
Step 1	Financial distress	No	88.6
		Yes	72.2
	Overall Percentage		82.9

Source: Data processed

Based on Table 8, the predictive power of the regression model to predict the likelihood of a company experiencing financial distress is 72.2%. This shows that using the regression model used, there are 72.2% of the 310 samples that are predicted to experience financial distress. The predictive power of the company model that does not experience financial distress is 88.6%. So, it can be concluded that the predictive power of the regression model not to experience financial distress is 88.6%.

Results of Logistics Regression Analysis Test

The analysis technique used in this study is logistic regression analysis. Logistic regression analysis aims to examine the relationship between the research variables and determine the magnitude of the influence of each independent variable, namely leverage (X1), liquidity (X2), profitability (X3), sales

growth (X4), Good Corporate Governance (GCG) (X5), Corporate Social Responsibility (CSR) (X6) on the dependent variable, namely financial distress (see Table 9).

Table 9. Logistics Regression Analysis Test Results

		Hypothesis	B	S.E.	Wald	df	Sig.	Exp(B)	Conclusion
Step 1[a]	X1	H1	6.842	1.832	13.951	1	0.000	936.631	accepted
	X2	H2	-0.010	0.003	10.885	1	0.001	0.990	accepted
	X3	H3	-0.096	0.028	12.022	1	0.001	0.908	accepted
	X4	H4	0.029	0.018	2.734	1	0.098	1.029	rejected
	X5	H5	1.000	0.538	3.455	1	0.063	2.719	rejected
	X6	H6	-12.029	4.461	7.271	1	0.007	0.000	accepted
	Constant		3.031	1.958	2.397	1	0.122	20.715	-

Source: Data processed

Based on the results of the logistic regression test in Table 9, the test on the regression coefficient produces the following logistic regression equation model:

Financial distress = 3.031 + 6.842X1 – 0.010X2 – 0.096X3 + 0.029X4 + 1.000X5 – 12.029X6 ……. 2

Based on this equation, it can be implemented that the constant coefficient is 3.031, which has a positive value. This can be interpreted if the independent variables are close to 0, it can be interpreted that the company will experience financial distress. A negative value indicates that the company will most likely not experience financial distress.

From the results of the logistic regression analysis calculation in Table 9, the interpretation of the regression coefficient can be explained as follows:

1) The leverage variable (X1) shows a positive coefficient of 6.842 with a significance level of p-value of 0.000. Since the significance level of p is less than a= 5%, the hypothesis on variable X1 is accepted. So it can be concluded that leverage affects financial distress. A positive value coefficient indicates that increased leverage results in a company experiencing financial distress. The odd ratio (Exp(B)) value is 936.63, which indicates that increasing leverage will increase the tendency of companies to experience financial distress by 936.63 times compared to companies that do not experience increased leverage.
2) The liquidity variable (X2) shows a negative coefficient of -0.010 with a significance level of p-value of 0.001. Since the significance level of p is less than a= 5%, the hypothesis on the variable X2 is acceptable. It can be concluded that liquidity affects financial distress. A negative value coefficient indicates increased liquidity results in the company not experiencing financial distress. The odd ratio (Exp(B)) value of 0.990 indicates that increasing liquidity will increase the tendency of companies to experience financial distress by 0.990 times compared to companies that do not experience increased liquidity.
3) The profitability variable (X3) shows a negative coefficient of -0.096 with a significance level of p-value of 0.001. Since the significance level of p is less than a= 5%, the hypothesis on variable X3 is acceptable. It can be concluded that profitability affects financial distress. A negative value coefficient indicates that the increase in profitability results in the company not experiencing financial distress. The odd ratio (Exp(B)) value is 0.908, which indicates that an increase in profitability will increase the tendency of companies to experience financial distress by 0.908 times compared to companies that do not experience an increase in profitability.
4) The sales growth variable (X4) showed a positive coefficient of 0.029 with a significance level of p-value of 0.098. Because the significance level of p is greater than a= 5%, the hypothesis on variable X4 is not accepted. It can be concluded that sales growth does not affect financial distress. The positive value coefficient shows that the increase in sales growth results in the company experiencing financial distress. The odd ratio (Exp(B)) value of 1.029 indicates that an increase in sales growth will increase the tendency of companies to experience financial distress by 1.029 times compared to companies that do not experience an increase in sales growth.
5) The Good Corporate Governance (GCG) variable (X5) shows a positive coefficient of 1.00 with a significance level of p-value of 0.063. Because the significance level of p is greater than a= 5%, the hypothysis on the X5 variable is not accepted. It can be concluded that GCG does not affect financial distress. The positive value coefficient shows that the increase in GCG results in the company experiencing financial distress. The odd ratio (Exp(B)) value of 2.719 indicates that an

increase in GCG will increase the tendency of companies to experience financial distress by 2.719 times compared to companies that do not experience an increase in GCG.

6) The Corporate Social Responsibility (CSR) variable (X6) shows a negative coefficient of -12.029 with a significance level of p-value of 0.007. Since the significance level is less than a= 5%, the hypothesis on variable X6 is acceptable. It can be concluded that CSR affects financial distress. A negative value coefficient indicates that the increase in CSR results in the company not experiencing financial distress. The odd ratio (Exp(B)) value of 0.000 indicates that an increase in CSR will increase the tendency of companies to experience financial distress by 0.000 times compared to companies that do not experience an increase in CSR.

Discussion

The Effect of Leverage on Financial Distress

Leverage is a source of funds in the form of debt companies use to finance their assets outside the source of funds in the form of capital (Ananto et al., 2017). In addition, leverage is also used to measure a company's ability to pay short-term and long-term liabilities, even when the company goes bankrupt or goes into liquidation. Based on the study's results in Table 9, the leverage significance value is 0.000 < 0.05, which means the leverage significance value is less than 0.05. This test shows that H0 is rejected and Ha is accepted, so it can be concluded that leverage affects financial distress. The results of this study are supported by the results of previous research conducted by Ananto et al. (2017), Agustini & Wirawati (2019), and Kartika et al. (2020), which show that leverage has a positive effect on financial distress.

Leverage affects financial distress. This is because if liabilities mostly finance a company's financing, there will be a risk of difficulties in paying in the future due to greater liabilities than assets owned by the company. Thus, if not overcome, the amount of liabilities the company owns can cause greater financial distress. This aligns with the signal theory, where management sends signals to parties through information about the amount of assets and debts owned by the company to interested parties. In addition, according to the agent theory, management as an agent who manages the company also knows a lot of information about the company, so management as an agent has the authority to make decisions for the company's future.

Agency theory suggests a conflict of interest between a company's principals (owners or shareholders) and agents (managers). When a company uses high leverage (i.e., a high level of debt relative to equity), it can create a disciplinary mechanism for managers. The need to meet debt obligations and avoid financial distress can incentivize managers to work harder and make more efficient decisions to ensure the company's financial health. However, excessive leverage can also exacerbate agency costs, as managers might take on risky projects to benefit themselves at the expense of creditors. This can increase the likelihood of financial distress if the projects fail. Research conducted by Dianova & Nahumury (2019) shows that leverage positively impacts financial distress. According to Yolanda & Kristanti (2020) the size of the debt is owned by a company can be an opportunity for the company to experience financial distress. This is because the company is unable to pay off the debt. In other words, the higher the company's leverage, the greater the possibility the company experiences financial distress. This statement is also supported by Mahaningrum & Merkusiwati (2020) that according to the signal theory put forward by Spence (1973), the higher the leverage ratio a company has, the more likely the company will experience financial distress (Suprabha et al., 2024).

On the other hand, signalling theory focuses on how companies communicate their financial health to external stakeholders, such as investors and creditors. When a company takes on debt, it signals to the market that its management is confident about future cash flows and its ability to repay the debt. This can be a positive signal, indicating strong future performance (Oktarina, 2018). However, if the company cannot meet its debt obligations, it can lead to financial distress, as it may struggle to raise additional funds and maintain operations (Maria et al., 2021). Leverage can act as a disciplinary mechanism and a signal of confidence under agency theory, it can also increase the risk of financial distress if not managed properly. Both theories highlight the importance of balancing debt levels to ensure financial stability and effective stakeholder communication.

The Effect of Liquidity on Financial Distress

Liquidity is the ability of a company to meet its short-term obligations promptly (Wibowo & Susetyo, 2020). This shows that if the company is invoiced, it will be able to pay or pay off its obligations, including due obligations. The study's results in Table 9 show that the liquidity significance value is 0.001 < 0.05,

which means that the liquidity significance value is less than 0.05. This test shows that H0 is rejected and Ha is accepted, so it can be concluded that liquidity affects financial distress. This study's results are supported by previous research conducted by Widhiari & Merkusiwati (2015) and Chrissentia & Syarief (2018), which show that liquidity has a negative effect on financial distress.

The results of this study show that liquidity affects financial distress. This is because the company can pay off its short-term obligations properly and on time, and there will be less of a chance of financial distress because it has sufficient current assets. In addition, according to the signal theory, a company's financial statements with high liquidity can convey signals in the form of good news to users of financial statements. This indicates that the company is healthy enough to pay off its short-term obligations. On the other hand, according to the agent theory, the agent states that the agent will decide when the company will make a loan in the form of debt to external parties, such as creditors, with the aim that the company is able to pay off the debt at maturity.

Agency theory deals with the conflicts of interest between the principals (shareholders) and agents (managers). Having sufficient liquid assets (cash or easily convertible to cash assets) is crucial for meeting short-term obligations and preventing financial distress. When a company maintains high liquidity, it can easily meet its short-term liabilities without raising additional funds or selling off assets quickly. This reduces the risk of financial distress. However, too much liquidity can also mean managers have access to excess cash, which they might use inefficiently or on projects that do not maximize shareholder value. Thus, agency theory suggests a balance is needed: enough liquidity to avoid financial distress but not so much that it leads to wasteful spending by managers. From an agency theory standpoint, maintaining optimal liquidity levels is key to preventing financial distress while ensuring managers do not misuse liquid assets. Balancing liquidity involves maintaining enough cash to meet obligations and avoiding excesses that could lead to inefficiency (Suprabha et al., 2024).

Signalling theory focuses on how companies communicate their financial health and prospects to external stakeholders, such as investors, creditors, and the market at large. High liquidity can be a positive signal to the market, indicating that the company is well-managed and capable of meeting its short-term obligations. It reassures investors and creditors that the company is unlikely to face immediate financial distress. This can increase investor confidence and potentially lower borrowing costs due to perceived lower risk. On the other hand, holding excessive liquidity might signal to the market that the company does not have profitable investment opportunities or is overly conservative. This could potentially lead to negative perceptions about the company's growth prospects and future profitability. From a signalling theory perspective, appropriate liquidity levels signal financial stability and operational efficiency to external stakeholders. Proper liquidity management reassures investors and creditors, enhancing the company’s reputation and reducing the perceived risk of financial distress. By understanding the interplay between liquidity, agency theory, and signalling theory, companies can better manage their financial health to prevent distress and maintain positive relationships with their stakeholders.

The Effect of Profitability on Financial Distress

Profitability is the ability of a company to generate profits or profits (Chrissentia & Syarief, 2018). Profitability also determines the level of effectiveness of a company's management in using assets (Agustini & Wirawati, 2019). This is because profitability measures a company's ability to generate profits based on the use of its assets. Based on the study's results in Table 9 shows that the significance value of profitability is 0.001 < 0.05, which means that the significance value of profitability is less than 0.05. This test shows that H0 is rejected and Ha is accepted, so it can be concluded that profitability affects financial distress. This study's results are supported by previous research (Saputra & Salim, 2020), which shows that profitability has a negative effect on financial distress.

The results of this study show that profitability affects financial distress. This is because a good level of profitability shows the company's sound financial performance, where it can optimize its assets to generate profits or profits. From these advantages, the company will be able to meet all operational costs and pay off its obligations so that the possibility of financial distress will decrease.

Agency theory highlights the conflicts of interest between a company's principals (shareholders) and agents (managers). Profitability indicates how well managers utilise the company’s resources to generate earnings (Azahro & Suryaningrum, 2024). High profitability generally aligns managers' actions with shareholders' interests, reflecting efficient resource use and effective management. However, if profitability declines, it may signal managerial inefficiency or potential misalignment of interests, increasing the risk of financial distress. To mitigate agency problems, shareholders often implement incentive structures such as performance-based compensation. When managers are rewarded for

achieving profitability targets, they are motivated to make decisions that enhance profitability and reduce the risk of financial distress. From an agency theory standpoint, maintaining high profitability aligns the interests of managers and shareholders, thereby reducing the risk of financial distress. Implementing effective incentive structures and continuous monitoring can ensure managers focus on activities that enhance profitability (Suprabha et al., 2024).

Signalling theory focuses on how companies communicate their financial health to external stakeholders, including investors, creditors, and the market. High profitability sends a positive signal to the market, indicating that the company is well-managed, financially healthy, and capable of generating returns. This positive signal can attract investment and improve the company's creditworthiness, reducing the likelihood of financial distress. Companies with high profitability are perceived as lower risk, which can lead to lower borrowing costs and better terms from creditors. Conversely, low profitability can signal potential financial difficulties, making it harder for the company to raise funds and increasing the risk of financial distress. From a signalling theory perspective, profitability is a crucial indicator of financial health for external stakeholders. Positive profitability signals can enhance investor confidence and access to capital, mitigating the risk of financial distress. Both agency theory and signalling theory underscore the importance of profitability in managing financial distress. Companies can enhance financial stability and reduce distress risk by aligning managerial incentives with profitability goals and effectively communicating financial health to stakeholders.

The Effect of Sales Growth on Financial Distress

Sales growth, better known as sales growth, describes the success of a company's investment in the past (Dianova & Nahumury, 2019). This follows the statement that the investment success of a company in the past can be used to predict future sales growth (Widhiari & Merkusiwati, 2015). Based on the study's results in Table 9, the significance value of sales growth is 0.098 > 0.05 which means that the significance value of sales growth is greater than 0.05. This test shows that H0 is accepted and Ha is rejected, so it can be concluded that sales growth does not affect financial distress. The results of this study are supported by the results of previous research conducted by Agustini & Wirawati (2019) and Saputra & Salim (2020), which show that sales growth has no effect on financial distress.

The results of this study show that sales growth is one of the indicators that does not affect financial distress. This is because the high and low sales growth rate owned by the company does not determine whether the company will avoid financial distress. In other words, a company with a high sales growth rate does not necessarily have a large profit because burdens can affect the company's profits. The expenses owned by the company can affect the profits generated by the company. Thus, it can be said that companies with high profits may have a large burden so that they only generate a small profit because the company uses the income generated to pay off the company's expenses, so the greater the chance that the company will experience financial distress.

Agency theory deals with the conflicts of interest between principals (shareholders) and agents (managers). High sales growth is often seen as a positive indicator of managerial performance. It suggests that managers are successfully driving the company's revenue and expanding its market presence. This can align the interests of managers and shareholders, as both parties benefit from the company's growth. However, if sales growth is pursued at the expense of profitability or sound financial practices, it can increase the risk of financial distress. Managers might focus on achieving rapid sales growth to meet short-term targets and receive performance-based incentives. This could lead to overexpansion, high operating costs, and insufficient focus on maintaining liquidity and profitability, eventually leading to financial distress. From an agency theory standpoint, while sales growth can align managerial actions with shareholder interests, it must be balanced with sustainable financial practices. Excessive focus on growth without regard for profitability and liquidity can lead to financial distress (Suprabha et al., 2024).

Signalling theory focuses on how companies communicate their financial health and growth prospects to external stakeholders. Robust sales growth sends a positive signal to the market, indicating that the company is expanding, capturing market share, and generating increasing revenue. This can boost investor confidence and attract additional capital. However, if the growth is not supported by solid financial foundations (like profitability and liquidity), it could lead to financial distress. Sustained sales growth signals to investors and creditors that the company has a viable business model and is less likely to face financial difficulties. This can lead to lower borrowing costs and improved terms of trade. From a signalling theory perspective, consistent sales growth signals financial health and stability to external stakeholders. However, it's essential that this growth is sustainable and supported by a solid financial foundation to avoid potential financial distress. Both agency theory and signalling theory

highlight the importance of sustainable sales growth. While high sales growth can signal robust company performance and align managerial incentives, it must be achieved with a focus on maintaining overall financial health to prevent financial distress.

The Effect of Good Corporate Governance on Financial Distress

Good Corporate Governance (GCG) is a system that regulates the relationship between various interested parties, especially in a narrow scope, such as the relationship between the board of commissioners, the board of directors, and shareholders so that the organization's goals are well achieved (Affiah & Muslih, 2018). Good corporate governance emerged to overcome the agency problem, namely the separation between company controllers and ownership. Based on the study results in Table 9, the significance value of good corporate governance is 0.063 > 0.05, which means that the significance value of good corporate governance is greater than 0.05. This test shows that H0 is accepted and Ha is rejected, so it can be concluded that good corporate governance does not affect financial distress. The results of this study are supported by the results of previous research conducted by Dianova & Nahumury (2019), which shows that good corporate governance does not affect financial distress.

Based on this study shows that good corporate governance is one of the indicators that does not affect financial distress. The results of this study do not support the agent theory, which states that good corporate governance can reduce agency problems. One of them is the existence of a corporate governance mechanism that aims to provide added value for interested parties to reduce conflicts between agents and principals. In addition, the results of this study do not support the signal theory, which states that management should give good or bad signals to owners or principals. The provision of signals carried out by management as agents can reduce the occurrence of asymmetric information.

Agency theory addresses the conflicts of interest between principals (shareholders) and agents (managers). Good corporate governance (GCG) plays a pivotal role in mitigating these conflicts and ensuring that managers act in the best interests of shareholders. Good corporate governance structures, such as an independent board of directors, audit committees (Farida & Sugesti, 2023), and transparent reporting practices, ensure managers are accountable for their decisions (Widharma & Susilowati, 2020). This reduces the risk of managerial opportunism and unethical behavior, which can lead to financial distress. Effective corporate governance mechanisms provide robust monitoring and control over managerial actions. By implementing checks and balances, GCG ensures that managers do not engage in risky behaviors that could jeopardize the company's financial stability. This reduces the likelihood of financial mismanagement and distress. Corporate governance frameworks often include performance-based incentives and executive compensation linked to long-term company performance. This alignment of incentives encourages managers to focus on sustainable growth and profitability, thereby reducing the risk of financial distress. From an agency theory standpoint, good corporate governance reduces the risk of financial distress by aligning managerial actions with shareholder interests, ensuring robust monitoring and control, and promoting ethical conduct. Effective governance structures minimize the potential for financial mismanagement and enhance organizational stability (Suprabha et al., 2024).

Signalling theory focuses on how companies communicate their financial health and governance practices to external stakeholders, such as investors, creditors, and the market at large. Implementing strong corporate governance practices signals to the market that the company is well-managed, transparent, and committed to protecting shareholder interests. This positive signal can enhance investor confidence and attract investment, reducing the risk of financial distress. Good corporate governance practices enhance the company's credibility and trustworthiness in the eyes of investors and creditors. Transparent reporting, ethical conduct, and accountability measures reassure stakeholders that the company is less likely to face financial instability, leading to more favorable terms of trade and lower borrowing costs. Companies with strong corporate governance are perceived as lower-risk investments. This positive perception can lead to higher stock prices and improved access to capital, which are crucial for maintaining financial health and avoiding distress. From a signalling theory perspective, good corporate governance communicates to external stakeholders that the company is well-managed and financially stable. This positive signal increases investor confidence, improves access to capital, and reduces the perceived risk of financial distress. Both agency theory and signalling theory underscore the importance of good corporate governance in preventing financial distress. By aligning managerial incentives, enhancing accountability, and signalling financial stability to stakeholders, GCG plays a critical role in maintaining a company's financial health.

The Effect of Corporate Social Responsibility on Financial Distress

Corporate Social Responsibility (CSR) is a company's ability to interact with shareholders, employees, government suppliers, the community, and other stakeholders (Utami et al., 2021). The company also implements corporate social responsibility to build a good reputation in the company's surroundings. Based on the study's results in Table 9, the significance value of corporate social responsibility is 0.007 < 0.05, which means that the significance value of corporate social responsibility is less than 0.05. This test shows that H0 is rejected and Ha is accepted, so it can be concluded that corporate social responsibility affects financial distress. This study's results are supported by previous research (Purwaningsih & Aziza, 2019), which shows that corporate social responsibility negatively affects financial distress.

This study shows that corporate social responsibility affects financial distress. This is because implementing corporate social responsibility can mitigate the situation where the company no longer views corporate social responsibility as a cost source but as a future profit centre. By implementing corporate social responsibility, the company will obtain various benefits. These benefits include reducing costs, increasing employee productivity, generating profits with product diversity, increasing sales and improving the company's image. Besides that, it also attracts stakeholders and shareholders to be more confident in investing their capital in the company. Thus, it can increase the profits and financial performance of companies that carry out and disclose corporate social responsibility to lower the signs of financial distress.

Agency theory addresses the conflicts of interest between the principals (shareholders) and agents (managers). CSR initiatives can align the interests of managers with those of shareholders by promoting ethical behavior, transparency, and accountability. When managers engage in CSR activities, they demonstrate a commitment to sustainable practices and social responsibility, which can enhance the company’s reputation and long-term viability. This alignment reduces the risk of managers acting in their own self-interest and engaging in activities that could lead to financial distress. By investing in CSR, companies can reduce agency costs associated with conflicts of interest. CSR initiatives often include robust governance structures and ethical guidelines that hold managers accountable, fostering a culture of responsibility and trust. This can prevent financial mismanagement and reduce the likelihood of financial distress. From an agency theory standpoint, CSR initiatives help align managerial behavior with shareholder interests, reducing the risk of financial distress. CSR can prevent financial mismanagement and enhance long-term stability by promoting transparency, accountability, and ethical practices (Suprabha et al., 2024).

Signalling theory focuses on how companies communicate their financial health and ethical standards to external stakeholders, such as investors, creditors, and the market. CSR activities are a positive signal to the market, indicating that the company is committed to ethical practices, social responsibility, and sustainability. This can enhance the company’s reputation, attract socially conscious investors, and improve customer and stakeholder relationships. A strong CSR reputation can lead to increased investor confidence and potentially lower the cost of capital. Engaging in CSR helps build trust and credibility with external stakeholders. Companies known for their social responsibility are perceived as lower-risk investments, which can lead to better access to financing and favorable terms from creditors. This trust reduces the perceived risk of financial distress, as stakeholders believe the company is less likely to engage in risky or unethical behaviors that could jeopardize its financial stability. CSR can positively impact market perception, leading to higher stock prices and a more stable investor base. Investors are more likely to support companies that demonstrate a commitment to social and environmental issues, which can buffer the company against market volatility and financial instability. From a signalling theory perspective, CSR activities signal financial health and ethical standards to external stakeholders. This positive signal attracts investors and creditors, improves trust and credibility, and reduces the perceived risk of financial distress. Both agency theory and signalling theory highlight the importance of CSR in preventing financial distress. By aligning managerial incentives with ethical practices and effectively communicating social responsibility to stakeholders, CSR contributes to a company’s financial health and stability.

CONCLUSION

Understanding the factors contributing to financial distress is paramount for assessing a company's financial health. This study has examined, validated, and analyzed the impact of leverage, liquidity, profitability, sales growth, good corporate governance (GCG), and corporate social responsibility (CSR)

on financial distress using a sample of 310 financial reports from manufacturing companies listed on the Indonesia Stock Exchange (IDX) over a five-year period (2015-2019). Logistic regression analysis revealed that leverage, liquidity, profitability, and CSR significantly influence financial distress, while sales growth and GCG do not.

This study has several limitations. The reliance on secondary data from financial statements may not capture all aspects of financial health and distress. The sample is limited to manufacturing companies in Indonesia, which may not generalize to other sectors or geographical regions. The study period is confined to 2015-2019, and therefore, the findings may not account for recent economic changes or future trends. Future research should consider expanding the sample to include companies from various sectors and regions to enhance generalizability. Additionally, incorporating qualitative data could provide deeper insights into the contextual factors influencing financial distress. Extending the study period would also be beneficial in capturing long-term trends and impacts.

This study contributes to the theoretical framework by empirically demonstrating the significant effects of leverage, liquidity, profitability, and CSR on financial distress. It also highlights areas where traditional metrics like sales growth and GCG may not be as impactful, prompting further investigation into their roles. The findings offer practical insights for company management, emphasizing the importance of managing leverage and liquidity and enhancing profitability and CSR practices. Companies can use these insights to develop strategies that mitigate financial distress risks. The study provides valuable information for policymakers to develop regulations and incentives promoting responsible financial and social management. Implementing policies that encourage companies to adopt better leverage management, maintain adequate liquidity, and engage in CSR can help reduce the incidence of financial distress. This study underscores the importance of several key factors in preventing financial distress and provides a roadmap for companies and policymakers to enhance financial stability and sustainability.

Abbreviations

Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), Indonesia Stock Exchange (IDX).

Authors' information

Paula Fazila (PF) has a bachelor's degree from the Accounting Study Program, Faculty of Economics and Business, Tanjung Pura University, West Kalimantan, Indonesia.

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