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Does the financial distress matters on manufacturing firms?

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ABSTRACT

This study aims to analyze the influence of corporate governance mechanisms, liquidity, leverage, and company size on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The population in this study are Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2021. The samples in this study were 216 manufacturing companies. The method of determining the sample in this study is using a purposive sampling method. The analysis technique used is logistic regression. The independent variable in this study is the corporate governance mechanism which is proxied by institutional ownership, independent commissioners, audit committees and liquidity, leverage and firm size, while the dependent variable is financial distress. The results of this study indicate that the variable institutional ownership has a negative effect on financial distress, leverage has a positive effect on financial distress while independent commissioners, audit committees, liquidity and firm size have no effect on financial distress.

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1. INTRODUCTION

The company is a business organization whose main goal is to generate income and business activities. In carrying out the company's business activities often do not run smoothly. Companies that are able to face difficulties will survive and be able to carry out business activities, while companies that cannot find solutions to their problems will go out of business. A common problem that occurs in companies is financial difficulties(Keasey & Watson, 2019; Wahlen et al., 2018). Many large companies in Indonesia are experiencing financial difficulties bankruptcy(DWIARTI et al., 2021; K. R. Sari et al., 2022). Companies that experience bankruptcy can be said to be experiencing financial distress so that they can be threatened with de-listing or removal from the Indonesia Stock Exchange (IDX)(Alexander, 2023). Companies that experience de-listing or elimination generally experience financial distress or financial difficulties which result in them being unable to fulfill their obligations(Gerber, 2020). Based on data from www.idx.co.id, the largest number of companies experiencing delisting were manufacturing companies. What is interesting is the information gathered regarding the delisting of shares or delisting that occurred throughout 2019-2021 as many as 14 (fourteen) issuers were delisted

and some of them experienced forced delisting or delisting carried out by the IDX, while the rest experienced voluntary delisting or voluntary delisting.

For example the company PT. Borneo Lumbung Energi & Metal did show a significant decline in 2018. Net sales for this company amounted to 52.7 million dollars, very different from 2017 which earned net sales of 241.7 million dollars. In the same year, the company made a loss of 46.8 million dollars, which in the previous year was still able to make a profit of 34.3 million dollars. In addition, this company also received a fair opinion with the exception of the last 4 years and was suspended for € 20 days before being declared delisted by the IDX on January 20 2020 (Saleh & Mujahiddin, 2020). According to researchers, companies that have the potential to experience bankruptcy with the emergence of financial distress are very interesting to do research because it is a threat that can be experienced by all companies regardless of the type or size of the company and can occur at any. Seeing enormous losses for various parties raises the idea that financial distress predictions through prediction models need to be developed with the hope that they can be used as a reference to identify conditions leading to bankruptcy early on. Based on the background, phenomena and descriptions that have been presented above, the researcher is interested in conducting a research study by analyzing the mechanisms of corporate governance , liquidity, leverage and company size on financial occurrences by knowing the variables that can trigger financial distress in the hope that they can be used as a reference for identifying since the early existence of conditions that lead to bankruptcy.

One of the factors that can affect financial distress is the mechanism of corporate governance , which is a system that regulates the relationship between the board of commissioners, directors, and management in order to create a balance in managing the company (Nursiva & Widyaningsih, 2020; Soesetio, 2023). The existence of corporate governance is considered to be able to overcome the problem of conflict of interest between principals and agents which has an impact on the emergence of agency costs and has the potential to reduce company value(ElKelish, 2018; Nazir & Afza, 2018; Rashid Khan et al., 2020). Referring to this description, an illustration can be obtained that corporate governance is considered useful in predicting financial distress (Li et al., 2021). According to Munawar, et al (2018) elements of good corporate governance that can affect financial distress consists of institutional ownership, managerial ownership, independent board of commissioners and audit committee(Munawar et al., 2018). In this study, corporate governance mechanisms for predicting financial distress are proxied by institutional ownership, independent commissioners and audit committees.

Institutional ownership is part of the ownership structure within the company. With high share ownership by institutional investors, institutional shareholders can replace or strengthen the monitoring function of the board within the company (Helena & Saifi, 2018). The existence of institutional ownership of a company will increase the efficiency of the use of company assets, thus it is hoped that there will be monitoring of management decisions. Thus, the monitoring of institutional ownership will provide impetus for company management to work better to prevent the company from being financially involved distress. Previous research by Buchanan et al., (2018), Sukmawardini & Ardiansari (2018), which states that institutional ownership has a negative effect on financial distress(Buchanan et al., 2018; Sukmawardini & Ardiansari, 2018). High institutional ownership will avoid conditions of financial difficulties because supervision of management in carrying out operational activities can be carried out by the institution. The greater the proportion of institutional ownership of a company, the less likely the company will experience financial distress. This research contradicts research by Kurniasanti & Musdholifah (2018), Supriatna & Kusuma (2017) which states that institutional ownership has a significant positive effect on financial distress(Kurniasanti & Musdholifah, 2018; Supriatna & Kusuma, 2009).

Independent commissioners are commissioners who have no relationship with the company, are trusted to provide good oversight. If the supervision carried out related to decision making is carried out properly, then the possibility of agents making wrong decisions is smaller. The greater the number of independent commissioners in a company, the less likely it is to experience financial difficulties, because more supervision of company management controlled by independent parties can

reduce the possibility of a company experiencing financial distress (Emiraldi, 2017). Previous research by (M. S. Sari & Helmayunita, 2019; Supriatna & Kusuma, 2009), found evidence that independent commissioners have a negative effect on financial distress. However, contrary to the research of (Jodjana et al., 2021; Salsabilla & Triyanto, 2020) which proves that independent commissioners have a positive effect on financial distress.

The Indonesian Audit Committee Association (IKAI) in Fathonah (2016) defines an audit committee as a committee that works professionally and independently formed by the board of commissioners. Thus the task is to assist and strengthen the function of the board of commissioners in carrying out the supervisory function of the process of financial reporting, risk management, auditing and implementation of corporate governance. The Audit Committee is one of the most important things in creating a corporate good governance. This audit committee plays an important role in monitoring the company's operations and internal control system with the aim of protecting shareholders. The audit committee has the oversight function to reduce management's opportunistic nature in managing earnings by supervising financial reports and external audits. The measuring indicator is the number of audit members each year in a company (Puspitawati & Susandya, 2019). Previous research by Radifan & Yuyetta (2015), (Putri & Kristanti, 2020) states that audit committees have a negative effect on financial distress. Contrary to research by (Sari, 2019), (Fathonah, 2017), states that audit committees have a positive effect on financial distress. Not only corporate governance can affect the emergence of financial distress , there are internal company factors that are thought to influence financial distress distress namely liquidity, leverage , company size. In addition to corporate governance mechanisms, liquidity and leverage ratios and company size can be used to predict financial distress.

Liquidity is an asset that is traded in an active market and thus can be easily converted into cash at the current market price(Parlatore, 2019; Ranaldo & de Magistris, 2022). A liquid company is a healthy company because of its ability to use the company's liquid assets to pay its short-term debt and is less likely to experience financial distress Brigham & Houston (Brigham & Houston, 2013). In this way, if the company has good liquidity, it will reduce the occurrence of financial distress and increase investor confidence, because when a company has a high level of liquidity and the company is considered capable of paying off its current debts, that can be used as a horizontal reference for the company's flexibility. Previous research conducted by Wahyuni, et al (2020), Rachmawati & Suprihhadi (2021), proved that liquidity has a significant negative effect on financial distress in manufacturing companies in Indonesia. This research contradicts research conducted by Koemary, et al (2019), Septiani & Dana (2019), that liquidity has a positive effect on financial distress.

In addition, the leverage ratio can also be used as an indicator to predict financial conditions distress. The leverage ratio is a ratio to measure how much the company is financed using debt. The use of high debt can endanger the company because it will be included in the category of extreme leverage (extreme debt), namely companies that are in high debt levels and find it difficult to let go of the debt burden (Irham, 2017). In this study, leverage is measured by the Debt to Assets Ratio (DER). If the company's debt is large, the agency costs incurred will also be greater. Based on previous research by Vergilia, et al (2021), Rachmawati & Suprihhadi (2021), and Salsabilla Nila (2021), Utami (2021), states that there is a positive relationship between leverage with financial distress. This means that high corporate leverage will result in financial conditions distress will be higher. This research contradicts research by Sudaryo, et al (2021), Hidayat (2021), proving that leverage has a negative effect on financial distress.

The last factor that can affect financial distress is company size. Company size is an illustration of the total assets owned by the company (Kurniasanti & Musdholifah, 2018). Assets are chosen to calculate company size because assets are considered the most stable, therefore the size of the assets is related to the company's finances. The greater the total assets owned by the company, the less likely the company will experience financial distress. Company size determines the bargaining power in financial contracts, as large companies can usually choose funding from various forms of debt, including special offers that are more profitable than those offered by small companies (Haryati et al.,

2024). Based on previous research by Nilasari & Ismunawan (2021), Rachmawati & Retnani (2020) which shows that company size has an effect but contrary to research by Novyarni & Dewi (2020), Nila (2021) which proves that company size has a positive effect on financia distress.

Based on the description of the problems and background above, the researcher is interested in conducting research with the title " Analysis of the Influence of Corporate Governance Mechanisms, Liquidity, Leverage, and Company Size on Financial Distress Period 2019-2021)".

2. RESEARCH METHOD

Agency theory

Agency theory is a form of relationship between the principal and the agent, in which the agent performs services for the interests of the principal and delegates authority in making decisions from the principal to the agent (Baker, 2019; Meckling & Jensen, 1976). According to Supriyono (2018) agency theory, namely that there is a contractual link between the agent and the principal, the principal delegates the authority he has over policy-making to the principal by prioritizing interests in obtaining maximum profits in a company so as to minimize burdens, then with this agency theory expected to be able to minimize agent actions that are not in the principal's control(Lane & Kivisto, 2008). In Chen research (2008) explains that the application of corporate governance can improve company performance and if it is implemented optimally, the company is able to avoid the risk of financial distress(Chen, 2008). According to (Meckling & Jensen, 1976) institutional ownership and independent commissioners are the two main corporate governance mechanisms that help control agency problems (agency conflict). Based on agency theory, the existence of an audit committee is able to increase oversight of possible manipulation of financial statements(Gebrayel et al., 2018). The audit committee also makes recommendations for action to the entire board of directors, in other words, retains a number of responsibilities for decision-making in terms of preparing financial reports.

According to (Pandansari & Khasanah, 2020)this theory can be related to liquidity, that is, if the short-term debt obtained by the company is of high value, then the company is considered able to repay the credit provided by creditors. In addition, it can also be seen that it is related to leverage, because if you look at the financial statement information that can be used as an external party to assess the company's financial condition, if the profits obtained by the company are high in a relatively long period of time, then it can be said that the company can run its operations well. The relationship between agency theory and company size states that large companies have higher agency costs than small companies. Large companies may disclose more information in an effort to reduce agency costs (Meckling & Jensen, 1976).

Effect of institutional ownership on financial distress

Institutional ownership is a condition in which common shares are mostly owned by institution. Institutional ownership has the power and interest to reduce financial distress in Kurniasanti & Musdholifah companies (2018). The existence of institutional share ownership in the company will make the monitoring process in the company bigger, which results in the potential for financial distress in the company getting smaller. Institutional ownership can reduce the occurrence of financial distress within the company. Institutional ownership can overcome problems such as agency costs and asymmetric information so that interest alignment occurs (Harahap, 2015). According to (Widhiadnyana & Ratnadi, 2018), institutional ownership of more than 5% will make supervision and control of manager performance tighter. Research by Utami (2021),(Salsabilla & Triyanto, 2020), which proves that institutional ownership has a negative effect on financial distress . Based on the statement above, the hypothesis can be formulated as follows:

H1 : Institutional ownership has a negative effect on financial distress

Effect of independent commissioners on financial distress

Having an independent commissioner in the company can reduce financial distress. Independent commissioners act as supervisors of managers in implementing corporate governance. Independent commissioners represent the function and position of the shareholders. The existence of

an independent commissioner in the company can be used as a counterweight and review mechanism within the company(Widhiadnyana & Ratnadi, 2018). Research by (Fathonah., 2017), Sari (2019) in his research proved the result that ownership of a number of independent commissioners has a negative effect on financial distress. Based on the statement above, the hypothesis can be formulated as follows:
H2 : Independent commissioners have a negative effect on financial distress.

Effect of the audit committee on financial distress

The audit committee is a corporate governance mechanism that is assumed to be able to reduce agency problems that arise in a company which, if they occur continuously, can cause financial distress to the company. Therefore, it is expected that the existence of an effective audit committee can change different policies in achieving accounting profit in the next few years so that the company can avoid financial problems. The more the number of audit committees will improve the company's performance for the better and prevent the possibility of financial distress (Haziroh & Nugroho, 2017). Research by Radifan & Yuyetta (2015), (Putri & Kristanti, 2020) proves that audit committees have a negative effect on financial distress. Based on the statement above, the hypothesis can be formulated as follows:
H3 : The audit committee has a negative effect on financial distress.

Effect of liquidity on financial distress

Liquidity is the timely ability of a company to pay its short-term financial obligations, if the current ratio is low, it means that the company's ability to pay obligations is also low because the assets owned by the company are not sufficient to pay the company's obligations and the company is experiencing a financial decline, it is feared that the company is experiencing financial distress (Widhiari & Merkusiwati, 2015). If the company is able to fund and pay off its short-term obligations properly, the potential for the company to experience financial the stress will be smaller. Research by Wahyuni et al., (2020), Rachmawati & Suprihhadi, (2021), proves that the liquidity ratio has a negative effect on financial distress. Based on the statement above, the hypothesis can be formulated as follows:
H 4 : liquidity has a negative effect on financial distress .

Effect of leverage on financial distress

Leverage is an external source of funds because leverage represents the existing debt within a company. The greater the leverage ratio in a company, the higher the value of a company's debt, so that the greater the investment funded from loans. As a consequence, the company must pay a higher interest expense. Leverage analysis is needed to measure the company's ability to pay debts (short and long term). If a financing company uses more debt, it is at risk that there will be payment difficulties in the future due to greater debt than assets owned. If this situation cannot be handled properly, there is a potential for financial distress is even higher. Research by Rachmawati & Retnani, (2020), Vergilia et al., (2021), Rachmawati & Suprihhadi, (2021), which proves the result that leverage has a positive effect on financial distress. This means that high corporate leverage will result in higher financial distress conditions. Based on the statement above, the hypothesis can be formulated as follows:
H5 : Leverage has a positive effect on financial distressed .

Effect of company size on financial distress

Size is a reflection of the company's opportunities to enter capital market competition and in the context of lending capital to creditors (Puspitasari et al, 2017). Company size, which is measured using total assets, has a negative effect on financial distress, because the greater the total assets owned by the company will have an impact on increasing the ability to pay off the company's obligations in the future, so that the company can avoid financial problems. The results of research by Nilasari & Ismunawan, (2021), Rachmawati & Retnani, (2020), which prove that company size has a negative effect on financial distress. Based on the statement above, the hypothesis can be formulated as follows:
H6 : Company size has a negative effect on financial distress

Sampling method

This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period whose data was obtained by accessing the official website of the Indonesian Stock Exchange (IDX), namely www.idx.co.id. The population for this research is all manufacturing companies on the Indonesia Stock Exchange for the period 2019 – 2021. From the research population, a sample of 216 companies was obtained. The method of determining the sample in this study was by purposive sampling technique, in which the sample was selected using certain criteria and matched the research objectives. Data collection methods used are documentation and literature. Data analysis using logistic regression.

Institutional ownership is the ownership of a company by all types of institutions, both foreign and domestic, which are engaged in financial and non-financial activities. With this broad oversight, management will work more strictly and disciplined, and make every effort to improve the company's performance. Institutional ownership is measured by calculating the proportion of company share ownership by institutions from all outstanding shares (Kusumaningtyas, 2015).

$$\text{KEPINST} = \frac{\textit{The number of shares owned by the institution}}{\textit{Number of outstanding shares}}\ x\ 100\% \qquad \text{............................(1)}$$

Companies listed on the Exchange must have commissioners with the condition that the proportion of the number of independent commissioners compared to the number of commissioners is 30% of the total number of commissioners. Independent commissioners are measured using the proportion of independent commissioners in the company from the total number of commissioners Sari and Helmayunita (2019) . Independent commissioners are measured by:

$$\text{KOM_INDEP} = \frac{\textit{Independent Board of Commissioners}}{\textit{Total Board of Commissioners}} x100\% \qquad \text{............................(2)}$$

Based on the Decree of the Board of Directors of the Jakarta Stock Exchange (BEJ) Number Kep315/BEJ/06/2000 it is stated that the membership of the Audit Committee consists of at least three members, one of whom is an independent commissioner of a listed company who also serves as chairman of the Audit Committee, while the other members are parties independent external parties where at least one of them has skills in the field of accounting and or finance. In this study, the Audit Committee is calculated based on the number of audit committee members (Harahap, 2017).

$$\text{KOM_AUDIT = audit committee period t} \qquad \text{............................(3)}$$

The liquidity ratio states the level of a company's ability to meet its financial obligations when billed. The high liquidity ratio shows the company's ability to pay its financial obligations at maturity. Therefore, it is expected that there is a negative relationship between the liquidity ratio and financial distress. The measurement proxy used to measure the liquidity ratio in this study is the current ratio (Kasmir, 2016):

$$\textit{Current ratio}\ \text{(CR)} = \frac{\textit{Current asset}}{\textit{Current liabilities}} \qquad \text{............................(4)}$$

According to Kisman & Dian (2019), Leverage is a ratio that describes the extent to which a company is financed by debt. This ratio is used to measure a company's ability to pay all of its debts, both short-term debt and long-term debt if the company is liquidated. The use of these funds will result in the company paying the loan principal and interest. The size of the company's debt must be balanced with good income so that the risk of financial distress in the company will be small. The higher the leverage in the company, the higher the financial distress . In this study, the ratio used to measure leverage is total liabilities to total assets (Kasmir, 2016).

$$\text{DER} = \frac{\textit{total debt}}{\textit{total assets}} \qquad \text{............................(5)}$$

Company size describes how big the total assets are owned by the company (Dirman, 2020). Companies with large total assets will give a positive signal to creditors, because the company is considered capable of paying off debt in the future, so the company can avoid financial distress . According to Muigai & Muriithi (2017), small companies tend to experience financial distress, due to their inability to access credit. The larger the size of the company, the smaller the financial distress in the company. Company size in this study is measured using the total asset value of the company (Rahmawati and Khoiruddin, 2017):

$$\text{SIZE} = (\mathit{Total\ Assets}) \qquad \text{............................(6)}$$

Financial Distress is the condition of the company where the company experiences a decline in financial conditions such as decreased profits, the inability of the company to fulfill its obligations both short term and long term (Silalahi, et al 2018). Financial difficulties (financial distress) in this study was measured by ICR (interest coverage ratio) Yudiawati & Indriani, (2016) :

$$\text{ICR}= \frac{Operating\ Profit}{Interest\ Expense} \qquad \text{............................(7)}$$

Statistical calculations and hypothesis testing with logistic regression analysis in this study were carried out with the help of the SPSS program. The equation formed is as follows:

$$\text{Ln} \frac{FD}{1-FD} = \alpha + \beta 1\ \text{KEPINST} + \beta 2\ \text{KOM_INDEP} + \beta 3\ \text{KOM_AUDIT} + \beta 4\ \text{CR} + \beta 5\ \text{DER} + \beta 6\ \text{SIZE} + e \qquad \text{............................(8)}$$

3. RESULTS AND DISCUSSIONS

Descriptive statistical test

This statistical test was carried out to provide a description of the variables in the study. The descriptive statistics used in this study consist of determining the minimum value, maximum value, average value (mean) and standard deviation of each independent variable. The results of descriptive statistics can be seen in Table 1 as follows:

Table 1. Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Means	std. Deviation
KEPINST	216	.08	1.09	.6922	.21421
KOM_INDEP	216	.17	.75	.4034	.10170
KOM_AUDIT	216	1.00	5.00	3.0926	.38669
CR	216	.0011	24.8036	2.814271	2.9150375
DER	216	.07	10.28	.9429	1.01399
SIZE	216	20.75	33.54	28.7997	1.71692
FD	216	.00	1.00	.3426	.47568
Valid N (listwise)	216				

Source: Appendix 3, data processed (2022)

Based on table 5.1 above, it can be seen that the number of samples (N) in this study was 216 samples, showing the lowest value, highest value, average value (mean), and standard deviation of each variable. Based on Table 5.1, it can be seen that the description of the data distribution is as follows:

1) In the variable Institutional Ownership (KENPIST) with (N) the number of samples used was 216 samples with a minimum value of 0.08 and a maximum value of 1.09. The average value (mean) is 0.6922 and the standard deviation is 0.21421.
2) In the Independent Commissioner variable (KOM_INDEP) with (N) the number of samples used was 216 samples, which had a minimum value of 0.17 and a maximum value of 0.75. The average value (mean) is 0.4034 and the standard deviation is 0.10170.

3) In the Audit Committee variable (KOM_AUDIT) with (N) the number of samples used totaling 216 samples has a minimum value of 1.00 and a maximum value of 5.00. The average value (mean) is 3.0926 and the standard deviation is 0.38669.
4) In the variable Liquidity (CR) with (N) the number of samples used was 216 samples with a minimum value of 0.0011 and a maximum value of 24.8036. The average value (mean) is 2.814271 and the standard deviation is 2.9150375.
5) In the Leverage variable (DER) with (N) the number of samples used was 216 samples with a minimum value of 0.07 and a maximum value of 10.28. The average value (mean) is 0.9429 and the standard deviation is 1.01399.
6) In the variable company size (SIZE) with (N), the number of samples used was 216 samples, which had a minimum value of 20.75 and a maximum value of 33.54. The average value (mean) is 28.7997 and the standard deviation is 1.71692.
7) In the variable Financial Distress (Y) with (N), the number of samples used was 216 samples, which had a minimum value of 0.00 and a maximum value of 1.00. The average value (mean) is 0.3456 and the standard deviation is 0.47568.

Test the feasibility of the regression model (Hosmer and Lemeshow's goodness of fit test)

Based on table 5.2 above, it shows the results of testing the prediction model with observations obtained a Chi-square value of 13.967 with a significance of 0.083 with a significance value greater than 0.05, this means that there is no difference between the estimated data of the logistic regression model and the observation data. , then (HO)is accepted because the hypothesized model is fit with the data, which means the model is able to predict the value of its observations.

Test the feasibility of the entire model (overall fit model)

Chi Square (X2)

The test was carried out by comparing the value between -2 log likelihood at the beginning (block number = 0) with the -2 log likelihood value at the end (block number = 1). If there is a decrease in the value of -2 log likelihood , this indicates a good regression model or in other words the model is hypothesized to be fit with the data. The results of the fit model test show a value of -2 log likelihood at the beginning of the model, that is, without including the independent variables. The value of -2 log likelihood is 277.664 (block number = 0) and for –2 log likelihood with (block number = 1) is 254.120. Based on the test results, it shows that there is a decrease in value or in other words, the hypothesized model is fit with the data. This is because there may be a relationship between the independent variables and the dependent variable.

Coefficient of Determination (Nagelkerke R.Square)

Nagelkerke R.Square test , it shows the Nagelkerke R Square value of 0.143 or 14.5%, which means that the variability of the dependent variable can be explained by the independent variables, while the rest is explained by other variables outside the research model of 0.857 or 85.7%.

Multicollinearity Test

Based on the results of the normality test, it shows that all correlation coefficient values between variables are smaller than 0.9. This means that there are no symptoms of multicollinearity between the independent variables used in the study.

Classification table

The classification table shows the predictive power of the regression model to predict the possibility of a company experiencing financial distress . It can be seen that according to the predictions of companies experiencing financial distress there are 74 companies while actual observations show that there are 14 companies experiencing financial distress. Then the accuracy of the model is 14/74 or 19%. According to the prediction , there are 142 companies that do not experience financial distress , while the actual observation results show that there are 136 companies that do not experience financial distress , so the accuracy of this model is 136/142 or 96%. So that the results of the overall prediction accuracy is 69%.

Logistic regression model formed

Table 2. Logistic Regression Model Test Results Formed

Variables in the Equation							
		B	SE	Wald	df	Sig.	Exp(B)
Step 1[a]	KEPINST	-1,541	.736	4,382	1	.036	.214
	KOM_INDEP	-1,992	1,585	1,580	1	.209	.136
	KOM_AUDIT	-.628	.421	2,227	1	.136	.533
	CR	-.044	061	.515	1	.473	.957
	DER	.695	.251	7,672	1	006	2003
	SIZE	-.005	094	003	1	.956	.995
	Constant	2,798	2,987	.878	1	.349	16,418

Source: Appendix 10, data processing (2022)

Based on table 2, the logistic equation formed is as follows. Ln $\frac{FD}{1-FD}$= 2.798 - 1.541 KEPINST - 1.992 KOM_INDEP - 0.628 KOM_AUDIT - 0.044 CR + 0.695 DER - 0.005 SIZE + e

Based on the logistic regression model formed, the results can be interpreted as follows:

1) A constant value of 2.798 means that if the variable institutional ownership (KEPINST), independent commissioner (KOM_INDEP), audit committee (KOM_AUDIT), liquidity ratio (CR), leverage ratio (DER), company size (SIZE) is constant or equal to 0, then the value of *financial distress* (Y) is 2.798.
2) The logistic regression test of institutional ownership variable with the KEPINST formula shows a negative regression coefficient of -1.541 and a significance level of 0.036. Where this value is less than 0.05 (0.036 <0.05) which means (H_1) is accepted, so it can be concluded that the ratio of institutional ownership has a negative effect on *financial distress.*
3) The logistic regression test for the independent commissioner variable using the KOM_INDEP formula shows a negative regression coefficient of -1.992 and a significance level of 0.209. Where the value is greater than 0.05 (0.209> 0.05) which means (H_2) is rejected, so it can be concluded that the ratio of independent commissioners has no effect on *financial distress.*
4) Logistic regression testing of the audit committee variable using the KOM_AUD formula shows a negative regression coefficient of -0.628 and a significance level of 0.136. Where the value is greater than 0.05 (0.136> 0.05) which means (H_3) is rejected, so it can be concluded that the audit committee ratio has no effect on *financial distress.*
5) Logistic regression testing of the liquidity variable with the CR formula shows a negative regression coefficient of -0.044 and a significance level of 0.473. Where the value is greater than 0.05 (0.0473> 0.05) which means (H_4) is rejected, so it can be concluded that the liquidity ratio has no effect on *financial distress.*
6) Logistic regression testing of the *leverage variable* with the DER formula shows a positive regression coefficient of 0.695 and a significance level of 0.006. Where the value is smaller than 0.05 (0.006 <0.05) which means (H_5) is accepted, so it can be concluded that the *leverage ratio* has a positive effect on *financial distress.*
7) Logistic regression testing of firm size variable with the SIZE formula shows a negative regression coefficient of -0.005 and a significance level of 0.956. Where the value is greater than 0.05 (0.956> 0.05) which means (H_6) is rejected, so it can be concluded that the ratio of company size has no effect on *financial distress.*

Effect of institutional ownership on financial distress

The first hypothesis states that the ratio of institutional ownership has a negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The results of this study state that institutional ownership has a negative effect on financial distress in manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021, so (H1) is accepted. This identifies that with high institutional investor share ownership, institutional shareholders can

replace or strengthen the monitoring function of the board within the company. The existence of institutional ownership of a company will increase the efficiency of the use of company assets, thus it is hoped that there will be monitoring of management decisions. Thus, the monitoring of institutional ownership will provide impetus for company management to work better to prevent the company from being financially involved distressed . High institutional ownership will avoid conditions of financial difficulties because supervision of management in carrying out operational activities can be carried out by the institution. The greater the proportion of institutional ownership of a company, the less likely the company will experience financial distress (Helena & Saifi, 2018) The results of this study are in line with (Utami, 2021), Cinantya & Merkusiwati (2015), which state that institutional ownership has a negative effect on financial distress(Sayidah & Assagaf, 2020).

Effect of independent commissioners on financial distress

The second hypothesis states that the ratio of independent commissioners has a negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The results of this study state that the independent commissioner has no effect on financial distress in Manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021 . So (H2) is rejected. This identifies that the bigger or smaller the board of independent commissioners in a company will not affect the occurrence of financial distress in a company. This can happen because in Indonesia, currently the existence of an independent board of commissioners in a company is only a condition or limited to fulfilling existing regulations so that the performance provided by the presence of an independent board of commissioners is still not optimal, especially to prevent financial distress . The task of an independent commissioner in a company is to supervise the board of directors regarding their behavior in managing the company so that the board of directors does not make or make decisions and policies that can harm the company. The smaller the number of independent commissioners in the company, the more likely the company is experiencing financial distress . Conversely, the high number of independent commissioners does not guarantee a low possibility of financial distress because the higher the number of independent commissioners in the company, this can weaken the independence of the independent commissioners. In conclusion, the high or low number of independent commissioners has no effect on financial distress (Damayanti & Kusumaningtias, 2020). This research is in line with (Damayanti & Kusumaningtias, 2020), Guritno & Fahria (2020) which states that the independent commissioner has no effect on financial distress.

Effect of the audit committee on financial distress

The third hypothesis states that the audit committee ratio has a negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The results of this study state that the audit committee has no effect on financial distress in manufacturing companies listed on the Indonesian stock exchange in 2019-2021 . So (H3) is rejected. This identified that because some companies still have a number of audit committees that are less or more than three people that are not in accordance with the regulations of the Financial Services Authority No.55/POJK.04/2015 which have been established. From these results it can be said that the audit committee is less able to support the effectiveness of the performance of the audit committee. This suggests that audit committees become ineffective if their size is too small or too large because audit committees with a large number of members lose focus and are less participatory than those with a smaller size. The more members of the audit committee sometimes even make it difficult to agree on decisions in carrying out their performance. But on the other hand, audit committees with a small number of members lack a variety of skills and knowledge so they become ineffective, so audit committees cannot influence financial distress (Putra, et al 2019). This research is in line with Putra, et al 2019, Koemary, et al (2019), which states that the audit committee has no effect on financial distress.

Effect of liquidity on financial distress

The fourth hypothesis (H4) states that the liquidity ratio has a negative effect on financial distress in manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021. The results

of this study state that the liquidity ratio has no effect on financial distress in manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021. So (H4) is rejected. This identifies that the current ratio cannot predict the possibility of a company's financial distress. In current assets there are receivables and inventories that must be converted into cash so that they can be used to pay current debts. Each company has a different ability and time to convert it so that companies with high liquidity can be hampered in paying current debts because the funds are still held up by third parties. Companies that are unable to pay their current debts sometimes attract new loans to pay off their current debts. Current liabilities do not reflect the use of corporate debt because companies have low current liabilities and are more concentrated on their long-term debt. This is because long-term debt has a large nominal amount and has a longer repayment period and is used by manufacturing companies to finance their operations in production. The high or low value of liquidity does not describe the condition of the company as a whole and cannot predict the possibility of a company's financial distress. Kusumawati & Birnanitta (2020) . The results of this study are in line with Nisa (2021), Kusumawati & Birnanitta (2020), which state that the liquidity ratio has no effect on financial distress.

Effect of leverage on financial distress
The fifth hypothesis states that the leverage ratio has a positive effect on financial distress in manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021. The results of this study state that the leverage ratio has a positive effect on financial distress in manufacturing companies listed on the Indonesian stock exchange for the 2010-2021 period. So that (H5) is accepted. This indicates that the higher the company's leverage, the greater the likelihood of a company's financial distress. The use of debt will create an obligation for the company to return the loan along with interest. Companies that have high total debt when compared to their total assets can increase the risk of payment difficulties in the future. The higher the company's debt, the higher the probability of bankruptcy because companies that have a lot of debt must pay high interest as well. Companies that rely too much on debt have a high risk of default when the company cannot repay the interest and principal of the loan when requested by creditors. It can be concluded that companies with high levels of leverage are vulnerable to financial difficulties or have a high risk of possible financial distress Kusumawati & Birnanitta (2020). The results of this study are in line with Kusumawati & Birnanitta (2020), Nisa (2021), Utami (2021), which state that there is a positive relationship between leverage and financial distress.

The effect of company size on financial distress
The sixth hypothesis states that company size has a negative effect on financial distress in manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021. The results of this study state that company size has no effect on financial distress in manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021. So (H6) is rejected. This identifies that Large companies that have large total assets do not necessarily have high profits due to poor asset management. Large companies cannot be separated from financial risks that are also large and change every year, such as economic risks, for example fluctuations in the value of the rupiah against the US dollar, interest rates and inflation rates which will have an impact on the company's finances so that not only small companies have difficulty paying debt, but large companies can also find it difficult to pay off their debts because of this risk. From this explanation, it can be concluded that company size cannot be used to predict a company's financial distress. Kusumawati & Birnanitta (2020), The results of this study are in line with research conducted by Kusumawati & Birnanitta (2020), Guritno & Fahria (2020), Putri & Kristanti (2020), and Putri (2020) which state that company size has no effect on financial distress.

4. CONCLUSION

This study aims to determine the effect of the Corporate Governance mechanism which consists of institutional ownership, independent commissioners, audit committees, and liquidity ratios, leverage ratios, company size on financial distress in manufacturing companies listed on the Indonesia Stock

Exchange in 2019-2021. This study uses 72 samples of manufacturing companies with 216 data observations. Sampling using purposive sampling technique with data analysis technique used in this study is logistic regression. Based on the results of the analysis and research that has been done, the conclusions are: institutional ownership has a negative effect on financial distress, leverage has a positive effect on financial distress, independent commissioners, audit committees, liquidity and company size have no effect on financial distress. After analyzing and discussing the main issues and based on the conclusions in this study, the suggestions that can be given are as follows: This study has limitations in the use of data and only samples focused on manufacturing companies. For further research it is suggested that research from other sectors such as the financial sector be carried out. For further research it is suggested to add managerial ownership variable as one of the corporate mechanisms governance to predict occurrence financial distresse.

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