

The effect of firm performance, managerial ownership, institutional ownership, audit committee size, and liquidity ratio on financial distress

Ofliyana Angga Dewi ^{a*}, Arum Ardianingsih^b, Dian Priatiningsih^c

^{abc} Department of Accounting, Faculty of Economics and Business, Universitas Pekalongan

Article Info:

Keywords: audit committee size, financial distress, firm performance, institutional ownership, liquidity ratio, managerial ownership

JEL code: C33, G32, L60, M41

ABSTRACT

This study aims to determine the effect of company performance, managerial ownership, institutional ownership, audit committee size, and liquidity ratio on financial distress. This study took a sample of non-cyclical consumer companies listed on the Indonesia Stock Exchange (IDX) for the period 2017–2021. The research data was obtained from 50 companies. The data analysis methods used were descriptive analysis and multiple linear regression with a significance level of 0.05. The independent variables used were managerial ownership, institutional ownership, audit committee size, liquidity, and profitability. Another independent variable is company performance. The results of this study indicate that institutional ownership and liquidity ratio have an effect on financial distress, while company performance, managerial ownership, and committee size have no effect on financial distress.

1. Introduction

Every company that is established aims to make a profit in order to have the hope of surviving in the long term. However, in running a business, this goal is not always in accordance with the entrepreneur's expectations, because a business has a life cycle that will eventually experience a financial decline and can even lead to bankruptcy. Before a company goes bankrupt, the company faces a situation called financial distress. Financial problems not only affect the company's financial system but also the entire organization. The loss of the company's finances and human resources causes the company to be liquidated.

Financial distress is a sign of worsening financial conditions before bankruptcy or liquidation occurs (Christine et al., 2019). Financial distress is the worsening of the company's financial condition, which results in the company being unable to pay its debts (Lienanda & Agustin, 2019). Financial distress is a condition where the company's finances are in crisis Carolina et al. (2018). Financial problems can arise in a company when management fails to manage the company's finances properly. If this situation is not immediately corrected, it

*Corresponding author:

Email address: ofliyana.ad@gmail.com

Received: 10 January 2024; Received in revised form: 22 February 2024; Accepted: 15 July 2024; Available online: 5 August 2024

Citation:

Dewi, O. A., Ardianingsih, A., & Priatiningsih, D. (2024). No Title. Business, Accounting, and Knowledge Journal, 1(1), 33–50. <https://doi.org/10.31941/batik.v2i01>

will have a negative impact on the company's progress. As a result, the company went bankrupt or was liquidated (Amanda & Tasman, 2019).

Rapid developments in the era of globalization have caused changes in economic conditions that can affect financial management, where if the company is unable to manage it properly, it will experience a decline in finances and can have an impact on the potential for financial distress (Safitri & Yuliana, 2021). Nurhayati (2019) stated that financial distress can be caused by several conditions, including lack of capital and losses. Damodaran 1997 in Waqas and Md-rus (2018) mentioned the factors causing financial distress, including cash flow difficulties, large amounts of debt, and losses in the company's operational activities for several years.

Based on previous literature, there are six interesting variables to be studied again, namely firm performance, managerial ownership, institutional ownership, audit committee size, and liquidity ratio. Firm performance is a company's ability to survive in a highly competitive business environment. Every company is required to carry out operational activities with a performance situation with a very general idea (Taouab & Issor, 2019). Managerial ownership is the ownership of shares by company management, who play an active role in decision-making. Managerial ownership refers to shareholders from management who are actively involved in company decision-making. Institutional ownership is the level of share ownership in a company, measured by the percentage of shares owned by institutions at the end of the year, expressed in percentages that institutional investors generally invest in large amounts (Hermuningsih & Kusumawardani, 2021). The size of the audit committee, a committee that works professionally and independently and is formed by commissioners (Shanti, 2020), is a key to corporate governance, which aims to control and supervise management. The liquidity ratio is an indicator that measures the company's ability to pay off its short-term obligations (Masyitah & Harahap 2018). Based on previous research, Nurhayati (2019) conducted a study entitled "The Influence of Corporate Governance and Financial Performance on Financial Distress."

2. Theoretical Framework and Hypotheses Development

2.1. Agency Theory

Jensen and Mackling (1976) stated that an agency relationship is a contract under one or more principals in which the principal performs certain services for the agent by delegating decisions to them. Agency Theory explains the relationship that occurs between the principal and the agent where the owner and shareholder of a company act as agents. The agent is appointed by the principal to manage the company, including delegating authority from the principal to the agent in making company decisions on behalf of the owner. Therefore, the agent has more information than the principal. This information imbalance is often referred to as information asymmetry.

Information asymmetry is an information imbalance caused by the uneven distribution of information between the principal and the agent, which causes two problems caused by the difficulty of the principal in monitoring the actions and control of the agent. Problems according to Jensen and Meckling (1976) include: Moral hazard, which is a problem that arises if the agent does not do things that are mutually agreed upon in the employment contract. Adverse selection, which is a situation where the principal does not know whether the agent's decision is truly based on the information he has obtained or there is an error in the work.

Therefore, agency theory analyzes and seeks solutions to two problems that arise in the relationship between the principal (owner or shareholder) and the agent (top management). This agency theory is the basis of the theoretical model that influences the concept of good corporate governance. Corporate governance is needed to reduce agency problems between owners and managers so that there is alignment of interests between the owners and managers of the company. This section contains relevant literature related to the concept and theory used

2.2. Hypotheses Development

2.2.1. The Effect of Firm Performance on Financial Distress

Firm performance refers to a company's ability to successfully complete operations over a period of time. Factors that influence shareholders when deciding whether to invest in a company. Effective financial activities are financial activities with positive and stable profit growth. Companies that have preparation Every company has a short-term goal of generating profit and a long-term goal of increasing the value of the company. According to agency theory, the company's operational activities are the task of the agent. If a company has high profits, then it can be said that the agent has succeeded in making the best decisions in managing the company. High company profits can give a positive signal for investors to invest in the company. Firm performance in this study was measured using the DuPont model index. All information regarding the flow of income and expenses in the company is recorded properly, validly, and transparently with the company's financial reports. The results of financial reports can also be the basis for assessing the performance of business units and employee teams in the company.

Based on agency theory, there is a relationship between the principal (company) and other people (agents). The agent's task is to process the company's operational activities to generate higher profits to realize the company's goals (principal); by increasing high company profits, it can be said that the agent has succeeded in making good decisions. If the company's profit is high, the company's performance will increase so that the prediction of financial distress will decrease. The company's operations are not sufficient to explain financial distress; firm performance is said to be closely related to

financial distress. Poor performance. According to research by Yazdanfar and Öhman (2020), financial distress increases when firm performance decreases. From the explanation above, it can be concluded that the lower the performance of a company, the greater the chance of financial distress. In Altman, the lower the distress. The lower the firm performance, the lower the Altman score, which indicates that the company is experiencing financial distress. Based on this explanation, the hypothesis can be formulated:

H1: Firm performance has a negative effect on financial distress.

2.2.2. The Effect of Managerial Ownership on Financial Distress

According to Rukmana and Widyawati (2022), managerial ownership is the amount of management share ownership of outstanding shares. Managerial ownership is a shareholder who is the owner of the company from management and who is quite actively involved in decision-making. According to Hidayat, Yuniati, Prasetyo, and Husadha (2021: 216), the existence of a good ownership structure will be able to influence the company's activities that have an impact. Managerial ownership, namely shares owned by management in a company, then the shares owned by the agent have several functions, namely as the owner of a company and the manager of the company, then management has the right to regulate and provide advice for the company to achieve its goals (Kusumaningrum, 2022). Managerial ownership is the ownership of company shares owned by the company's manager. Managerial ownership can align the interests of managers and the interests of investors so that it is expected to be a mechanism that can reduce agency problems between management and investors (Sunarwijaya, 2017). Based on the agency theory (agency) theory, if managerial ownership is higher, it will further reduce agency problems. In research (positive), in accordance with the perspective of agency theory, companies or agents try to improve mechanisms to reduce agency problems with investors or principals so that managerial ownership can increase with supervision according to decision-making policies for the company and is expected to have a good impact on company performance and minimize the chances of financial distress. Based on the explanation, the following hypothesis can be formulated:

H2: Management ownership has a positive effect on financial distress.

2.2.3. The Influence of Institutional Ownership on Financial Distress

According to Edison (2020), institutional ownership is the level of share ownership held by institutional investors such as companies, government investments, insurance companies, banks, or ownership of other companies or institutions. Institutional ownership is the number of company shares owned by institutions, business entities, or organizations. Institutional investors are often referred to as sophisticated investors. With strong external control, management is careful in making decisions. Pratiwi (2018) explains that according to agency

theory, better company performance can be achieved by practicing good corporate governance, which provides better supervision and protection to shareholders. Jensen and Meckling (1976) explain that institutional ownership is one of the corporate governance mechanisms. Based on positive research in accordance with the agency theory perspective, investors or principals can monitor management (agents) because institutional ownership is the largest shareholder. The monitoring function is carried out to make the company more efficient in using assets as company resources in its operations. Based on the explanation, the following hypothesis can be formulated:

H3: *Institutional ownership has a positive effect on financial distress.*

2.2.4. The Effect of Audit Committee Size on Financial Distress

The audit committee is responsible for overseeing reports, observing the company's system of internal control, and overseeing external audits. The audit committee is expected to help resolve conflicts with management that can lead to a decrease in audit quality (Atmojo, 2017). With the existence of an audit committee, it is expected to reduce agency conflicts so that financial reports submitted to interested parties can be trusted. The results of this study prove that the audit committee has an effect on financial distress. In accordance with agency theory, the audit committee as an agent carries out independent supervision of the corporate governance process; corporate governance practices are able to improve the company's financial performance (principal) and minimize the risk of financial distress. Based on the explanation, the following hypothesis can be formulated:

H4: *The size of the audit committee has a positive effect on financial distress.*

2.2.5. The Effect of Liquidity on Financial Distress

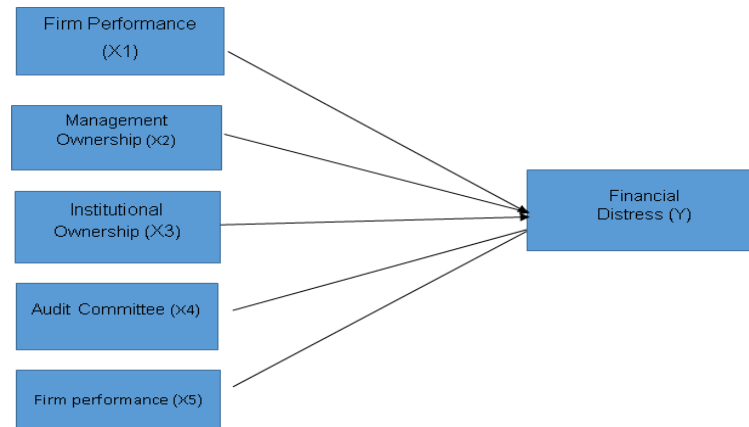
Liquidity is one of the factors that influences the determination of a company's value because it is one of the indicators or benchmarks for the company in fulfilling its obligations that have matured. A company is said to be liquid if it has a high level of liquidity because the amount of internal funds owned by the company is used to finance investments before using external capital sources from third parties in the form of debt. The higher the liquidity, the higher the company's ability to pay its debts, according to Sukarya and Baskara (2019). The more comparisons of current assets with current liabilities, the higher the expertise of business actors to cover short-term responsibilities and the lower the potential for the company to experience financial distress.

The results of the study Nurhayati (2019) show that liquidity has a positive effect on financial distress. In accordance with the agency theory, management is responsible for financial performance in the annual report and financial report issued by the company, which is a means that can be used for

decision-making between shareholders and company managers. In the agreement, management must be able to cover all benefits from all parties by maximizing the utility of the owner or principal and can satisfy and guarantee management (agent) to receive rewards. So that there will be no conflict of interest between the principal and agent. Based on this explanation:

H5: Liquidity has a positive effect on financial distress.

Figure 1.
Conceptual
Framework



3. Research Method

3.1. Data Sample Collection

The research method is a procedure and scientific rules of part of the research implementation activities carried out or used by scientific researchers in relation to research carried out with measurable and systematic proof steps. In this study, the method used is correlational research. According to Rudi (2020), correlation research is research on relationships or associative relationships that can be symmetrical or causal (cause and effect).

The population of this study is all non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The sample, according to Sugiyono (2020; 127), is part of the number and characteristics possessed by the population. The sampling technique used in this study is the purposive sampling method, which is a sampling technique based on relevant criteria. The sample was selected based on the following criteria:

1. Non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
2. Consumer non-cyclical companies that publish annual financial reports during the 2017-2021 period consecutively.
3. Consumer non-cyclical companies that have managerial ownership in the 2017-2021 period.

4. Consumer non-cyclical companies that have an audit committee in the 2017-2021 period.

3.2. Technical Analysis and Variable Measurement

Data analysis techniques are methods used to process research findings to reach a conclusion. The collected data is analyzed to provide answers to the problems discussed in this study. In analyzing the data, researchers used SPSS. The data analysis methods used in this study are: descriptive statistics, classical assumption test, multiple linear regression test, and hypothesis test.

The model for this study can be described in below:

	$FD = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$
FD	= Financial Distress
α	= Constant
β_1 - β_5	= Regression Coefficient
X_1	= Firm Performance
X_2	= Managerial Ownership
X_3	= Institutional Ownership
X_4	= Audit Committee
X_5	= Liquidity
e	= Standard Error

3.2.1. Financial distress

Financial distress in this study was measured using the modified Altman z-score model (1995). The latest Z-Score formula is considered very flexible because it can be used for various types of company business fields such as manufacturing, non-manufacturing, and bond issuing companies in developing countries (emerging markets). Here is the modified Altman Z-Score formula:

$$Z = 6.56 X_1 + 3.26 X_2 + 6.72 X_3 + 1.05 X_4$$

Description:

Z = Bankruptcy Index

X_1 = Working Capital / Total Assets

X_2 = retained earnings / total assets

X_3 = Earnings Before Interest and Taxes / Total Assets

X_4 = Market Value of Equity / Total Liabilities

Classification of healthy and bankrupt companies on the modified Altman Z-Score model, namely:

1. If the Z value <1.1 then it is included in the company experiencing financial distress.

2. If the value is $1.1 < Z < 2.6$ then it is included in the gray zone (it cannot be determined whether the company is healthy or experiencing financial distress).
3. If the value of $Z > 2.6$ then it is included in the company that is not experiencing financial distress.

3.2.2. Firm Performance

According to Yazdanfar and Öhman (2020), to measure firm performance using the DuPont Model Index proxy as follows:

$$\text{DuPont Model Index} : \frac{\text{Profit} \times \text{Sales} \times \text{Total Assets}}{\text{Net Sales} \times \text{Total Assets} \times \text{Equity}}$$

3.2.3. Managerial Ownership

Managerial ownership can be proxied using the following formula:

$$\text{Managerial Ownership} = \frac{\text{Total Share Ownership by Management} \times 100\%}{\text{Number of shares outstanding}}$$

3.2.4. Institutional Ownership

Measurement of institutional ownership can be formulated as follows:

$$\text{Institutional Ownership} : \frac{\text{Total Share Ownership by Institutions} \times 100\%}{\text{Number of shares outstanding}}$$

3.2.5. Audit Committee

The audit committee can be proxied using the formula:

$$KA = \text{Number of Audit Committee Members}$$

3.2.6. Liquidity

The liquidity proxy used to measure in this study is the current ratio:

$$CR = \frac{\text{Aktiva Lancar}}{\text{Hutang Lancar}}$$

4. Results and Discussion

4.1 Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
X1	50	,00	,23	,1060	,06014
X2	50	,00	,39	,0684	,11160
X3	50	,24	,89	,6456	,17550
X4	50	2,00	4,00	3,1000	,36422
X5	50	,65	1,13	2,1732	1,74727
Y	50	,78	47,55	12,2428	13,54913
Valid N (listwise)	50				

Table 1.
Descriptive
Statistics

The study's descriptive statistics reveal a range of financial distress values, firm performance values, managerial ownership values, institutional ownership values, audit committee size values, and liquidity values. The financial distress values range from 0.78 to 47.55, with an average of 12.2428. The highest financial distress value was found in BISI in 2021, while the lowest was in TBLA in 2018. Firm performance values ranged from 0.00 to 0.23, with an average of 0.1060. The highest firm performance value was found in the 2017 TBLA company, while the lowest was in the 2018 SKBM company.

Major managerial ownership values ranged from 0.00 to 0.39, with an average of 0.684. The highest managerial ownership value was found in Wismilak Inti Makmur Tbk 2021, while the lowest was in BISI International Tbk 2021. The highest institutional ownership value was found in Midi Utama Indonesia Tbk in 2021, while the lowest was in Wismilak Inti Makmur Tbk in 2020. Audit committee size values ranged from 2.00 to 4.00, with an average of 3.1000. The highest audit committee size value was found in Sumber Alfaria Trijaya Tbk in 2021, while the lowest was in BISI International Tbk in 2021. The minimum liquidity value was found to be 0.78, with the highest value being BISI 2021. The distribution of these values is not good, with the highest liquidity value being found in BISI 2021 and the lowest in Midi Utama Indonesia Tbk in 2020.

4.2 Normality Test

The Normality Test aims to test whether in the regression model the dependent variable or independent variable has a normal or abnormal distribution. The test is carried out using the Kolmogorov-Smirnov test, below are the results of the normality test output based on its statistical analysis:

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		50
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	8,92791247
Most Extreme Differences	Absolute	,161
	Positive	,161
	Negative	-,105
Kolmogorov-Smirnov Z		1,136
Asymp. Sig. (2-tailed)		,151

Table 2.
Normality Test

a. Test distribution is Normal.

b. Calculated from data.

Based on the table, it can be seen that the results of the analysis show that the Kolmogorov-Smirnov test statistics obtained a value of 0.151, which is greater than 0.05, so it can be concluded that in this study the data is normally distributed.

4.3 Multicollinearity Test

The multicollinearity test aims to test whether the regression model finds a correlation between independent variables (Ghozali 2018). The multicollinearity test can be measured based on the variance inflation factor (VIF) rule and the amount of tolerance.

Coefficients ^a				
Model	t	Sig.	Collinearity Statistics	
			Tolerance	VIF
1 (Constant)	-2,035	,048		
X1	1,452	,153	,770	1,300
X2	-,881	,383	,506	1,978
X3	1,799	,079	,396	2,526
X4	1,355	,182	,874	1,144
X5	7,147	,000	,593	1,686

Table 3.
Multicollinearity
Test

a. Dependent Variable: Y

Based on the table above, it can be seen that the tolerance value for the firm performance variable is 0.770, managerial ownership is 0.506, institutional ownership is 0.396, audit committee size is 0.874, liquidity ratio is 0.593, and all five variables have a tolerance value ≥ 0.10 . And the VIF value for the firm performance variable is 1.300, managerial ownership is 1.978, institutional ownership is 2.526, audit committee size is 1.144, and liquidity ratio is 1.686. All five variables have a VIF value ≥ 10 . So it can be concluded that the regression model does not contain multicollinearity.

4.4 Heteroscedasticity Test

Whether there is no heteroscedasticity in this case the regression model is interpreted as good in its test through the use of the Glejser method by conducting regression between independent variables through the absolute value of the residual.

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-,210	,817		-,256	,799
X1	,141	1,148	,019	,123	,902
X2	1,033	,763	,257	1,354	,183
X3	-,345	,548	-,135	-,630	,532
X4	,333	,178	,270	1,872	,068
X5	-,013	,045	-,051	-,291	,772

Table 4.
Heteroscedasticity
Test

a. Dependent Variable: ABS RES

According to the table above, it can be seen that the sig. Firm performance variable is $0.902 > 0.05$, managerial ownership variable $0.183 > 0.05$, institutional ownership variable $0.532 > 0.05$, audit committee size variable $0.068 > 0.05$, liquidity ratio variable $0.772 > 0.05$ which means that all sig values > 0.05 indicate that there is no heteroscedasticity.

4.5 Autocorrelation Test

The autocorrelation test aims to test whether in linear regression capital there is a correlation between period t and this year with a nuisance error in period $t-1$ (Ghozali 2019). The following are the results of the research analysis with the following table:

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,752 ^a	,566	,516	9,42153	1,911

Table 5.
Autocorrelation Test

a. Predictors: (Constant), X5, X1, X4, X2, X3

b. Dependent Variable: Y

Based on the table above, the du, d, 4-du equation is $1.7708 < 1.9110 < 2.2292$, where the dw value lies between the du and 4-du values, then the autocorrelation coefficient = 0 so it can be concluded that there is no autocorrelation in the regression model used in this study.

4.6 Multiple Linear Regression Analysis

The results of the multiple linear regression calculation can be seen in the following table:

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-19,750	10,841		-1,822	,075
X1	19,189	15,230	,179	1,260	,214
X2	26,707	10,126	,461	2,638	,011
X3	3,913	7,276	,106	,538	,593
X4	5,788	2,359	,326	2,454	,018
X5	,699	,597	,189	1,170	,248

Table 6.
Multiple Linear Regression Analysis

a. Dependent Variable: RES2

Based on the table above, the multiple linear analysis model used in this study can be formulated as follows:

$$Y = -0.177 + 0.155X_1 + -0.090X_2 + 0.1057X_3 + 0.181X_4 + 0.153X_5 + e$$

From the results of the regression equation analysis, it can be explained as follows: A negative constant of -19.750 means that if firm performance (X1), managerial ownership (X2), institutional ownership (X3), audit committee size (X4), and liquidity ratio (X5) have a fixed value, then financial distress will decrease by -19.750. Firm performance regression coefficient 19.189. This means that if firm performance (X1) decreases, while other variables are considered constant, then financial distress will decrease. Managerial ownership regression coefficient (X2) 26.707. This means that if managerial ownership (X2) increases while other variables are considered constant, then financial distress will increase. Institutional ownership regression coefficient (X3) 3.913. This means that if institutional ownership increases, while other variables are considered constant, then financial distress will increase. Audit committee size regression coefficient (X4) 5.788. This means that if the size of the audit committee increases, while other variables are considered constant, then financial distress will increase. Liquidity ratio regression coefficient (X5) 0.699. This means that if the liquidity ratio increases while other variables are held constant, financial distress will increase.

4.7 Model Suitability Test

Model goodness of fit can be measured from the F statistic value, which indicates whether all independent variables included in the model have a joint influence on the dependent variable. The F test of model suitability is carried out using the ANOVA test.

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	5089,694	5	1017,939	11,468	,000 ^b
Residual	3905,673	44	88,765		
Total	8995,368	49			

Table 7.
Model Suitability Test

a. Dependent Variable: Y

b. Predictors: (Constant), X5, X1, X4, X2, X3

From the table above, the results of the F test seen from the ANOVA table can be seen as the calculated F value of 11.468 with a significance level of 0.00. Because the significance value is <0.05, it can be stated that the model is considered suitable for predicting the influence of independent variables on the dependent variable

4.8 t test

The t test is used to analyze the influence of independent variables that have a partial effect on the dependent variable. The results of the t test can be seen from the SPSS output results, the decision criteria are the sig. t value <0.05 , which means there is a significant influence from the independent variables partially on the dependent variable and vice versa. To find out more clearly the results based on the multiple linear regression analysis table above:

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-36,952	18,161		-2,035	,048
X1	37,057	25,514	,164	1,452	,153
X2	-14,947	16,963	-,123	-,881	,383
X3	21,927	12,190	,284	1,799	,079
X4	5,355	3,952	,144	1,355	,182
X5	7,147	1,000	,922	7,147	,000

Table 8.
Model Suitability Test

a. Dependent Variable: Y

Based on the table above, it is known that the t-value of the firm performance variable (X1) is 1.452 with a significance value of 0.153. Because the significance value of the t-test > 0.05 ($0.1452 > 0.05$) it can be concluded that firm performance has no effect on financial distress. This means that H1 is rejected. The t-value of the managerial ownership variable (X2) is -0.881 with a significance value of 0.383 because the significance value of the t-test is more than 0.05 ($-0.881 > 0.05$) it can be concluded that managerial ownership has no effect on financial distress. This means that H2 is rejected. The t-value of the institutional ownership variable (X3) is 1.799 with a significance value of 0.079. Because the significance value of the t-test > 0.05 ($0.079 > 0.05$), it can be concluded that institutional ownership has a significant negative effect on financial distress. This means that H3 is rejected. The t-value of the audit committee size variable (X4) is 1.355 with a significance value of 1.355. Because the significance value of the t-test > 0.05 ($0.182 > 0.05$), it can be concluded that the size of the audit committee has a significant effect on financial distress. This means that H4 is rejected. The calculated t value of the liquidity ratio variable (X5) is 7.147 with a significance value of 0.000. Because the significance value of the t test < 0.05 ($7.147 > 0.05$), it can be concluded that the liquidity ratio has no effect on financial distress. This means that H5 is accepted.

4.9 Discussion

4.9.1. The effect of firm performance on financial distress

The results of testing H1 on the effect of firm performance on financial distress based on the results of data management obtained show that the value of the firm performance path coefficient is $0.153 > 0.05$ and the calculated t value is 1.452, so it can be concluded that there is no significant effect. Thus, the first hypothesis (H1) is that is that firm performance has no effect on financial distress. Firm performance is a factor where an organization manages its performance to match corporate strategy and functional strategy in realizing the company (2019). The absence of influence of firm performance on financial distress means that the company's operational capabilities do not affect financial distress, even though effective financial activities and positive and stable profit growth. High company profits cannot give a positive signal to investors to invest in the company. The influence of the firm performance variable is not significant, so in determining firm performance, this variable is not included in the variables that are considered by management. The results of this study are in line with research conducted by Steffi Felicia (2018), which states that firm performance has no effect on financial distress. Meanwhile, this study is inversely proportional to the study Yazdanfar (2020), which states that firm performance has a positive effect on financial distress.

4.9.2. The Effect of Managerial Ownership on Financial Distress

The results of testing H2 on the effect of managerial ownership on financial distress based on the results of data management obtained show that the value of the managerial ownership path coefficient is $0.383 > 0.05$ and the calculated t value is - 0.881, so it can be concluded that there is no significant effect. Thus, the first hypothesis (H2) is that managerial ownership has no effect on financial distress. Managerial ownership is the company's shares owned by the company's management. Ownership of shares by the company's management makes management have a dual function. There is a negative effect of managerial ownership on financial distress, which means that the greater the value of a company's managerial ownership, the lower the chance of financial distress. Managerial ownership is expected to be a consideration in making good decisions, and if company performance can be improved, then the company can avoid financial distress. Because as a shareholder, they will accept the existing risks. The results of this study are in line with research conducted by Nurhayati (2019), which states that managerial ownership has no effect on financial distress. While this study is inversely proportional to research Kusumaningrum (2022), which states that managerial ownership has a positive effect on financial distress.

4.9.3. The Effect of Institutional Ownership on Financial Distress

The results of testing H3 on the effect of institutional ownership on financial distress based on the results of data management obtained show that the coefficient value of the institutional ownership path is $0.079 > 0.05$ and the

calculated t value is 1.799, so it can be concluded that it has no effect on financial distress. Institutional ownership is shares owned by institutions from all shares in circulation; institutional ownership has an important meaning in monitoring management because with institutional ownership it will encourage more optimal supervision. This is because high institutional ownership indicates high supervision from external parties towards management, who can focus on achieving company targets not for personal interests but for the interests of the company. Management is also more careful in making decisions, thus financial distress can be minimized. The results of this study are in line with research conducted by Pranita & Kristanti (2020), which states that institutional ownership has a positive influence on financial distress. Meanwhile, this study is in line with research conducted by Chirssentia & Syarief (2018), which states that institutional ownership has a negative effect on financial distress.

4.9.4. The effect of audit committee size on financial distress

The results of H4 on the effect of audit committee size on financial distress based on the results of data management obtained show that the path coefficient value of the audit committee size is $0.182 > 0.05$ and the calculated t value is 1.355, so it can be concluded that there is no significant effect. Thus, the first hypothesis (H4) is that the size of the audit committee does not affect financial distress. The size of the audit committee is a factor where the organization manages its performance to match corporate strategy and functional strategy in realizing the company (Evrilianingsih & Amalia, 2022). Thus, it can be concluded that the size of the audit committee is less able to support the effectiveness of its performance. This shows that the audit committee becomes ineffective if its size is too small or too large. This argument is supported by research Tifani (2019), which shows that audit committees with a large number of members lose focus and are less participatory compared to smaller sizes. The increasing number of audit committee members sometimes makes it difficult to reach a decision agreement in carrying out its work. However, on the other hand, an audit committee with a small number of members lacks diversity of skills and knowledge so that it becomes ineffective. The results of this study are in line with research (Nurhayati 2019), which states that the size of the audit committee has a positive effect on financial distress. While this study is inversely proportional to research Gita Wahyuningsih & Aminah (2019), which states that the size of the audit committee has a negative effect on financial distress.

4.9.5. The effect of liquidity on financial distress

The results of H5 on the effect of liquidity size on financial distress based on the results of data management obtained the liquidity path coefficient value is $0.000 < 0.05$ and the calculated t value is 7.147, so it can be concluded that there is a significant effect. Thus, the fifth hypothesis (H5) liquidity has a positive effect on financial distress.

The liquidity ratio is the ability of a company to meet its short-term obligations in a timely manner (Abdullah 2020). This is because the higher the liquidity value of a company, it can be interpreted that the company can meet its current obligations so that the possibility of experiencing financial difficulties will be smaller. The results of this study are consistent with the research conducted (Septiaa & Dana, 2019) stating that liquidity has a positive effect on financial distress. Meanwhile, this study is inversely proportional to the study conducted by Feanie & Dillak (2021) which states that liquidity has a negative effect on financial distress. Companies that have a high current ratio are usually caused by having unnecessary current assets, so that they do not provide income. For example, a very large amount of funds are embedded in receivables, which may be bad debts, causing the company to be unable to pay its obligations in the short term using current assets, thus giving the potential for financial difficulties or financial distress to the company. This means that liquidity can show the company's ability if the higher the liquidity value in the company, it can illustrate the better the company's performance in paying short-term obligations, so that the potential for the company to experience financial distress is getting smaller. If shareholders and managers can manage the company's assets and money well, there will be money available to pay off debts. Companies that can meet their short-term debts show that the company can manage the company efficiently and effectively.

5. Conclusions, Limitations, and Recommendations

Based on the results of the analysis of firm performance data, managerial ownership, institutional ownership, audit committee size, and liquidity on financial distress in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period, the following conclusions were obtained: There is an accepted hypothesis, namely that H5 liquidity has a positive effect on financial distress. There are rejected hypotheses, namely 3 hypotheses. H1 Firm performance has no effect on financial distress; H2 managerial ownership has no effect on financial distress; H3 institutional ownership has no effect on financial distress; and H4 audit committee size has no effect on financial distress.

This study has several limitations, namely: This study only takes samples of non-cyclical consumer companies. The variables used are only 5 independent variables. The research sample is limited to only 10 non-cyclical consumer companies with a relatively short period of 5 years, namely 2017-2021. Based on the conclusions and limitations of this study, the following suggestions can be concluded: It is hoped that further research will add other independent variables. Further research is expected to be able to add years of research. Further research is expected to be able to increase the population listed on the Indonesia Stock Exchange.

References

- Abdullah. 2020. "Pengaruh Likuiditas Dan Leverage Terhadap Penghindaran Pajak Pada Perusahaan Makanan Dan Minuman." *Jurnal Riset Akuntansi Dan Bisnis* 20 (1), 16.
- Evrilianingsih, A., & Amalia, A. S. (2022). *Pengaruh Faktor Keuangan terhadap Financial Distress dengan dimoderasi oleh Komite Audit*. 6(1968), 2740–2750.
- Ghozali, I. (2016). *Aplikasi Analisis Multivariate Dengan Program IBM SPSS*. Badan Penerbit Universitas Diponegoro.
- Gita Wahyuningsih, P., & Aminah, W. (2019). *Faktor-Faktor Yang Memitigasi*. 11(1), 1–8.
- Kristanti, M. E., Syafruddin, M., Akuntansi, J., Ekonomika, F., & Diponegoro, U. (2012). *Pengaruh Karakteristik Komite Audit Pada Kondisi Financial Distress Perusahaan, Studi Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia Tahun 2008-2010*. 1, 1-14. 1, 1–14.
- Kusumaningrum, R. A. (2022). Pengaruh Leverage, Likuiditas dan Kepemilikan Manajerial Terhadap Financial Distress. *Jurnal Ilmu Dan Riset Akuntansi*, Vol 11 No.
- Masyitah, E., & Harahap, K. K. . (2018). Analisis Kinerja Keuangan Menggunakan Rasio Likuiditas dan Profitabilitas. *Jurnal Akuntansi Dan Keuangan Kontemporer*, 1(1),46.
- Nurhayati, P. (2019). Pengaruh Corporate Governance dan Kinerja Keuangan Terhadap Financial Distress (Studi Kasus Pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2015-2019). *Jurnal Akuntansi Dan Pajak*, 22(2), 939.
- Nurzahara, S., & Pratomo, D. (2021). *PENGARUH KEPEMILIKAN MANAJERIAL , DEWAN KOMISARIS INDEPENDEN*. 10(11), 981–990.
- Pratiwi, A. P. (2018). Pengaruh Kepemilikan Institusional Dan Kinerja Keuangan Terhadap Penghindaran Pajak Dengan Corporate Sosial Responsibility Sebagai Pemediasi. *Jurnal Ilmu Manajemen & Bisnis*, Vol 9 No 2.
- Safitri, M. A., & Yuliana, I. (2021). Pengaruh Return on Assets, Current Ratio dan Firm Size Terhadap Prediksi Kebangkrutan Dengan Struktur Modal sebagai Variabel Moderasi. *Jurnal Akuntansi Dan Bisnis : Jurnal Program Studi Akuntansi*, 7(1), 90–99. <https://doi.org/10.31289/jab.v7i1.4517>
- Sunarwijaya, I. K. (2017). kepemilikan manajerial tidak berpengaruh 2 By Sunarwijaya. *Jurnal Ekonomi Universitas Mahasarakswati Denpasar*.
- Waqas, H., & Md-Rus, R. (2018). Predicting financial distress: Applicability of O-score and logit model for Pakistani firms. *Business and Economic Horizons*, 14(2), 389–401. <https://doi.org/10.15208/beh.2018.28>

Yazdanfar, D., & Öhman, P. (2020). Financial distress determinants among SMEs: empirical evidence from Sweden. *Journal of Economic Studies*, 47(3), 547–560. <https://doi.org/10.1108/JES-01-2019-0030>