The Influence of Financial Ratios, GCG, and Sales Growth on Financial Distress

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Abstract

The purpose of this study is to investigate how financial distress is impacted by profitability, leverage, institutional ownership, the board of directors, the audit committee, the independent board of commissioners, and sales growth. Secondary data from the 2021–2023 financial statements of companies in the energy and basic material sectors listed on the Indonesia Stock Exchange were used in this study. Purposive sampling was the method utilized for sampling, and 72 data were collected based on the study's criteria. Multiple linear regression analysis is done with the SPSS (Statistical Product and Service Solution) version 25 program. Z-SCORE serves as a proxy for the dependent variable financial distress, and the Kolmogorov-Smirnov test, which employs a single sample, demonstrates that it is normally distributed. The study's findings suggest that financial difficulty is influenced by a number of factors, including audit committees, independent boards of commissioners, sales growth, leverage (debt to equity ratio), and profitability (return on assets). Financial distress is unaffected by the board of directors or institutional ownership. Financial distress is simultaneously influenced by sales growth, profitability, leverage, institutional ownership, the board of directors, the audit committee, and the independent board of commissioners.

Keywords: Profitability, Audit Committee, Independent Board of Commissioners, Sales Growth, Financial Distress

INTRODUCTION

The corporate world is evolving rapidly in the contemporary globalized period. As the business world grows quickly, a lot of new companies enter a sector and fight with one another to become market leaders. To become a market leader, a business must, however, be able to effectively manage its finances in order to secure its long-term viability. A business may go closer to financial difficulties or hardship if its financial management is incorrect and negligent. The incapacity of a business to make its payments on time is known as financial distress. Financial strain can take many different

forms, from the mildest, difficulties paying maturing short-term obligations, to the most severe, declaring bankruptcy (Gusti et al., 2021).

Companies publish financial statements to provide information about their financial position, performance, and changes in financial position, and this study uses this information to assist in decision making. By analyzing financial statements, financial difficulties can be measured through financial statements. Financial statements can be used as a tool to predict various aspects of a company's finances in the future. Financial statements are the result of a technical activity with methods and procedures that require an explanation to achieve a goal or purpose to provide useful information (Rissi & Herman, 2021). Financial statements can also be used to determine the level of financial health of a company, which is represented by ratios and will reflect the company's ability to run its business, the distribution of assets, the effectiveness of asset users, the results of the business that has been achieved, the obligations that must be paid off and the potential bankruptcy that occurs. (Gusti et al., 2021).

The performance of a company is strongly influenced by ever-changing economic conditions. Large and small companies also feel the impact, so many go bankrupt. Until now, companies listed on the Indonesia Stock Exchange (IDX) are still experiencing the delisting process, which means they are no longer listed on the Indonesia Stock Exchange. Economic failure and financial failure are the causes of companies not being able to survive. An imbalance between revenues and expenses and a company's cost of capital that is greater than the rate of return on historical investment costs can lead to economic failure. Conversely, a company experiences financial failure because it cannot pay its obligations when due, even though the company's assets are more than its liabilities. This condition causes the company to experience financial distress which can lead to bankruptcy (Ginting, 2017).

The Indonesia Stock Exchange (IDX) uses the IDX-IC (Indonesia Stock Exchange Industrial Classification) which came into effect on January 25, 2021. This classification replaces JASICA (Jakarta Stock Exchange Industrial Classification) and classifies companies based on market exposure to the products they produce. In this study, the object of research is basic material sector companies and the energy sector listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. The research decided to choose energy sector companies and the basic material sector because Indonesia's uncertain and often changing economic conditions can affect several economic companies.

The decline in global demand and commodity prices due to the Covid-19 pandemic and geopolitical conflicts such as the war in Ukraine has reduced the revenue of companies in the basic materials sector and the energy sector. This has caused companies such as PT Timah Tbk (TINS), PT Bukit Asam Tbk (PTBA), and PT Aneka Tambang Tbk (ANTM) to experience declining profits or even losses. Overall, the combination of declining demand, supply chain disruptions, inflation, declining investment, limited economic support, and geopolitical instability creates a very challenging environment for companies in the basic materials and energy sectors. These conditions increase the risk of financial distress, where companies may face difficulties in meeting their financial obligations, such as debt repayment. Researchers are interested in determining the components that may contribute to this phenomena.

Financial difficulty is influenced by a number of factors, including profitability. Return on assets is a measure of profitability that is used to forecast a company's financial problems. The ability of a business to maximize asset ownership in order to produce a profit is gauged by return on assets. The quantity of net profit produced

increases with the return on assets. Research results from Ananda Choirunnissa & Nursiam (2023) said that profitability has an effect on financial distress. Meanwhile, research Syachputra & Kusumawati (2024) shows that profitability does not have a significant effect on financial distress.

The Debt to Equity Ratio (DER) is a metric used to forecast a company's financial distress status. The ability of the business to pay off all of its debts with its available capital is measured by the debt to equity ratio, or DER. Businesses that have a lot of debt are at a higher risk of financial trouble because they are less likely to be able to pay off their debts. Research results from Ananda Choirunnissa & Nursiam (2023) shows that the leverage ratio has an effect on financial distress. Meanwhile, research Stepani & Nugroho (2023) shows that leverage does not have a significant effect on financial distress.

Institutional ownership will reduce agency issues since institutional shareholders monitor the company to make sure management does not act negatively. Management oversight will be enhanced by institutional ownership of more than 5%. Research results from Angelica (2024) shows that institutional ownership has an effect on financial distress. Meanwhile, research Pamungkas et al. (2023) shows that institutional ownership has no effect on the occurrence of financial distress.

The board of directors is one of the bodies within the organization that decides on the long-term and short-term strategic plans and directives (Nasiroh, 2018). Research results from Aryanti et al. (2023) shows that the board of directors has a significant positive influence on financial distress. Meanwhile, research from Nasiroh (2018) shows that the board of directors has no influence on financial distress.

The audit committee is responsible for supporting the board of commissioners in ensuring that the company's internal control structure is appropriately implemented, that financial reports are presented fairly in accordance with generally accepted accounting principles, that internal and external audits are conducted in compliance with applicable audit standards, and that management follows up on audit findings (Nasiroh, 2018). Research results from Rendragraha & Santoso (2024) shows that the audit committee has an effect on financial distress. Meanwhile, research Angelica (2024) shows that the audit committee has no influence on financial distress.

A commissioner who is not a member of the company's management is known as an independent board of commissioners. A company's independent board of commissioners must make up at least 30% of its overall commissioner count. The independent board of commissioners is in charge of assisting the business in putting excellent corporate governance principles into practice (Vascha, 2023). Research result Pamungkas et al. (2023) shows that the independent board of commissioners has an effect on financial distress as evidenced by a significance value of 2.3%. Meanwhile, the research Angelica (2024) shows that the independent board of commissioners does not have a significant influence on financial distress.

Sales growth is the market acceptance of the product or service produced and the revenue generated from sales which can be used to measure the level of sales growth. Research conducted by Okrisnesia et al. (2021) stated that sales growth affects financial distress. The higher the sales growth rate of a company, the more successful the company is in carrying out its strategy in terms of marketing and selling products. While research Utami & Taqwa (2023) shows that sales growth has no effect on financial distress because the increase and decrease in the value of sales growth in a company does not result in financial distress.

If the company has recognized financial distress, then the company must make various efforts to prevent bankruptcy. Therefore, it is important to know the financial condition or financial distress in order to avoid bankruptcy. Referring to the phenomenon and the difference in research results or gap research, this shows that there are inconsistent research results regarding these variables. Therefore, the authors are interested in conducting research entitled: The Effect of Financial Ratios, GCG, and Sales Growth on Financial Distress in Basic Material Sector Companies and the Energy Sector Listed on the Indonesia Stock Exchange for the 2021-2023 Period.

THEORITICAL FRAMEWORK AND HYPOTHESIS

Teori Sinyal (Signaling Theory)

Signaling theory was proposed by Spence (1973), where this theory reveals that companies will provide signals to users of financial statements, both in the form of positive signals that indicate good news and negative signals that indicate bad news. The positive signal itself will be signaled when the company experiences an increase in sales, distributes dividends, announces profits, and so on. Conversely, a negative signal will be signaled when the company experiences a decline in sales, has a high level of debt, to losses that cause the company to be unable to distribute dividends (Dirman, 2021).

Teori Agensi (Agensi Theory)

This theory was proposed by Jensen & Meckling (1976), where this theory explains the contractual or engagement relationship between the principal as the owner of the company and the agent who acts as the party undergoing company operations. The agent or manager will act as a party that provides services and services to the principal to carry out operational activities within the company. On the other hand, the principal will also delegate the authority of responsibility and decision making to the agent (Larasati & Wahyudin, 2019).

Financial Distress

Financial distress can be predicted based on a company's inability or unavailability of funds to pay its debts as they fall due. If a business has a negative net profit for a number of years, it can be considered to be in financial trouble or difficulties (Carolina et al., 2017). There are various ways to test that a company is experiencing financial distress (Platt Harlan D & Platt Marjorie B, 2006) such as:

1. Labor layoffs or non-payment of dividends.
2. Interest coverage ratio.
3. Less cash flow than current long-term debt.
4. Negative net operating income.
5. A change in the price of equity.
6. The company ceased operations under the authority of the government and the company is required to carry out a restructuring plan.
7. The company experiences technical violations in debt and it is predicted that the company will experience bankruptcy in the future period.
8. Has negative Earnings per Share (EPS).

Hypothesis Formulation

Effect of Profitability on Financial Distress

Profitability is a ratio that can measure the ability of a company to make a profit and can also measure how effective and efficient the management of a company is. This is shown by the profit generated from sales and investment income (Rinofah et al., 2021). According to Fitriana et al. (2023) Profitability is a ratio to assess the company's ability to seek profit or profit in a certain period. In signal theory, high profitability will

send a positive signal to the market, indicating that the company has good financial health and is less likely to experience financial distress. Conversely, low profitability can be perceived as a negative signal indicating a higher risk of financial distress. Research conducted by Ananda Choirunnissa & Nursiam (2023) and Asysyafa & Putri (2023) said that profitability affects financial distress. However, research conducted by Syachputra & Kusumawati (2024) said that profitability has no effect on financial distress.

H1 : Profitability affects financial distress.

Effect of Leverage on Financial Distress

Leverage is a very important ratio that describes the relationship between a company's debt to its assets and capital. This ratio is very important to know all the company's business activities, both in terms of capital and debt and profits, so that the company can evaluate the ability to pay maturing debt. Leverage reflects the company's ability to manage assets or funds that have a fixed burden as a level of income for company owners. A higher level of leverage indicates the company's dependence on debt (Maryanih et al., 2023). In signaling theory, the higher the leverage, the higher the signal, especially for creditors in providing loans. The high leverage illustrates that the company has difficulty in paying off its debts at maturity and in the future (Agustini & Wirawati, 2019). Research conducted by Ananda Choirunnissa & Nursiam (2023) and Utami & Taqwa (2023) which says that leverage as measured using the Debt Equity of Ratio (DER) affects financial distress. However, research conducted by Stepani & Nugroho (2023) shows that leverage has no effect on financial distress.

H2 : Leverage affects financial distress.

Effect of Institutional Ownership on Financial Distress

According to Emrinaldi (2007) Institutional ownership will reduce agency problems because institutional shareholders will help oversee the company so that management will not act to the detriment of shareholders. Agency theory explains how the relationship between owners and managers and its impact on company performance. The higher the level of ownership, the stronger the level of control exercised by external parties (Pamungkas et al., 2023). Research conducted by Angelica (2024) and Utami & Taqwa (2023) shows that institutional ownership affects financial distress. However, research conducted by Pamungkas et al. (2023) shows that institutional ownership has no effect on financial distress.

H3 : Institutional Ownership affects financial distress.

Effect of Board of Directors on Financial Distress

The board of directors is an aspect that affects the corporate governance mechanism. The board of directors is included in the company's organs that determine the strategic policies taken by the company, both long-term and short-term policies or strategies (Nasiroh, 2018). In agency theory, administrators are required to carry out tasks assigned by the principal. Each board has a specific role to make decisions about the operational activities it runs. Company administrators must be professional and competent so that all business activities can run smoothly with good leadership (Aryanti et al., 2023). Research conducted by Aryanti et al. (2023) stated that the board of directors has a significant positive effect on financial distress. However, research conducted by Nasiroh (2018) shows that the board of directors has no effect on financial distress.

H4 : The board of directors has an effect on financial distress.

Effect of Audit Committee on Financial Distress

The audit committee is tasked with assisting the board of commissioners to ensure that the financial statements are presented fairly in accordance with generally accepted

accounting principles; the company's internal control structure is implemented properly; the implementation of internal and external audits is carried out in accordance with applicable audit standards and follow-up on audit findings is carried out by management (Nasiroh, 2018). Agency theory predicts that the formation of an audit committee is a way to solve agency problems. This is because the main function of the audit committee is to review the company's internal controls, ensure the quality of financial statements, and improve the effectiveness of the audit function, so that the things done by the audit committee can minimize the practice of fraud and manipulation that will cause the company to be in financial distress (Pamungkas et al., 2023). Research conducted by Rendragraha & Santoso (2024) stated that the audit committee has an effect on financial distress. However, research conducted by Angelica (2024) shows that the audit committee has no influence on financial distress.
H5 : The audit committee has an effect on financial distress.

Effect of the Board of Commissioners on Financial Distress

The independent board of commissioners is a commissioner who is not part of the management in a company. The number of independent commissioners in the company is at least 30 percent of the total number of commissioners. The responsibility of the independent board of commissioners is to help implement a good corporate governance principle or commonly called good corporate governance in the company (Vascha, 2023). According to agency theory, there is a conflict of interest between management (agent) and shareholders (principal). The independent board of commissioners plays an important role in overseeing and controlling management actions to ensure that decisions are made in accordance with the interests of shareholders. A larger independent board of commissioners can provide more effective oversight, reduce the likelihood of opportunistic actions by management, and increase transparency and accountability. Research conducted by Pamungkas et al. (2023) shows that the independent board of commissioners has an effect on financial distress as evidenced by a significance value of 2.3%. However, research conducted by Angelica (2024) shows that the independent board of commissioners has no effect on financial distress.
H6 : The independent board of commissioners has an effect on financial distress.

Effect of Sales Growth on Financial Distress

Sales growth shows the ability of a company to increase sales gradually. Therefore, if the sales growth rate of a company is high, then the company has successfully implemented its marketing and product sales strategy (Herawati, 2020). According to signaling theory, because the higher sales growth means that the company can survive in the tight product competition which can affect company profits, so this is a signal for investors and creditors because the increasing profits, the company is considered good, so it is interested in investing and funding in the company (Rachmawati, 2020). Research conducted by Okrisnesia et al. (2021) stated that sales growth affects financial distress. The higher the sales growth rate of a company, the more successful the company is in carrying out its strategy in terms of marketing and selling products. However, research conducted by Utami & Taqwa (2023) said that sales growth has no effect on financial distress.
H7 : Sales growth affects financial distress.

RESEARCH METHOD

The type of research used in this study is quantitative research. Quantitative research method is a data collection method, namely by collecting, recording, and

reviewing secondary data contained in financial reports (Rinofah et al., 2021). The population used in this study are basic material companies and the energy sector listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. Purposive sampling is the sampling strategy employed in this study, meaning that the population to be sampled is one that satisfies the researcher's chosen sample criteria. The following factors were used to determine sampling in this study:

a. Basic material sector companies and the energy sector listed on the Indonesia Stock Exchange (IDX) in 2021-2023
b. Basic material sector and energy sector companies that report financial statements consecutively from 2021-2023.
c. Basic material and energy sector companies that have negative net income for two years or consecutively. This criterion indicates financial distress because the presence of negative net income for two years or consecutively means that the company is experiencing a decline in financial condition or loss (Rissi & Herman, 2021).
d. Basic material sector and energy sector companies that have complete data according to the data required in the variables.

Data Types and Sources

This study makes use of secondary or pre-existing data. Data gathered from second-hand sources or other sources that were accessible before to the study project is referred to as secondary data. The information used comes from financial reports of companies listed on the Indonesia Stock Exchange (IDX) in the energy and basic material sectors for the years 2021–2023, which were accessed via the Indonesia Stock Exchange's official website.

Operational Variables

Profitabilitas

Profitability is measured using Return on assets (ROA) to determine the company's ability to generate profits or profits based on the assets owned by the company.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}}$$

Leverage

Leverage is measured using the Debt to Equity Ratio (DER) which is the company's ability to cover all debts using the capital owned.

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Institutional Ownership

According to Emrinaldi (2007) Institutional ownership will reduce agency problems because institutional shareholders will help oversee the company so that management will not act to the detriment of shareholders.

$$\text{Institutional Ownership} = \frac{\text{Number of shares held by institutions}}{\text{Total shares outstanding}}$$

Board of Directors

The company's leader, chosen by the shareholders to represent their interests in running the business, is the Board of Directors. Determining the company's long-term and short-term policies is the responsibility of the Board of Directors. The Board of Directors represents the organization both internally and externally and has complete responsibility for its management (Nasiroh, 2018).

$$\text{Board of Directors} = \text{Number of Board Members}$$

Audit Committee

To assist in carrying out the responsibilities and tasks of the board of commissioners, the audit committee was established and is answerable to the board. There are at least three members (Nasiroh, 2018). There are at least three members. The following formula can be used to evaluate the Audit Committee:

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

Independent Board of Commissioners

The Independent Board of Commissioners shares the same role as the chief commissioner and works for the company's benefit. As primus inter pares, the board of commissioners' primary responsibility is to coordinate the board's operations (Munawar et al., 2018).

$$\text{Independent Board of Commissioners} = \frac{\Sigma \text{ Independent Board of Commissioners}}{\Sigma \text{ Board Member}}$$

Sales Growth

Companies that have good financial conditions will not experience this condition, because the possibility of this condition will increase with sales growth. Conversely, the possibility of a depressed financial condition will increase as sales decline. The formula for sales growth is :

$$\text{Sales Growth} = \frac{\text{Sales (t) - Sales (t-1)}}{\text{Sales (t-1)}}$$

Financial Distress

A corporation that is experiencing a downturn in its financial situation prior to bankruptcy or liquidation is said to be in financial difficulty. The inability of the business to meet its past-due financial obligations is another way to define financial distress. A technique or metric for assessing a company's financial health is the Altman Z-Score model itself. The Altman Z-Score employs a number of ratios that can generate predictors to forecast a company's likelihood of going bankrupt.

$$Z = 6{,}56 X_1 + 3{,}26 X_2 + 6{,}72 X_3 + 1{,}05 X_4$$

Description :

Z	=	Bankrupcy Index
X_1	=	Working Capital / Total Asset
X_2	=	Retained Earnings / Total Asset
X_3	=	Earning Before Interest and Taxes / Total Asset
X_4	=	Book Value of Equity / Book Value of Total Debt

Classical Assumption Test

Normality Test

According to Ghozali (2018) The normality test aims to test whether in the regression model, confounding or residual variables have a normal distribution. In this study, the normality test used the Kolmogorov-Smirnov (K-S) non-parametric statistical test. the basis for decision making is if the significance value is less than 0.05 then H0 is rejected, where H0 is normally distributed data. Conversely, if the significance value is more than 0.05 then H0 is accepted and HA is non-normally distributed data (Ghozali, 2018:178).

Multicolonierity Test

The purpose of the multicolonierity test is to determine whether the regression model discovered a relationship between the independent variables. The tolerance value and its inverse Variance Inflation Factor (VIF) demonstrate multicollinearity testing.

Commonly used test findings that demonstrate multicollinearity include tolerance values ≤ 0.10 or equal to VIF ≥ 10 (Ghozali, 2018:108).

Heteroscedasticity Test

The purpose of the heteroscedasticity test is to determine whether the residuals of one observation differ in variance from those of another in the regression model. Regression models with or without homoscedasticity are considered to be good (Ghozali, 2018). Heteroscedasticity test analysis is based on two principles: (1) heteroscedasticity is indicated if there are specific patterns, such as points that form a regular pattern (wavy, widening then narrowing); and (2) heteroscedasticity is not present if there is no discernible pattern and the dots are dispersed above and below the number 0 on the Y axis.

Autocorrelation Test

The purpose of the autocorrelation test is to determine whether the disturbance error in period t and the disturbance error in period t-1 (prior to that) are correlated in the linear regression model. An autocorrelation-free regression is a good regression model (Ghozali, 2018). The Durbin-Watson Test (DW Test), specifically Santoso (2012), can be used to determine whether a correlation exists: There is (1) positive autocorrelation if the DW test value is less than -2, (2) no autocorrelation if the DW test value is between -2 and 2, and (3) negative autocorrelation if the DW test value is greater than 2.

Multiple Linear Regression Analysis

Regression analysis using two or more independent variables is known as multiple linear regression (Ghozali, 2018). The purpose of this analysis model is to look at the independent variable factors that affect the dependent variable in the multiple independent variables chosen for this study. This is the multiple linear regression formula (Ananda Choirunnissa & Nursiam, 2023) :

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e$$

Coefficient of Determination Test

According to Ghozali (2018) explains that the coefficient of determination (R^2) is used to measure how far the model's ability is in explaining the variations contained in the dependent variable. The value of the coefficient of determination is between zero and one. If the value of the coefficient of determination is equal to 0 or smaller (approaching zero) then there is no relationship or weak influence between the dependent variable and the independent variable. If the value of the coefficient of determination is equal to 1 or larger (approaching one) then the independent variable has a perfect relationship or better ability with the dependent variable.

Simultaneous Test (F Test)

According to Ghozali (2018) To determine if the independent factors have a simultaneous impact on the dependent variable, the F test is utilized. The F test in the regression model is based on the assumption that the independent variables have a simultaneous impact on the dependent variable if the significance value is less than 0.05.

Parsimony Test (T-Test)

According to Ghozali (2018) In essence, the t-test is used to demonstrate how each independent variable affects the variable to a partial extent. The following is how this t-test applies the α = 0.05 criterion: (1) The hypothesis is rejected and it can be concluded that there is no significant relationship between the dependent and independent variables if the t-test level of significance is greater than 0.05. (2) The hypothesis is accepted and it can be concluded that the dependent variable significantly affects the independent variable if the t-test level of significance is less than 0.05.

RESULT AND DISCUSSION

Statistics Deskriptif

Tabel 1 Statistik Deskriptif
Statistik Deskriptif

	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	64	-0.617	0.109	-0.07713	0.118842
Leverage	64	-29.143	6.439	0.68135	4.157725
Institutional Ownership	64	0.097	0.925	0.60821	0.256757
Board of Directors	64	2.000	6.000	3.23438	1.191800
Audit Committee	64	2.000	3.000	2.95313	0.213042
Independent Board of Commissioners	64	0.200	0.500	0.38868	0.091103
Sales Growth	64	-0.976	1.176	-0.03583	0.369797
Financial Distress	64	-38.259	52.481	0.02306	13.799914
Valid N (listwise)	64				

Source: SPSS Processed Data, 2024

Normality Test

Tabel 2 Normality Test
One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			64
Normal Parameters[a,b]	Mean		0.0000000
	Std. Deviation		0.31702674
Most Extreme Differences	Absolute		0.110
	Positive		0.054
	Negative		-0.110
Test Statistic			0.110
Asymp. Sig. (2-tailed)			.051[c]
Monte Carlo Sig. (2-tailed)	Sig.		.392[d]
	99% Confidence Interval	Lower Bound	0.379
		Upper Bound	0.405

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. Based on 10000 sampled tabels with starting seed 2000000.

Source: SPSS Processed Data, 2024

Based on the results of the Normality Test displayed in tabel 2, it can be seen that the Asymp. Sig. (2-tailed) value is 0.051, and Monte Carlo is 0.392, which is greater than 0.05. So it can be concluded that the residual value in this study is normally distributed.

Multicollinearity Test

Tabel 3 Multicollinearity Test

Coefficients[a]

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Profitabilitas	0.852	1.174
Leverage	0.927	1.079
Institutional Ownership	0.928	1.077
Board of Directors	0.628	1.593
Audit Committee	0.953	1.049
Independent Board of Commissioners	0.592	1.689
Sales Growth	0.833	1.201
a. Dependent Variable: Zscore: Financial Distress		

Source: SPSS Processed Data, 2024

The tolerance value is less than 0.10 for all independent variables, and the VIF value is less than 10 for all independent variables, according to the multicollinearity test findings in tabel 3 above. It may be concluded from the Multicollinearity Test results in the above tabel that there is no correlation between the study's independent variables.

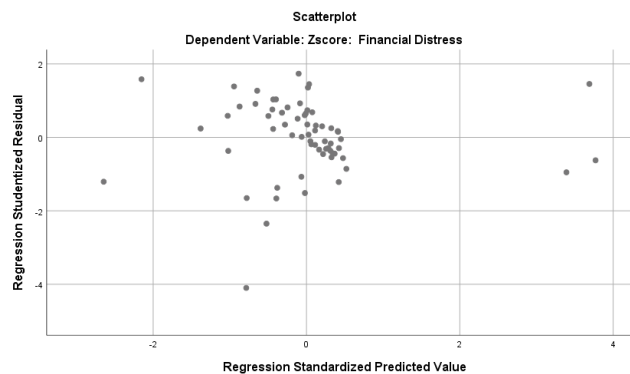**Heteroscedasticity Test**

Figure 1 Scatterplot

It is evident from the scatterplot graph in Figure 1 that the points are dispersed at random, both above and below the 0 on the Y axis. We can conclude that the regression model is appropriate for use in forecasting financial distress because it does not exhibit heteroscedasticity. Because plot graph analysis has serious flaws, this study employs a statistical technique called the Glejser technique. The Glejser Test results used in this investigation are as follows:

Tabel 4 Glejser Test

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.218	0.032		6.856	0.000
Profitabilitas	-0.001	0.028	-0.004	-0.035	0.972

Leverage	-0.012	0.025	-0.060	-0.490	0.626
Institutional Ownership	-0.049	0.026	-0.231	-1.880	0.065
Board of Directors	-0.111	0.069	-0.240	-1.603	0.115
Audit Committee	0.005	0.028	0.022	0.184	0.855
Independent Board of Commissioners	0.037	0.041	0.140	0.908	0.368
Sales Growth	0.071	0.073	0.127	0.977	0.333

a. Dependent Variable: AbsUt

Source: SPSS Processed Data, 2024

Tabel 4 indicates that there is no significant independent variable influencing the dependent variable. This is because the test's Sig. value is greater than 0.05. Therefore, it can be said that heteroscedasticity is absent from the regression model.

Autocorrelation Test

Tabel 5 Uji Autokorelasi
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.870[a]	0.756	0.726	0.33625763	1.083

Source: SPSS Processed Data, 2024

Tabel 5 shows a Durbin-Watson value of 1.083 and a DW value ranging from -2 to 2. Therefore, it may be said that the regression model does not exhibit any signs of autocorrelation.

Multiple Linear Regression Test

Tabel 6 Multiple Linear Regression Test
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0.097	0.053		-1.817	0.075
Profitabilitas	0.221	0.047	0.339	4.743	0.000
Leverage	0.153	0.042	0.249	3.627	0.001
Institutional Ownership	0.058	0.044	0.091	1.335	0.187
Board of Directors	0.056	0.116	0.040	0.483	0.631
Audit Committee	-0.497	0.047	-0.715	-10.576	0.000
Independent Board of Commissioners	-0.150	0.069	-0.187	-2.179	0.034
Sales Growth	-0.248	0.122	-0.147	-2.035	0.047

a. Dependent Variable: Zscore: Financial Distress

Source: SPSS Processed Data, 2024

The multiple linear regression equation that results from the multiple linear regression analysis test in tabel 6 above is as follows:

$$FD = -0,097 + 0,221 + 0,153 + 0,058 + 0,056 - 0,497 - 0,150 - 0,248 + e$$

The following are the coefficient values derived from the multiple linear regression equation above: (1) The constant value (α) is negative at -0.097, meaning that the financial distress variable is -0.097 if other independent variables are taken to be 0. (2) The profitability variable's (X1) regression coefficient is positive at 0.221, meaning that if the profitability variable rises by 1% while other independent variables continue to rise, financial hardship will rise by 0.221. (3) The leverage variable's (X2) regression coefficient is positive at 0.153, meaning that if the leverage variable rises by 1% while other independent variables continue to rise, financial hardship will rise by 0.153. (4) The Institutional Ownership variable's (X3) regression coefficient is positive at 0.058, meaning that if the Institutional Ownership variable rises by 1% while other independent variables continue to rise, financial hardship will rise by 0.058. (5) The Board of Directors variable's regression coefficient (X4) is positive at 0.056, meaning that if the Board of Directors variable rises by 1% while other independent variables continue to rise at the same rate, financial distress will rise by 0.056. (6) The Audit Committee variable (X5) has a negative regression coefficient of -0.497, meaning that financial distress will drop by -0.497 if the Audit Committee variable rises by 1% while other independent variables continue to rise. (7) The Independent Board of Commissioners variable (X6) has a negative regression coefficient of -0.150, meaning that financial distress will drop by -0.150 if the Independent Board of Commissioners variable rises by 1% while other independent variables continue to rise. (8) The sales growth variable (X7) has a negative regression coefficient of -0.248, meaning that financial distress will drop by -0.248 if the sales growth variable rises by 1% while other independent variables continue to rise.

Determinant Coefficient Test (R2)

Tabel 7 Determinant Coefficient Test (R2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.870[a]	0.756	0.726	0.33625763

Source: SPSS Processed Data, 2024

The Adjusted R Square value is 0.801 according to the determination test findings in tabel 7 above. This explains why financial distress is impacted by 72.6% of the independent factors, which include sales growth, profitability, leverage, institutional ownership, the board of directors, the audit committee, the independent board of commissioners, and institutional ownership. The remaining 19.9%, however, is impacted by factors not included in the study (100% - 72.6% = 27.4%).

Simultaneous Test (F Test)

Tabel 8 Simultaneous Test (F Test)

ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.646	7	2.807	24.822	.000[b]
	Residual	6.332	56	0.113		

Total	25.978	63

Source: SPSS Processed Data, 2024

The F test on the regression model is based on the assumption that the independent variables have a simultaneous impact on the dependent variable if the significance value is less than 0.05. Tabel 4.9 indicates that 0.000 is the significance value. This implies that financial difficulty is influenced by a number of factors at the same time, including profitability, leverage, institutional ownership, the board of directors, the audit committee, the independent board of commissioners, and sales growth.

Partial Test (t-Test)

Tabel 9 Partial Test (t-Test)
Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0.097	0.053		-1.817	0.075
Profitabilitas	0.221	0.047	0.339	4.743	0.000
Leverage	0.153	0.042	0.249	3.627	0.001
Institutional Ownership	0.058	0.044	0.091	1.335	0.187
Board of Directors	0.056	0.116	0.040	0.483	0.631
Audit Committee	-0.497	0.047	-0.715	-10.576	0.000
Independent Board of Commissioners	-0.150	0.069	-0.187	-2.179	0.034
Sales Growth	-0.248	0.122	-0.147	-2.035	0.047
a. Dependent Variable: Zscore: Financial Distress					

Source: SPSS Processed Data, 2024

The Influence of Profitability (X1) on Financial Distress (Y)

Profitability has a significance value of 0.000, which is less than the significance level of 0.05, and the computed t of 4.743 is more than the t tabel of 2.00247, according to the results of the t-test for the profitability variable in tabel 9. Consequently, the first hypothesis (H1), according to which financial distress is influenced by profitability, is accepted. This is consistent with the signaling hypothesis, which holds that a company with strong profitability would communicate to the market that it is financially sound and unlikely to face financial difficulties. Low profitability, on the other hand, may be interpreted as a warning indication that a financial crisis is more likely. Many businesses in a variety of industries have been under a lot of strain as a result of the COVID-19 outbreak. Due to decreased demand, supply chain interruptions, and operational limitations, several businesses have seen sharp drops in revenue during the pandemic. The company's profitability is directly impacted by this drop in revenue. Reduced profitability during the pandemic may give the market a bad impression of the company's capacity to weather challenging economic times. Investors and other stakeholders may become more concerned about the possibility of financial crisis as a result. The findings of this study are consistent with studies by Ananda Choirunnissa & Nursiam (2023) and Asysyafa & Putri (2023) which found a relationship between financial difficulty and profitability. The findings of this study, however, contradict those

of Syachputra & Kusumawati (2024) which found no discernible relationship between financial difficulties and profitability.

The Effect of Leverage (X2) on Financial Distress (Y)

It is evident from the findings of the financial distress test that the leverage variable has an impact on financial hardship. As a result, the second hypothesis (H2), according to which financial distress is influenced by leverage, is accepted. This is demonstrated by the computed t of 3.627, which is higher than the t table of 2.00247, and the significance value of the leverage variable of 0.001, which is less than the significance level of 0.05. Because a larger leverage ratio suggests that a firm may not be able to pay its debts on time, it increases the likelihood that the company may experience financial trouble. According to signaling theory, leverage can send out more signals, particularly to lenders who are offering loans. High leverage indicates that the business is struggling to make its debt payments on time or in the future (Agustini & Wirawati, 2019). The study's findings are consistent with earlier research by Ananda Choirunnissa & Nursiam (2023) and Utami & Taqwa (2023) which found that financial distress is impacted by leverage as measured by the debt equity ratio (DER). The findings of this study, however, contradict those of Stepani & Nugroho (2023) which found no connection between leverage and financial difficulty.

The Influence of Institutional Ownership (X3) on Financial Distress (Y)

The Institutional Ownership variable has no effect on financial distress, according to the findings of a test conducted on the relationship between the two. Consequently, the third hypothesis (H3), according to which financial distress is influenced by institutional ownership, is disproved. This is demonstrated by the fact that the estimated t of 1.335 is less than the t table of 2.002247 and that the significance value of the Institutional Ownership variable, 0.187, is higher than the significance level of 0.05. According to agency theory, the degree of control exerted by outside parties increases with the degree of ownership. Because every option made does not lead to a poor choice that could affect the company's performance and put it in financial difficulties, institutional investors will actively participate in management decision-making. The findings of this study, however, contradict agency theory as a company's likelihood of facing financial strain is independent of its institutional ownership proportion. The findings of this study are corroborated by another research by Pamungkas et al. (2023) which found no relationship between institutional ownership and financial distress. The findings of this study, however, contradict those of Angelica (2024) which found that financial suffering is influenced by institutional ownership.

The Influence of the Board of Directors (X4) on Financial Distress (Y)

The findings of the test of the Board of Directors variable on financial distress indicate that there is no relationship between the two variables. Consequently, the fourth hypothesis (H4), according to which financial crisis is influenced by the Board of Directors, is disproved. This is demonstrated by the computed t of 0.483, which is less than the t table of 2.00247, and the significance value of the Board of Directors variable of 0.631, which is higher than the significance level of 0.05. This indicates that the likelihood of a corporation encountering financial hardship or difficulties increases with the number of directors on the board. Stated differently, the limited number of directors on the board is insufficient to effectively oversee and supervise the company's management. Therefore, even though there is a Board of Directors, its tiny number cannot stop financial problems from happening, so it is thought that the variable number of Board of Directors has no effect on financial distress. The findings of this investigation are corroborated by additional studies carried out by Nasiroh (2018) It

claims that financial difficulty is unaffected by the board of directors. Nevertheless, this study's findings contradict the research Aryanti et al. (2023) it claims that financial distress is significantly improved by the Board of Directors.

The Influence of Audit Committee (X5) on Financial Distress (Y)

It is evident that the Audit Committee variable has an impact on financial distress based on the findings of the test conducted on the subject. As a result, the fifth hypothesis (H5), according to which the Audit Committee influences financial difficulties, is approved. This is demonstrated by the Audit Committee variable's significance value of 0.000, which is less than the significance level of 0.05, and the computed t of -10.576, which is higher than the t table of 2.00247. According to agency theory, one option to address agency issues is to establish an Audit Committee. In order to reduce fraudulent activities and manipulation that could put the company in financial distress, the Audit Committee's primary responsibilities are to review the company's internal control, guarantee the accuracy of financial reports, and enhance the effectiveness of the audit function. This is consistent with earlier studies carried out by Rendragraha & Santoso (2024) It claims that financial difficulty is impacted by the Audit Committee. Nevertheless, this study's findings contradict the research Angelica (2024) it demonstrates that financial suffering is unaffected by the Audit Committee.

The Influence of the Independent Board of Commissioners (X6) on Financial Distress (Y)

It is evident from the Independent Board of Commissioners variable's test findings on financial distress that the variable has an impact on financial distress. As a result, the sixth hypothesis (H6), according to which financial crisis is influenced by the Independent Board of Commissioners, is adopted. This is demonstrated by the computed t of -2.179, which is higher than the t table of 2.00247, and the significant value of the Independent Board of Commissioners variable of 0.034, which is less than the significance level of 0.05. The Independent Board of Commissioners is crucial in minimizing conflicts of interest between management (agents) and shareholders (principals), according to agency theory. The risk of financial trouble can be decreased by the Independent Board of Commissioners' assistance in monitoring and regulating management decisions. This is consistent with earlier studies carried out by Pamungkas et al. (2023) This, with a significance value of 2.3%, indicates that the Independent Board of Commissioners has an impact on financial distress. Nevertheless, this study's findings contradict the research Angelica (2024) it demonstrates that financial suffering is unaffected by the Independent Board of Commissioners.

The Influence of Sales Growth (X7) on Financial Distress (Y)

It is evident that there is a relationship between the sales growth variable and financial distress based on the findings of the test. Consequently, the twelve hypothesis (H7), according to which financial distress is impacted by sales growth, is accepted. This is demonstrated by the big t count from the t table (-2.035> 2.00247) and the significance value of 0.47 <0.05. This implies that the incidence of financial difficulty decreases with increasing sales and increases with decreasing sales at the opposite situation. The signaling theory states that a company's ability to survive in a highly competitive market that may impact its profit depends on how well its sales are growing. This serves as a signal to creditors and investors, who are more inclined to fund and invest in a company with a higher profit margin. The findings of this investigation are consistent with earlier research by Okrisnesia et al. (2021) which claims that financial suffering is impacted by sales growth. The findings of this study, however, contradict

those of Utami & Taqwa's (2023) study, which found no correlation between financial difficulties and sales growth.

CONCLUSIONS

Based on the presented research, the following conclusions can be drawn from the discussion and analysis of the impact of financial ratios, GCG, and sales growth on financial distress in companies in the basic material and energy sectors listed on the Indonesia Stock Exchange for the 2021–2023 period: (1) Financial difficulty is influenced by profitability. This suggests that the incidence of financial difficulty can be influenced by both high and poor profitability. (2) Financial distress is impacted by leverage. Because it can be argued that the company is unable to pay its debts when they become due, this indicates that the higher the leverage ratio, the greater the chance that the company would experience financial trouble. (3) Financial suffering is unaffected by institutional ownership. This demonstrates that a company's likelihood of facing financial strain is the same regardless of the proportion of institutional ownership in the business. Institutions are limited to interfering with management's decision-making, and management occasionally fails to conduct business operations in a way that meets the expectations of shareholders (institutions). (4) Financial difficulty is unaffected by the Board of Directors. This demonstrates that the limited number of directors on the board is insufficient to effectively oversee and manage the company's management and to stop financial issues from arising. (5) Financial difficulty is impacted by the Audit Committee. This is because the Audit Committee's primary responsibilities are to examine the company's internal control, guarantee the accuracy of financial reports, and boost the audit function's efficacy. By doing these things, the Audit Committee can reduce fraudulent activities and manipulation that could put the company in financial jeopardy. (6) Financial difficulty is impacted by the Independent Board of Commissioners. This demonstrates how the Independent Board of Commissioners can lessen the danger of financial crisis by assisting in the supervision and control of management actions. (7) Financial strain is impacted by sales growth. This demonstrates that a business may thrive in the fierce competition for products that could impact its earnings if sales growth is higher. (8) It is determined that financial distress is influenced jointly by profitability, leverage, institutional ownership, the board of directors, the audit committee, the independent board of commissioners, and sales growth.

Several recommendations can be made based on the analysis and discussion that has been done. These include the following: the addition of independent variables that have a significant impact on financial distress; the extension of the research period to obtain a better understanding of the impact of independent variables on financial distress; and the use of alternative techniques for financial distress prediction in addition to the Altman Z-Score method.

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