

FIRM SIZE MODERATES THE EFFECT OF INSTITUTIONAL OWNERSHIP, AND FINANCIAL INDICATORS ON FINANCIAL DISTRESS

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ABSTRACT

This study aims to examine and analyze the effect of good corporate governance with one of the indicators consisting of institutional ownership, financial indicator with one of the indicators the liquidity ratio and leverage ratio on financial distress in manufacturing companies listed on the Indonesia Stock Exchange and also to test and analyze whether firm size can moderate the relationship between institutional ownership variables, liquidity ratios, leverage ratios in manufacturing companies listed on the Indonesia Stock Exchange. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange. Of the 175 companies registered as a population, a sample of 77 companies was taken, with 2 data outliers determined using the purposive sampling method. Based on the analysis results obtained as many as 73 companies are in financial distress, 3 companies are in gray area conditions, and 1 company is in non-financial distress conditions. The analytical technique used in this study is multinomial logistic regression. The results of testing the first hypothesis to the third hypothesis partially show that institutional ownership, liquidity ratios, and leverage ratios have no significant effect on financial distress. Testing the fourth hypothesis shows that firm size is not able to moderate the relationship between institutional ownership variables and financial distress. that the size of the company is able to moderate the relationship between the liquidity ratio and financial distress, and testing the sixth hypothesis that the size of the company is not able to moderate the relationship between the variable leverage ratio and financial distress in manufacturing companies listed on the Indonesia Stock Exchange.

Keyword: Financial distress, institutional ownership, liquidity ratio, leverage ratio, firm size.

1. INTRODUCTION

Investment, consumption, transportation, tourism, production, and the confidence of economic actors even decreased quite significantly, which in turn made economic growth fell sharply. A weak economy is a common concern because if it is not handled immediately, it will risk disrupting economic stability and financial system stability, and holding back efforts to accelerate becoming a developed country. Almost all sectors are affected, especially those related to travel, tourism and food.

The current situation has caused Indonesia to be very prone to financial distress (financial distress) for several national-scale companies. This is a result of the crisis experienced by the United States, which caused developing countries such as Indonesia to be affected which caused the rupiah to slump. This condition was exacerbated by the declining exports and the falling prices of export commodities in world commodity markets.

The concept of GCG (Good Corporate Governance) was widely discussed in Indonesia when the economic crisis hit, including Indonesia. The impact of the crisis was that many companies fell

because they were unable to survive, one of the reasons was because the growth achieved so far was not built on a solid foundation in accordance with the principles of sound corporate management.

Corporate governance should not be confused with corporate management. Corporate governance focuses on corporate structures and processes to ensure fair, responsible, transparent and accountable corporate behavior. Corporate management, on the other hand, focuses on the tools needed to run a business. Corporate governance lies at a higher level of direction which ensures that the company is managed for the benefit of its shareholders. One area of overlap is strategy, which is addressed at the corporate management level and is also a key element of corporate governance (International Finance Corporation, 2010).

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership (Tarjo, 2008). Institutional ownership can be referred to as institutional investors, who are also often called sophisticated investors (sophisticated). This means that institutional investors can more accurately and quickly predict future earnings than non-institutional investors. Institutional investors have access to more timely and relevant sources of information that can find out earnings management activities faster and easier than individual investors. In previous studies, Helena (2018) and Septiani (2019) stated that there was a significant influence between institutional ownership variables on financial distress. With the results of this study, researchers want to see to what extent in this pandemic condition institutional ownership can have an influence on financial distress.

Financial distress can be experienced by every company, both large-scale companies and small-scale companies because of the factors causing financial distress that can come from within (internal) the company or from outside (external) the company. One of the company's internal factors that can affect financial distress is liquidity, leverage, and firm size.

Liquidity is the ability of a company to meet its financial obligations in the short term with current cash available in the company's current assets. Short-term financial obligations that must be fulfilled immediately include debt that will mature in the near term, labor wages, debt for raw materials purchased, payment of electricity bills, drinking water needed in the production process, and so on. These liabilities can be covered from liquid items owned by the company. The most liquid post itself is cash (Indriyani, 2009; in Kariani and Budiasih 2017). In Widiyasi's research (2018), liquidity has no significant effect on financial distress. Where the level of liquidity does not guarantee whether the company will experience financial distress or not. In this pandemic condition, we can see the economic situation that is being experienced by every company, whether it is actually a much higher liability, to support the company's operations to keep running smoothly and prevent financial distress from occurring.

Leverage is a ratio to measure the extent to which a company's ability to pay off its long-term obligations. Every company in running its business will certainly need capital, where the capital itself can come from the sale of shares or by borrowing funds from third parties in the form of debt. Leverage itself arises from the use of company funds from third parties in the form of debt. (Lee Seoki, et.al. 2010; in Putri and merkusiwati, 2014) states that there is a positive relationship

between leverage and financial distress, this means that high corporate leverage will result in higher conditions of financial distress.

In the research of Widiyari and Amanah (2018), it is stated that the leverage ratio has a significant influence on financial distress conditions due to how much assets are owned by the company to pay all its obligations. In a situation like this, there must be many companies whose sales have decreased which has caused one of the companies to be unable to pay their obligations. Because there is no income, it can lead to increased debt conditions due to interest that continues to run all the time.

In addition to using liquidity and leverage to predict the possibility of financial distress, the researcher uses an agency theory approach. Where agency theory is related to institutional ownership variables where we can find out to what extent the development of investment by institutions can reduce the potential for fraud.

This study itself takes financial data from several manufacturing companies listed on the IDX (Indonesian Stock Exchange) in 2020. There are several reasons why manufacturing companies are used as research data: (1) manufacturing companies provide clearer information to the public compared to companies which not listed on the Indonesian stock exchange and manufacturing companies must also register their financial statements annually to Bapepam and must also be published, (2) good analytical skills, by being able to compare one company with other existing companies, this is supported by the number of manufacturing companies which are far more numerous than companies in other sectors and are the shares of issuers that are most actively traded on the stock exchange, (3) manufacturing companies are very sensitive to the impact of changes in accounting methods or tax policies that sometimes change every year, (4) if compared to banking companies, banking companies have a relatively high debt-to-equity ratio and the disclosure criteria are more complicated than manufacturing companies, and banking companies have their own regulations. In addition, this study also examines firm size which is used as a moderating variable between the dependent variable and the independent variable.

Firm size is used as a moderating variable in this study because researchers want to know to what extent firm size can have an impact on financial distress conditions in this pandemic situation. According to researchers, large firm sizes will be less likely to experience financial distress. With this, it can be said that the size of the company has a negative relationship to financial distress, because the larger the size of the company, the less likely the occurrence of financial distress because large companies are considered capable of paying off their obligations in the future compared to companies with a smaller scale.

2.LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Helena (2018) and Septiani (2019) state that there is a significant influence with the direction of the negative relationship between the variable of institutional ownership on financial distress. This means that the greater the institutional ownership in a company, the less likely the company is to experience financial distress and the lower the institutional ownership, the higher the probability of financial distress. The high ownership by institutional investors will encourage monitoring activities because the size of their voting will affect management. because the institution

professionally monitors the development of its investment, the level of control over the management level is very high so that the potential for fraud can be suppressed.

H1: institutional ownership has a negative effect on financial distress.

Whether or not a company is liquid is inseparable from the role of agents in managing a company and it is the responsibility of an agent (company owner) to the principal (shareholder) so that the company can run well and not make the company in a bad condition and produce appropriate information without information asymmetry to one party. Dewi and Arizona (2018) state that the liquidity ratio has a negative effect on financial distress and Widiari and Merkusiwati (2015) state that the liquidity ratio has a significant negative effect on financial distress. Meanwhile, research conducted by Putri (2014) and Sari (2015) stated that liquidity had no significant effect on financial distress.

H2: liquidity ratio has a negative effect on financial distress

Ari Dewi, et al (2018) stated that based on the results of this test, it means that the size of the company's leverage has no effect on financial distress as long as debt management is carried out properly by the company itself. Large companies tend to rely mostly on bank loans. Therefore, it can be said that the company is better able to avoid the company's financial difficulties through the loan. So, even though the company has a high leverage ratio, if it is managed properly, structured and appropriately, it will not affect financial distress. Ari Dewi, et al (2018) stated that the leverage ratio had no effect on financial distress. Widiarsari and Amanah (2018) state that the leverage ratio shows the need for companies to think about providing funding for the company's debts that are being borne. For lenders, companies with high leverage ratios will tend to avoid them to invest by providing debt loans because companies with high leverage ratios mean the company has a lot of debt dependents, if these debts are compared with the value of the assets owned by the company (Widiarsari and Amanah., 2018). Widiarsari and Amanah (2018) stated that the leverage ratio had a significant effect on financial distress, while Septiani and Dana (2019) stated that the leverage ratio had a significant negative effect on financial distress.

H3: leverage ratio has a negative effect on financial distress.

Tefari (2018) in his research states that firm size does not succeed in moderating the relationship between institutional ownership and financial distress. This indicates that the size of the company is not successful in moderating the relationship between institutional ownership and financial distress because of other factors that can support the size of the company in moderating the relationship between institutional ownership and financial distress, namely the age of the company. The age of the company shows how long the company is able to survive on the stock exchange, which means the more experience the company has to manage both internal and external sources of funds. Research conducted by Parulian (2007), the existence of share ownership by institutional investors will be able to better supervise management in carrying out operations so as to avoid financial distress conditions. This is because ownership by institutional investors will more closely supervise management in fulfilling the presentation of financial statements, so management is relatively not easy to cover up its active performance and must report net income in the financial

statements. This is also supported by research by Emrinaldi (2007) that institutional ownership has a negative effect on financial distress.

H4: firm size moderate the effect of institutional ownership of financial distress.

Fitdini (2009) succeeded in showing that the more liquid a company is, the more protected the company is from the threat of experiencing financial distress. In addition, the research also states that the larger the size of the company, the less likely it is to experience financial distress. A large firm size means more assets owned by the company, both current assets and company fixed assets. The more current assets the company has, the greater the company's ability to pay off its short-term obligations on time. Companies that are able to pay off their short-term obligations by utilizing their current assets on time will be able to avoid the company from financial distress. Kariani and Budiasih (2017) state that the firm size variable as a moderating variable cannot have a partial effect on financial distress. A large firm size means more assets owned by the company, both current assets and company fixed assets. Companies with a large size (large total assets) allow the company to fund the management or purchase of assets from outside the company so that the company's liabilities that will arise in the future will also be large. If the company has more assets/assets that are not needed so that it does not provide income, it will cause the company's liquidity to decrease and will only lead to more company liabilities in the future. Based on the description above, the following hypothesis is obtained:

H5: firm size moderates the effect of liquidity on financial distress.

Kariani and Budiasih (2017) state that the firm size variable as a moderating variable has a partial effect on financial distress. This shows that the size of the company can support funding through corporate debt. The results of this study are in accordance with the statement of Steven (2011), namely the size of a small company tends to be mostly financed by debt, so that the greater the company will experience the possibility of financial distress. This is because a smaller firm size has a higher growth opportunity, and therefore tends to face a conflict of interest between the principal as well as the agent, so to reduce agency costs funded through debt, small companies will borrow more to increase the company's growth opportunities. the.

H6: firm size moderates the effect of leverage on financial distress

3. METHODS

This research was conducted on manufacturing companies that have been listed on the Indonesia Stock Exchange. Where manufacturing company data is taken through the official website of the BEI www.idx.co.id and the research is carried out based on the financial report data of manufacturing companies in 2020. The population of this study are companies belonging to the manufacturing group listed on the Indonesia Stock Exchange for the 2020 period, namely as many as 175 companies. The sampling method used in this study was purposive sampling. The criteria used in determining the sample in this study were:

- 1) Manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the study period.
- 2) Manufacturing companies that publish complete financial reports in 2020

3) Manufacturing companies whose financial statements use the rupiah value.

In accordance with the criteria above, the researcher examined the financial statements of existing manufacturing companies that matched the criteria, so the number of samples selected was 80 companies listed on the Indonesia Stock Exchange in 2020.

This study uses multinomial logistic test analysis. The use of the multinomial logistic regression model in this study is because the dependent variable has more than two categories. Companies that fall into the financial distress category are given symbol 1, companies that fall into the gray area category are given symbol 2, and companies that fall into the non-financial distress category are given symbol 3. The three categories can then be used to calculate three types of probabilities, namely: probability of financial distress, probability of gray area, and probability of non-financial distress. In this study, only the probability of financial distress is calculated. To be able to calculate the probability of financial distress, one other category is needed that will be used as a comparison. This study uses the gray area category as a comparison.

4.RESULTS AND DISCUSSION

Model Fit Analysis (Overall Fit Model)

Table 1. Overall Fit Model

Model	Model Fitting Information		
	Model Fitting Criteria -2 Log Likelihood Sig.	Chi-Square	Likelihood Ratio Tests df
Intercept Only	68.202		
Final	22.888 .000	45.314	14

Secondary Data, 2022

Overall fit model aims to assess the overall regression model. This test is carried out by comparing the value of -2 log likelihood in a model that only includes constants with -2 log likelihood in a model that has included independent variables. The results of the overall fit model show that by including the independent variables into the model there is a -2 log likelihood decrease from 68.202 to 22.888 or a decrease in Chi-square of 45.314 and a significance of 0.000. This means that models with independent variables provide better accuracy to predict the occurrence of financial distress.

Regression Model Feasibility Analysis (Goodness of Fit)

Table 2. Goodness of Fit

	Goodness-of-Fit		
	Chi-Square	df	Sig.
Pearson	19.964 1.000		138
Deviance	22.888 1.000		138

Secondary Data, 2022

Goodness of fit aims to see that the hypothesized model is in accordance with the data. The decision taken is if the significance is greater than 0.05 then the hypothesis can be accepted. The goodness of fit test results that show a significance value of the goodness of fit of 1,000. This means that the model is able to predict and observe the goodness of fit risk in the future because it is in accordance with the data used.

Coefficient of Determination Analysis

Table 3. Results of the Coefficient of Determination

	Pseudo R-Square	
	Cox and	
Snell		.42
	5	
Nagelkerke		.75
	2	
McFadden		.66
	4	

Secondary
Data, 2022

The coefficient of determination in the logistic regression model is indicated by the Nagelkerke R-Square value. The Nagelkerke R-Square value is the variability of the fixed variable that can be explained by the independent variable, while the rest is explained by other variables outside the study. The results of the Pseudo R-Square test show the Nagelkerke R-Square coefficient value of 0.752 which means that 75.2 percent of the variation in financial distress is influenced by variations in institutional ownership, liquidity ratios, leverage ratios and firm size, while 24.8 percent is influenced by other factors. outside of research.

Multinomial Logistics Regression Coefficient Test

Table 4. Hypothesis Test Results

Model	Beta	Significant
Constant	733,977	0,869
Institutional Ownership (X1)	-188,708	0,665
Liquidity Ratio (X2)	-100,758	0,481
Leverage Ratio (X3)	-685,945	0,898
Firm size (X4)	-19,769	0,887
Institutional Ownership. Firm size (X1X4)	1,509	0,509
Liquidity Ratio_Firm size (X2X4)	3,928	0,0002
Leverage Ratio_Firm size (X3X4)	22,819	0,908

Secondary Data, 2022

$$Y = 733,977 - 188,708X_1 - 100,758X_2 + 22,819 X_4 - 685,945X_3 - 19,769X_4 + 1,509X_1X_4 + 3,982 X X +$$

The Effect of Institutional Ownership on Financial Distress

Table 4 shows the constant value of 733,977. This value means that if all independent variables (institutional ownership, liquidity ratios and leverage ratios) and control variables (firm size) are zero, the company will experience financial distress. Hypothesis 1 (H1) states that institutional ownership has a negative effect on financial distress. The results of the analysis show that institutional ownership has no effect on financial distress.

Thus, Hypothesis 1 (H1) which states that institutional ownership has an effect on companies experiencing financial distress is rejected. With the rejection of Hypothesis 1 (H1), it shows that a low level of institutional ownership will lead to supervision by institutional investors so that institutional ownership cannot hinder the manager's opportunistic behavior.

This study does not support agency theory which states that institutional ownership will reduce agency conflicts that occur, because whether institutional shareholders monitor the performance of managers or not, investors will not be able to predict the economic situation in the future, especially due to the pandemic that hit.

The direction of the institutional ownership coefficient in this study is negative, which means that the greater the percentage of share ownership by institutional investors such as insurance companies, investment companies, and banks in a company, the financial distress experienced by the company will decrease. These results are in line with research conducted by Fidyningrum and Retnani (2017) which states that institutional ownership variables have no effect on financial distress. The results of this study do not support the research conducted by Helena (2018) and Septiani (2019) which states that there is a significant influence with the direction of the negative relationship between institutional ownership variables and financial distress.

Effect of Liquidity Ratio on Financial Distress

The coefficient of institutional ownership is -188.708. This value means that if institutional ownership increases one hundred percent, the financial distress experienced by a company tends to decrease by 18,870.8 percent, assuming other factors are constant. Hypothesis 2 (H2) states that the liquidity ratio has a significant negative effect on financial distress. The results of the analysis show that the liquidity ratio has no effect on financial distress.

Thus, Hypothesis 2 (H2) which states that the liquidity ratio affects companies experiencing financial distress is rejected. Even if a company has a large amount of liquidity, there is no guarantee that the company will remain safe from threats in the face of financial difficulties in the company. Companies that have high current ratios are usually caused by having unnecessary current assets, so they do not provide income, and also a large amount of funds is immersed in uncollectible receivables (Triwahyuningtias, 2012). Receivables which will later be used to pay the company's current obligations, require a lot of time and each company has the right to convert receivables into cash which will be used in different ways to finance the company's obligations. So no matter how large the company's liquidity will not affect the possibility of the company experiencing financial distress (Putri, 2014). The results of this study are in accordance with research conducted by Putri (2014) and Sari (2015) which state that liquidity has no significant effect on financial distress.

The Effect of Leverage Ratio on Financial Distress

The coefficient of liquidity ratio is -100.758. This value means that if liquidity increases one hundred percent, the financial distress experienced by a company tends to decrease by 10,075.8 percent, assuming other factors are constant. Hypothesis 3 (H3) states that the leverage ratio has a

significant negative effect on financial distress. The results of the analysis show that the leverage ratio has no effect on financial distress.

Thus, Hypothesis 3 (H3) which states that the leverage ratio affects companies experiencing financial distress is rejected. Companies with low leverage are not affected by financial distress. Companies that have a low leverage value have a small burden so that the profit generated by a company is high, although the profit generated is high, the principal needs to keep an eye on the performance of the management, so that managers can make the right decisions and in line with what the principal and parties want. reduce the impact of financial distress that will occur.

This study shows that the smaller the leverage of a company, the less the company experiences financial distress. The results of this study are not in accordance with research conducted by Widiyari and Amanah (2018) as well as Septiani and Dana (2019) which states that leverage has a significant and negative effect on financial distress.

Firm Size Moderates the Effect of Institutional Ownership on Financial Distress

The coefficient of the proportion of the leverage ratio is -685.945. This value means that if the leverage value increases one hundred percent, the financial distress experienced by a company tends to increase by 68.594.5 percent, assuming other factors are constant. Hypothesis 4 (H4) states that firm size is able to moderate institutional ownership on financial distress. The results of the analysis show that firm size is not able to moderate institutional ownership on financial distress. Thus, Hypothesis 4 (H4) which states that firm size is able to moderate institutional ownership of companies experiencing financial distress is rejected.

The results of this study indicate that firm size is able to strengthen the influence on institutional ownership. Because the size of the company is seen based on the value of its assets, one of which comes from investments made by institutional shareholders, if the value of the company is high then the possibility of the company experiencing financial distress will be small and if the company value is low, the possibility of the company experiencing financial distress is high. The need for supervision and competent workers both from the principal and agents in order to maintain the company's value within reasonable limits and not trigger the occurrence of financial distress. This study is in accordance with research conducted by Tefari (2018) which states that firm size does not succeed in moderating the relationship between institutional ownership and financial distress.

Firm Size in Moderates the Effect of Liquidity Ratio on Financial Distress

The coefficient of firm size is -19,769. This value means that if the size of the company increases one hundred percent, the financial distress experienced by a company tends to decrease by 1,976.9 percent, assuming other factors are constant. Hypothesis 5 (H5) states that the size of the company as a moderator is able to strengthen the ratio of liquidity to financial distress. The results of the analysis show that the size of the company is able to moderate the ratio of liquidity to financial distress. Thus, Hypothesis 5 (H5) which states that firm size is able to moderate institutional ownership of companies experiencing financial distress is accepted.

A large firm size means more assets owned by the company, both current assets and company fixed assets. Companies with a large size (large total assets) allow the company to conduct funding for the management or purchase of assets originating from outside the company so that the company's liabilities that will arise in the future will also be large. If the company has more assets/assets that are not needed so that it cannot provide income, it will cause the company's liquidity to decrease and will only lead to more company obligations in the future. Which causes

the company to experience financial distress, it is very important for the principle to supervise the managers in the company so that managers do not make purchases or add assets which will actually cause large liabilities in the future. The results of this study are not in line with research conducted by Kariani and Budiasih (2017) which states that the firm size variable as a moderating variable cannot partially affect financial distress.

Firm Size Moderates the Effect of Leverage Ratio on Financial Distress

The coefficient of the leverage ratio to the size of the company has a value of 22,819. This value means that if the leverage ratio to firm size increases one hundred percent, it causes financial distress experienced by a company to tend to increase by 2,281.9 percent, assuming other factors are constant. Hypothesis 6 (H6) states that firm size as a moderator is able to strengthen the leverage ratio to financial distress. The results of the analysis show that the size of the company is not able to moderate the ratio of leverage to financial distress. Thus, Hypothesis 6 (H6) which states that firm size is able to moderate institutional ownership of companies experiencing financial distress is rejected.

Small firm size tends to have low leverage, so the company is not affected by financial distress. Companies that have a low leverage value have a small burden so that the profit generated by a company is high, although the profit generated is high, the principal needs to keep an eye on the performance of the management, so that managers can make the right decisions and in line with what the principal and parties want. reduce the impact of financial distress that will occur.

The results of this study are not in line with the research of Kariani and Budiasih (2017) which states that the firm size variable as a moderating variable has a partial effect on financial distress.

5.CONCLUSION

Based on the results of the partial test, institutional ownership does not have a significant and negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange during 2020.

Based on the results of the partial test, the liquidity ratio has no significant and negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange during 2020. Based on the results of tests carried out partially, the leverage ratio has no significant and negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange during 2020.

Based on the results of tests carried out partially, the size of the company is not able to moderate institutional ownership of financial distress in manufacturing companies listed on the Indonesia Stock Exchange during 2020.

Based on the results of tests carried out partially, the size of the company is able to moderate the ratio of liquidity to financial distress in manufacturing companies listed on the Indonesia Stock Exchange during 2020.

Based on the results of tests carried out partially, the size of the company is not able to moderate the ratio of leverage to financial distress in manufacturing companies listed on the Indonesia Stock Exchange during 2020.

For further researchers, it is recommended to increase the observation period and add other variables that are thought to affect financial distress, such as macroeconomics, both from inflation,

exchange rates and political risk, as well as market share and geographical diversification. In addition, researchers can also use other research models such as Ohlson and Zmijewski.

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