ANALYSIS OF FINANCIAL RATIOS AND GOOD CORPORATE GOVERNANCE MECHANISMS IN PREDICTING FINANCIAL DISTRESS

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Abstract – This research proposal aims to analyze financial ratios through the ratio of Profitability, Liquidity, and Solvency as well as the Good Corporate Governance Mechanism in predicting financial distress. The sampling technique used was purposive sampling. The number of samples used in this study was 47 companies from 60 manufacturing companies in the basic industry and chemical sectors listed on the Indonesia Stock Exchange with a research period of 2016-2018. The model estimation used is logistic regression analysis. The results of this study indicate that the one that has a significant positive effect on the probability of a company experiencing financial distress is the profitability ratio (Return on Asset - ROA), while the liquidity ratio (Current Ratio - CR) and the Audit Committee have a significant negative effect on the probability of the company experiencing financial distress. Besides, those that have a positive but insignificant effect on the probability of a company experiencing financial distress are the Solvency Ratio (Debt to Equity Ratio - DER) and Independent Commissioners, while Institutional Ownership has a negative but insignificant effect on the probability of the company experiencing financial distress.

Keywords: Profitability, Liquidity, Solvency, Mechanisms of Good Corporate Governance, Financial distress.

Preliminary

Research Background

The global economy in 2019, which is predicted to weaken by the Global CEO of the World Bank, is also predicted to have an impact on Indonesia's domestic economy in the fourth quarter of 2018 by the Director-General of Taxes, Ministry of Finance of the Republic of Indonesia. This economic condition will affect the company's performance so that it is predicted that several companies will experience bankruptcy, both small and large companies.

Bankruptcy that occurs is usually preceded by a condition in which the company is experiencing financial difficulties, known as financial distress. Financial distress is defined as the stage of decline in financial conditions that occur before bankruptcy or liquidation (Platt & Platt, 2002). According to Brahmana in Carolina, Marpaung, & Pratama (2017), a company can be categorized as experiencing financial distress if the company has a performance that shows a negative operating profit, negative net income, negative equity book value, and companies that are merging. By looking at these conditions, it is hoped that it can assist the company in anticipating further financial problems and bankruptcy.

PT Dwi Aneka Jaya Kemasindo Tbk (DAJK) officially resigned as a member of the domestic stock exchange through delisting of shares as of May 17, 2018, and was declared bankrupt by the Central Jakarta District Court on November 22, 2018, after being entangled in debt from its creditor PT Bank Mandiri (Persero) Tbk amounting to 428.27 billion (market.bisnis.com, 2018).

In their research, Tanjung et al. (2019) stated that to make a company survive, it is important for management to pay attention to and analyze the company's financial statements by using financial ratios regularly. The financial statements show all the information about the company's financial condition in one period and describe the company's future condition. Thus, in facing and overcoming bankruptcy conditions, companies can predict these situations through financial statement analysis through financial ratio analysis.
Financial ratio analysis can be used to predict financial distress, including the ratio of profitability, liquidity, solvency, leverage, and activity. Bintara (2018) in his research stated that one of the important indicators to see the company's prospects in the future is to see the extent of the company's profitability growth. With the fulfillment of the company's survival, the possibility of the company experiencing financial distress in the future will be smaller. According to the results of research by Maulida, Moehaditoyo, & Nugroho (2018) profitability has a significant negative effect in predicting financial distress. Meanwhile, Liana & Sutrisno (2014) stated that profitability has a significant positive effect on financial distress.

The liquidity ratio is considered capable of predicting financial distress because if the company is deemed unable to fulfill its short-term obligations, it can be predicted that the company will go bankrupt. Research by Yustika (2015) and Ardian, Andini, & Raharjo (2017) shows a significant effect of liquidity on financial distress. This finding contradicts the results of research by Liana & Sutrisno (2014) and Maulida et al. (2018) which states that the liquidity ratio shows no significant effect on financial distress. The difference in some research results is that the liquidity ratio needs to be investigated further whether it can be the right predictor or not in predicting financial distress.

The solvency ratio or often referred to as leverage is used to measure a company's ability to meet its long-term obligations to finance the company. If the use of obligations is too high, it will have an impact on the condition of the company which can lead to financial distress. Ardian, Andini, & Raharjo (2017) in their research stated that leverage has an influence on financial distress, which shows that every increase in leverage, the possibility of financial distress will also increase. Meanwhile, Putri & Merkusiwati’s research (2014) states that leverage does not affect financial distress.

According to Porter, 1991 (in Putri & Merkusiwati, 2014) the reason a company is successful or failed is more due to the strategy set by the company, such as the strategy for implementing corporate governance. Good corporate governance (GCG) is defined as a company's internal control system that has the main objective of managing significant risks to fulfill its business objectives through safeguarding company assets and increasing shareholder investment value (Effendi, 2016: 2). Management's skills in managing all aspects of the company to protect shareholders can avoid financial distress. Helena & Saifi's research (2018) concluded that the Board of Directors' Size and Institutional Ownership have a significant effect on financial distress. However, the proportion of Independent Commissioners and the Audit Committee has no significant effect on financial distress. Meanwhile, Wayan et al. (2014) in their research concluded that institutional ownership, independent commissioners, and the competence of the audit committee had no significant effect on the likelihood of financial distress.

This research was conducted to determine the effect of financial ratios and the mechanism of Good Corporate Governance on the probability of companies experiencing financial distress. This study replicates several previous studies by adding the variables studied and using different measurement indicators for the dependent variable on financial distress. The independent variables studied include the profitability ratio proxied by Return on Assets (ROA), the liquidity ratio proxied by the Current Asset (CR), the solvency ratio proxied by the Debt to Equity Ratio (DER), and the Good Corporate Governance (GCG) mechanism proxied by Institutional Ownership, Independent Commissioner, and Audit Committee.

LITERATURE REVIEW, FRAMEWORK FOR THINKING AND HYPOTHESES

Financial Distress, Financial Ratios, and Good Corporate Governance

Financial Distress

Platt & Platt (2002) define financial distress as the stage of deteriorating financial conditions that occur before bankruptcy or liquidation. Before the company is truly declared bankrupt or bankrupt, the company will experience several conditions in the form of financial difficulties or financial distress which are marked by several conditions, such as experiencing the company's inability to fulfill its obligations, both short and long-term, the sacrifice of using large company assets but sales. Generated is not optimal so that losses arise and even losses are experienced continuously.
If the condition of the company continues to experience losses, it cannot be denied that creditors and shareholders will withdraw to cooperate with the company, which indicates that the company is entering a financial distress phase. However, companies experiencing financial distress can be rehabilitated for the benefit of bondholders, shareholders, and society (Dewi & Mulya, 2017).

According to Rayenda in Andre & Taqwa (2014), financial distress occurs because the company is unable to manage and maintain the stability of the company's financial performance, which stems from a failure to promote the products it makes which causes sales to decline so that income decreases from the lack of sales allowing the company to experience operating losses and net loss for the current year. Furthermore, the resulting losses will result in a capital deficiency due to a decrease in the value of the retained earnings used to make dividend payments, so that the total equity as a whole will also experience deficiency.

Financial Ratio

Profitability

This ratio is used to see how much profit or profit the company gets to meet the survival of the company. Kasmir (2017: 196) defines the profitability ratio is a ratio used to assess a company's ability to seek profit. The profitability ratio according to Hery (2018: 193) consists of the return on assets (Return on Asset), the return on equity (Return on Equity), the gross profit margin (Gross profit margin), the operating profit margin (operating profit margin), the margin net profit (Net profit margin). In this study, the profitability ratio is measured using the Return on Assets. Return on Asset (ROA) is used to see the effectiveness of the use of company assets in obtaining profits. The more effective the use of assets to generate profits is expected to reduce the possibility of financial distress.

Liquidity

The liquidity ratio is indicated by the size of the current assets. How quickly (liquid) the company fulfills its financial obligations, generally short-term obligations. According to Hery (2018: 152), the liquidity ratio consists of the current ratio, the very current ratio, the quick ratio or acid test ratio, and the cash ratio. In this research, the liquidity ratio used is the Current Ratio. Current Ratio (CR) can be used to see how liquid a company is in settling its short-term obligations that are due by using available current assets. The availability of current assets in settling short-term obligations that are due soon indicates that the company's finances are still in a current state so that the value of the Current Asset is high. This can avoid the possibility of financial distress.

Solvability

The solvency ratio or what is often referred to as the leverage ratio is used to measure the company's ability to meet its long-term obligations to finance the company using capital or assets. Van James C. Van Horne and John M Wachowicz (2012: 233) define the solvency ratio or leverage is measuring the ratio of the funds provided by the owner with the funds borrowed from the company's creditors. This study uses a solvency ratio as measured by equity, namely the Debt to Equity Ratio (DER) which is used to see the ability of the company's capital or equity to fulfill all of its obligations. If the company's liabilities are getting bigger but not balanced with sufficient capital, the Debt to Equity Ratio (DER) value will be even greater. The greater the Debt to Equity Ratio (DER) value will increase the likelihood of financial distress.

Good Corporate Governance

Governance comes from French "Gubernance" which means control. Furthermore, the word is used in the context of corporate activities or other types of organization, to become corporate governance.

The Organization for Economic Co-operation and Development or OECD defines corporate governance as a system used to direct and control the company's business activities.
Corporate governance regulates the division of duties, rights, and obligations of interested parties in the company (stakeholders) to achieve organizational goals (Sutojo and Aldridge, 2008: 1-3). In this study, the good corporate governance mechanisms studied are Institutional Ownership, Independent Commissioners, and the Audit Committee.

**Institutional Ownership**

One of the factors that affect the company's financial performance is Institutional Ownership. According to Fathonah (2016), with institutional ownership, the monitoring of companies will increase. The monitoring of the company is carried out by other institutions that invest in a company, supported by better information channels than individual ownership. The greater the institutional ownership is expected to reduce the possibility of financial distress.

**Independent Board of Commissioners**

Based on the decision of the Financial Services Authority Regulation Number 33/ OJK.04/2014 Independent commissioners are members of the board of commissioners who come from outside the issuer or public company and meet the requirements, namely not a person who works or has the authority and responsibility to plan, lead, control, or supervising the activities of the issuer or public company within the last six months, does not have direct or indirect shares, has no affiliation with the issuer or public company, members of the board of commissioners, members of the board of directors, or major shareholders, does not have a good business relationship directly or indirectly related to the business activities of the issuer or public company.

Independent Commissioner, whose function is to supervise the performance of the board of directors to control the company's finances so that things do not happen that can harm the company. Thus, the Independent Commissioner can reduce the possibility of financial distress.

**Audit Committee**

Based on the decision of the Financial Services Authority Regulation Number 55 / POJK.04 / 2015, the audit committee is a committee formed by and responsible to the board of commissioners in helping carry out the duties and functions of the board of commissioners. The main task of the Audit Committee is to assist the board of commissioners in terms of supervision. The Forum for Corporate Governance in Indonesia (FCGI) requires the audit committee to meet three to four times a year. The frequency of more frequent meetings provides more effective monitoring and monitoring mechanism for financial activities. The more frequent Audit Committee meetings will increase the supervision of company finances. Thus the possibility of financial distress can be reduced.

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**Figure 1: Framework**

[Diagram showing the relationships between Profitability (ROA), Liquidity (CR), Solvability (DER), Institutional Ownership, Independent Board of Commissioners, Audit Committee, and Financial distress with hypotheses H1, H2, H3, H4, and H5.]
RESEARCH METHODS

Types of research

This type of research is causal research, namely research that aims to test hypotheses about the effect of one or more (independent) variables on other (dependent) variables. This study will analyze the financial ratios of profitability, liquidity, solvency, and the Good Corporate Governance Mechanism in predicting financial distress.

Operational Definitions of Research Variables

Financial distress is a condition in which the company's financial condition is declining, if it happens continuously it can lead to bankruptcy. Brahmin in Carolina et al. (2017) states that a company can be categorized as financial distress if the company has a performance that shows a negative operating profit, negative net income, negative equity book value, and companies that are merging. So in this study financial distress is measured based on companies whose operating profit, net income, and the book value of equity are negative for at least two consecutive years.

Kasmir (2017: 196) defines the profitability ratio is a ratio used to assess a company's ability to seek profit. Profitability in this study is measured using ROA (Return On Asset) referring to research of Yustika (2015) with the formula:

\[
\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}
\]

According to Sujarweni (2017: 60), the liquidity ratio is used to measure the company's ability to meet its short-term financial obligations in the form of short-term debts. This ratio is indicated by the size of current assets. The liquidity ratio in this study is measured by Current Ratio, referring to Yustika's research (2015) with the following formula:

\[
\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}
\]

Solvency or Leverage Ratios are ratios intended to measure to what extent the company's assets are financed with debt, including Debt to total assets ratio, Debt to total equity ratio, Net worth to debt ratio, and so on (Noviandri, 2014). In this study, solvency is proxied by the Debt to total equity ratio (Ardian et al., 2017) with the following formula:

\[
\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}
\]

The OECD defines corporate governance as a system used to direct and control a company's business activities. Corporate governance regulates the division of duties, rights and obligations of interested parties in the company (stakeholders) in order to achieve organizational goals (Sutojo and Aldridge, 2008: 1-3). This study uses three proxies in measuring good corporate governance mechanisms, namely Institutional Ownership, Independent Commissioners and Audit Committee (Putri&Merkusiwati, 2014) as formulated as follows:
Population and Research Samples

The population in this study uses industrial and chemical sector manufacturing companies that are listed on the Indonesia Stock Exchange (BEI) in 2016-2018. Sampling was carried out by purposive sampling which is part of the non-probability sampling method. For ineligible members of the population, not selected as the study sample. Sampling-based on the following criteria:

1) Industrial and chemical manufacturing companies listed on the IDX in 2016-2018.
2) The company has complete financial statement data in rupiah currency according to the needs of the research sample.

Data collection technique

The data collection method in this research is carried out in the following ways:
1) Documentation, namely the collection of data available on the research object.
2) Literature study, namely from the literature related to the problems in writing this research.

Data Analysis Method

Data analysis was performed using binary logistic regression analysis to see the effect of the independent variable on the dependent variable, including the following analysis:

1) Descriptive Statistical Test
2) Binary Logistic Regression Test.
In this test, according to Ghozali (2018: 332) the steps to determine regression are as follows:
a) Assessing Model Fit
b) Calculating the Estimated Value
c) Parameter Estimates
So that the logistic regression model will be obtained as follows:

\[ \ln \left( \frac{\text{Probability of a company experiencing financial distress}}{1 - \text{Probability of a company experiencing financial distress}} \right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n \]

\[ \ln = \text{The probability of a company experiencing financial distress} \]
\[ \beta_0 = \text{A constant} \]
\[ \beta_1, \ldots, \beta_n = \text{Independent variable regression coefficient} \]
\[ X_1, \ldots, X_n = \text{Independent Variable} \]
Research Results and Discussion

Descriptive statistics

Table 1. Descriptive Test Result

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FD</td>
<td>141</td>
<td>0</td>
<td>1</td>
<td>.23</td>
<td>.425</td>
</tr>
<tr>
<td>ROA</td>
<td>141</td>
<td>.0008</td>
<td>.5485</td>
<td>.055845</td>
<td>.0618554</td>
</tr>
<tr>
<td>CR</td>
<td>141</td>
<td>.0007</td>
<td>15.1646</td>
<td>2.180206</td>
<td>2.0143278</td>
</tr>
<tr>
<td>DER</td>
<td>141</td>
<td>-10.1882</td>
<td>162.1920</td>
<td>2.302353</td>
<td>13.7351258</td>
</tr>
<tr>
<td>KI</td>
<td>141</td>
<td>.0000</td>
<td>.9824</td>
<td>.615226</td>
<td>.2760290</td>
</tr>
<tr>
<td>DKI</td>
<td>141</td>
<td>.0000</td>
<td>.8000</td>
<td>.410474</td>
<td>.1076826</td>
</tr>
<tr>
<td>KA</td>
<td>141</td>
<td>4</td>
<td>38</td>
<td>6.55</td>
<td>5.161</td>
</tr>
</tbody>
</table>

Based on the descriptive statistical output in table 1 with a sample size of 47 companies for 3 years, it can be seen that:

The minimum value for the dependent variable, financial distress is 0 and the maximum value is 1 which indicates that the number 0 is for companies in the healthy zone and number 1 is for companies in the unhealthy zone. The mean for financial distress is 0.23 with a standard deviation of 0.425.

Minimum values for independent variables, including ROA of 0.0008, CR of 0.0007, DER of -10.1882, Institutional Ownership of 0.000, Independent Commissioners of 0.000, and Audit Committee 4.

The maximum values for the independent variables include ROA of 0.5485, CR of 15.1646, DER of 162.1920, Institutional Ownership of 0.9824, Independent Commissioners of 0.8000, and Audit Committee 38.

The mean for independent variables, including ROA is 0.0558, CR is 2.1802, DER is 2.3023, Institutional Ownership is 0.6152, Independent Commissioner is 0.4105, and Audit Committee is 6.55.

The standard deviation for independent variables, including ROA of 0.0619, CR of 2.0143, DER of 13.7351, Institutional Ownership of 0.2760, Independent Commissioner of 0.1077, and Audit Committee of 5.161.

Binary Logistic Regression Test

Assessing Model Fit

Table 2. Model Fit Test Results (Initial-2 Log Likelihood)

<table>
<thead>
<tr>
<th>Iteration History&lt;sup&gt;a,b,c&lt;/sup&gt;</th>
<th>2 - Log Likelihood</th>
<th>Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iteration</td>
<td>Constant</td>
<td></td>
</tr>
<tr>
<td>Step 0</td>
<td>1</td>
<td>-1.064</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>-1.182</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>-1.186</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>-1.186</td>
</tr>
</tbody>
</table>

a. Constant is included in the model.
b. Initial -2 Log Likelihood: 153.440
c. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.
### Table 3. Model Fit Test Results (Final -2 Log Likelihood)

<table>
<thead>
<tr>
<th>Iteration</th>
<th>-2 Log likelihood</th>
<th>Coefficients</th>
<th>Constant</th>
<th>ROA</th>
<th>CR</th>
<th>DER</th>
<th>KI</th>
<th>DKI</th>
<th>KA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step 1</td>
<td>132.504</td>
<td>-.332</td>
<td>7.057</td>
<td>-.219</td>
<td>.013</td>
<td>-.560</td>
<td>.189</td>
<td>-.063</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>124.922</td>
<td>-.008</td>
<td>10.992</td>
<td>-.467</td>
<td>.013</td>
<td>-.762</td>
<td>.679</td>
<td>-.121</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>123.871</td>
<td>.168</td>
<td>12.522</td>
<td>-.599</td>
<td>.012</td>
<td>-.796</td>
<td>1.032</td>
<td>-.160</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>123.845</td>
<td>.205</td>
<td>12.683</td>
<td>-.622</td>
<td>.012</td>
<td>-.803</td>
<td>1.097</td>
<td>-.168</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>123.845</td>
<td>.207</td>
<td>12.685</td>
<td>-.623</td>
<td>.012</td>
<td>-.804</td>
<td>1.099</td>
<td>-.168</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>123.845</td>
<td>.207</td>
<td>12.685</td>
<td>-.623</td>
<td>.012</td>
<td>-.804</td>
<td>1.099</td>
<td>-.168</td>
<td></td>
</tr>
</tbody>
</table>

a. Method: Enter  
b. Constant is included in the model.  
c. Initial -2 Log Likelihood: 153.440  
d. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

### Table 4. Omnibus Test of Model Coefficients (F Test)

#### Omnibus Tests of Model Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Chi-square</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td>29.595</td>
<td>6</td>
<td>.000</td>
</tr>
<tr>
<td>Block</td>
<td>29.595</td>
<td>6</td>
<td>.000</td>
</tr>
<tr>
<td>Model</td>
<td>29.595</td>
<td>6</td>
<td>.000</td>
</tr>
</tbody>
</table>

Model fit can be assessed by looking at the initial statistical value -2LogL without variables, only constants in table 2 of 153,440. After entering the six new variables, the final -2LogL value in table 3 drops to 123,845 or a decrease of 25,595, which means that the hypothesized model is fit with the data. The decrease in the value of -2LogL can be proven in Table 4 which shows this value. which is the rounding of the second difference to -2LogL, namely 153.440 - 123.845 with a significant number of 0.000 or less than 0.05, which means that the addition of independent variables can improve the fit model.

### Calculating Estimated Value

The power of estimation or prediction of the regression model to predict the probability of companies experiencing financial distress can be shown in table 5 below which is called the classification table. The predictive power of the regression model for predicting the likelihood of financial distress is expressed in percent.

### Table 5. Classification Table

<table>
<thead>
<tr>
<th>Observed</th>
<th>Predicted</th>
<th>Percentage Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>FD</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>107</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. The cut value is .500
In table 5 it can be seen that according to the predictions of companies that are healthy or not experiencing financial distress, there are 108 companies, while actual observations show that there are 107 companies that do not experience financial distress or 99.1%. According to the predictions of companies that are not healthy or experiencing financial distress are 33 companies, while actual observations show that companies experiencing financial distress are 12 companies or 36.4%. Then the overall table above shows that 107 + 12 = 119 sample companies or 84.4% of the sample can be predicted accurately by this regression model.

Parameter Estimation (Regression Coefficient Test)

The results of this logistic regression test are shown in the variables in the equation where the value in the significance column will be compared with a confidence level of 5% or 0.05, so the independent variable cannot predict the probability of the dependent variable.

Table 6. Regression Coefficient Test (Wald Test)

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
<th>95% C.I. for EXP(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>12.685</td>
<td>4.913</td>
<td>6.668</td>
<td>1</td>
<td>.010</td>
<td>3.20324040</td>
<td>21.266</td>
</tr>
<tr>
<td>CR</td>
<td>-.623</td>
<td>.198</td>
<td>9.887</td>
<td>1</td>
<td>.002</td>
<td>.536</td>
<td>.364</td>
</tr>
<tr>
<td>DER</td>
<td>.012</td>
<td>.020</td>
<td>.363</td>
<td>1</td>
<td>.547</td>
<td>1.012</td>
<td>.973</td>
</tr>
<tr>
<td>KI</td>
<td>-.804</td>
<td>.825</td>
<td>.949</td>
<td>1</td>
<td>.330</td>
<td>.448</td>
<td>.089</td>
</tr>
<tr>
<td>DKI</td>
<td>1.099</td>
<td>2.121</td>
<td>.269</td>
<td>1</td>
<td>.604</td>
<td>3.002</td>
<td>.047</td>
</tr>
<tr>
<td>KA</td>
<td>-.168</td>
<td>.082</td>
<td>4.249</td>
<td>1</td>
<td>.039</td>
<td>.845</td>
<td>.720</td>
</tr>
<tr>
<td>Constant</td>
<td>.207</td>
<td>1.089</td>
<td>.036</td>
<td>1</td>
<td>.849</td>
<td>1.229</td>
<td></td>
</tr>
<tr>
<td>a. Variable(s) entered on step 1: ROA, CR, DER, KI, DKI, KA.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 6, the logistic regression equation is as follows:

$$\ln \frac{FD}{1 - FD} = 0.207 + 12.685 \text{ROA} - 0.623 \text{CR} + 0.012 \text{DER} - 0.804 \text{KI} + 1.099 \text{DKI} - 0.168 \text{KA}$$

Explanation:

a. $\beta_0 = 0.207$; it means that if Profitability (ROA), Liquidity (CR), Solvability (DER), Institutional Ownership, Independent Board of Commissioners, and Audit Committee are worth 0, then the Financial Distress is 0.207.
b. $\beta_1 = 12.685$; meaning that if Profitability (ROA) increases by 1, then Financial Distress also increases by 12,685.
c. $\beta_2 = -0.623$; meaning that if Liquidity (CR) increases by 1, then Financial Distress will decrease by 0.623.
d. $\beta_3 = 0.012$; meaning that if Solvability (DER) increases by 1, then Financial Distress also increases by 0.012.
e. $\beta_4 = -0.804$; meaning that if Institutional Ownership increases by 1, then Financial Distress will decrease by 0.804.
f. $\beta_5 = 1.099$; meaning that if the Independent Board of Commissioners increases by 1, then Financial Distress also increases by 1.099.
g. $\beta_6 = -0.168$; meaning that if the number of Audit Committee meetings increases by 1, then Financial Distress will decrease by 0.168.

Discussion

Based on the results of the analysis, it can be seen that:

a. Profitability ratios have a significant positive effect in predicting the probability of financial distress. This is evidenced by the regression results on the probability value of the profitability ratio (ROA), which has a sig
value <0.05, which means that it can significantly predict the probability that the company experiences financial distress. Thus, the results of this analysis are in line with the research results of Muhtar& Aswan (2017). However, contrary to the results of research by Mafiroh&Triyono (2016).

b. Profitability ratios have a significant positive effect in predicting the probability of financial distress. This is evidenced by the regression results on the profitability ratio (ROA), which has a sig value <0.05, which means that it can significantly predict the probability that the company experiences financial distress. Thus, the results of this analysis are in line with the research results of Muhtar& Aswan (2017). However, contrary to the results of research by Mafiroh&Triyono (2016). The Liquidity Ratio has a significant negative effect in predicting the probability of financial distress. This is evidenced by the results of the regression on the liquidity ratio (CR), which has a sig value <0.05, which means that it can significantly predict the probability of the company experiencing financial distress. That is, when the company can overcome its short-term credit, the possibility of the company experiencing financial distress is very small or even not experiencing it at all. The more liquid the company is, the smaller the probability that the company will experience financial distress. Thus, the results of this analysis are in line with the research results of Yustika (2015) and Noviandri (2014). However, contrary to the research results of Mafiroh&Triyono (2016).

c. Solvency ratio has a positive and insignificant effect in predicting the probability of financial distress. This is evidenced by the regression results on the solvency ratio, which has a sig value> 0.05, which means that it does not significantly predict the probability that the company experiences financial distress. In this study, the average solvency value proxied by DER tends to be small, meaning that the company can cover most of its long-term liabilities using its capital. Therefore, the results of the solvency ratio test have no significant effect on financial distress. So the results of this analysis confirm the results of Rahaya&Sopian's (2017) research. However, contrary to Ardian, Andini, &Raharjo (2017).

d. Institutional ownership has a negative and insignificant effect in predicting the probability of financial distress. This is evidenced by the regression results on the probability value of institutional ownership, which has a sig value> 0.05, which means that it does not significantly predict the probability that the company experiences financial distress. In a large institution, share ownership is owned by a majority and centralized owner, so that it causes less transparency in the use of company funds. Thus, high or low Institutional Ownership does not affect, even if it does not affect the possibility of financial distress. So the results of this analysis reinforce the research results of Santoso et al. (2016).

e. Independent commissioners have a positive and insignificant effect in predicting the probability of financial distress. This is evidenced by the regression results on the probability value of independent commissioners, which has a sig value> 0.05, which means that it does not significantly predict the probability that the company experiences financial distress. It can be indicated that the number of Independent Commissioners in the formation of the board of commissioners is only used as compliance with regulations in establishing a go public company. Therefore, the board of commissioners is not optimal in carrying out its duties according to its supposed role. This is what is possible because the Independent Commissioner has an insignificant influence. So the results of this analysis reinforce the research results of Putri&Merkusiwati (2014), Mafiroh&Triyono (2016), and Helena &Saifi (2018). However, contrary to the results of research by Fathonah (2016).

f. The Audit Committee, which is proxied by the number of audit committee meetings, has a significant negative effect in predicting the probability of financial distress. This is evidenced by the regression results on the probability value of the audit committee, which has a sig value <0.05, which means that it can significantly predict the probability of the company experiencing financial distress. The role of the audit committee is in overseeing the financial reporting process, risk management, audit implementation, and implementation of Good Corporate Governance in a company. The amount of contribution in this role is indicated by the intensity of the number of Audit Committee meetings during one reporting period. The more frequent meetings it has, the Audit Committee can help the board of commissioners oversee the company. By being able to monitor all forms of risk that can be faced by the company, it can reduce the possibility of financial distress. Thus, the results of this analysis are in line with the results of research by Gunawijaya (2015).
Conclusion

1. Profitability ratio proxied by Return on Assets (ROA) has a significant positive effect on the probability of a company experiencing financial distress.
2. Liquidity Ratio, which is proxied by the Current Ratio (CR), has a significant negative effect on the probability of a company experiencing financial distress.
3. Solvency Ratio, which is proxied by Debt to Equity Ratio (DER), has a positive and insignificant effect on the probability of a company experiencing financial distress.
4. Institutional ownership has a negative and insignificant effect on the probability of companies experiencing financial distress.
5. Independent Commissioner has a positive and insignificant effect on the probability of the company experiencing financial distress.
6. The Audit Committee has a significant negative effect on the probability of the company experiencing financial distress.

Suggestion

1. Further researchers are expected to examine the proxies of financial ratios that have not been examined in this study. So that it can explain the probability of a company experiencing financial distress more comprehensively.
2. Researchers can then extend the research period, especially in years when companies experience financial problems such as those experienced during the Covid-19 pandemic, so that we can see how financial ratios will react to possible financial distress during this pandemic.

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