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Effect of Profitability, Sales Growth, Leverage, Cash Flow Ratio, and Managerial Ownership On Financial Distress

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Abstract: Financial distress is a condition where the company cannot or has difficulty fulfilling its obligations to creditors. This study aims to analyze the effect of profitability, sales growth, leverage, cash flow ratio and managerial ownership on financial distress in non-financial companies on the Indonesia Stock Exchange for the 2020-2022 period. The sampling technique used in this study was purposive sampling. A total of 411 companies have met the criteria as observation units. The analysis method used is multiple linear regression analysis. The results provide empirical evidence that profitability, leverage, and cash flow ratios affect financial distress. Meanwhile, sales growth and managerial ownership have no effect on financial distress.

Keyword: Profitability, Sales Growth, Leverage, Cash Flow Ratio, Managerial Ownership, Financial Distress

INTRODUCTION

The development of the world economy in recent years has progressed very rapidly. Such progress is due to the increasingly strong and widespread globalization Around the world. Strong and experienced businesses will increasingly benefit due to the expanding influence of globalization. But on the other hand, a newly growing business or a business that is still national scale will be difficult to compete with foreign companies. So that the impact of the company will experience financial distress (financial crisis).

The company was established with the aim of obtaining maximum profits in order to maintain business continuity. However, problems often arise when running a company. One of the things that companies avoid is the issue of bankruptcy. Bankruptcy is characterized by declining financial condition or financial distress.

Financial distress is a phenomenon in which companies experience a decline in financial condition before bankruptcy (Platt & Platt, 2002) Financial distress can be characterized by a decrease in the company's ability to meet short-term obligations to long-term obligations. Financial distress is often caused because the company does not have

enough funds to continue its business. Financial distress can be experienced by all companies, especially if the economic conditions in the country are experiencing an economic crisis. So that bankruptcy is a very important issue that must be considered and watched out for by all companies.

Financial distress can be experienced by all companies, especially if the economic conditions in the country are experiencing an economic crisis. So that bankruptcy is a very important issue that must be considered and watched out for by all companies. If a company goes bankrupt, it means that the company has actually experienced failure in running its business. Companies must be able to overcome and minimize the company with more supervision in order to avoid bankruptcy. The earlier you know the signs of bankruptcy, the better it will be for the management to be able to make repairs as quickly as possible.

The financial condition of a company is important and a concern for many parties, not only by the company's management, because the survival and financial condition of the company determines the prosperity of various interested parties such as investors, creditors, and other parties. The financial stability of a company is an important concern for employees, investors, governments, bank owners, and regulatory regulatory authorities. There are several factors that can cause financial distress, researchers focused on five factors, namely: profitability, sales growth, leverage, cash flow ratio, and managerial ownership.

Profitability is calculated using return on assets and return on equity. The higher the profitability, the better the circulation of capital in the enterprise, the more profitable the enterprise, and the more likely it is to avoid financial distress. Research results Cahyani & Indah (2021) and Hertina et al. (2022) provides empirical evidence that profitability affects financial distress.

Sales growth is an indicator of the company's ability to maintain its economic position in the economic growth and business sector (Kasmir, 2017). Dolontelide & Wangkar (2019) sales growth can provide an overview of past investment achievements, then it can be used as a benchmark for future developments. A company's positive sales growth indicates that the company is in good health so that it avoids financial distress. On the other hand, if continued negative sales growth indicates the beginning of financial difficulties. The results of the Digdowiseiso & Ningrum (2022) sales growth study affect financial distress.

Leverage is the use of assets and sources of funds from companies that have fixed costs or interest liabilities with the aim of increasing potential profits for shareholders (Sjahrial, 2007). Leverage refers to a company's ability to meet its short-term and long-term obligations. Leverage ratios measure how much of a company's assets are financed by debt (Kasmir, 2016). If the assets of a company financed by debt are few, then asio debt of a company is low, this indicates that the company is in good shape. A high debt ratio means that the company has a large amount of debt so that it can be a burden for the company at the maturity stage. If the company is unable to fulfill its obligations, the company's operations will be disrupted resulting in financial distress. Research Hertina et al. (2022) and Hidayat et al., (2021) provides empirical evidence that leverage has an effect on financial distress.

Cash flow is a report that provides relevant information about the receipt and expenditure of cash of a company during a certain period of time by grouping transactions into operating, financing, and investment activities (Harahap, 2015). If the ratio of cash flow generated by the company increases, the company will avoid financial difficulties, on the contrary, if the company's cash flow continues to decline insurmountable, the company will face financial distress. Research Fatmawati (2017), Saleh (2017), and Amarilla et al (2017) provide empirical evidence that cash flow has an effect on financial distress, research shows that cash flow has a significant negative effect on financial distress.

Managerial ownership is the ownership of shares by the company's management as measured using the percentage of the number of shares owned by management (Seri et al, 2021). Management ownership can align managerial and investor interests so that the impact

can reduce authority problems between management and investors invest. The more shares a manager has, the better decisions are made. With the presence of management decisions remain so much better that the company avoid mistakes in the selection of tactics. Implementation of good corporate governance can prevent the company from financial distress. Hastuti's (2014) research provides empirical evidence that managerial ownership has an effect on financial distress.

This study refers to research conducted by Letiana and Hartono (2022). The novelty of this study with previous research is to add variables of cash flow ratio and managerial ownership. The cash flow ratio is added because this variable is an indicator that determines whether the company's operations can generate cash. If the cash flow ratio increases, the company's profit will increase and this will increase the value of the company so that the possibility of the company experiencing financial distress becomes smaller. While managerial ownership is added because this variable is able to reduce agency problems that arise in a company. The greater the ownership proposition of the company by the management (board of directors or commissioners), the greater the responsibility of the management in managing the company. So that the amount of stock ownership by management will minimize the company experiencing financial distress. The second novelty is that researchers are expanding the object of research on non-financial companies listed on the Indonesia Stock Exchange 2020-2022.

Signalling Theory

Signal theory explains why companies have incentives to provide financial information to external parties. signaling theory deals with the financial statements published by companies, since financial statements are used in the decision-making of investors. Financial ratio analysis is used to assist the interpretation of financial statements presented. The measurement results of financial ratio analysis can be used as a signal for investors.

Trade Off Theory

Trade off theory based on Myers (2001) companies make loans at a certain stage where tax savings from growing debt can be offset by the cost of financial hardship. This theory is explained about predicting the costs and benefits of debt financing analysis to create optimal capital. Trade off theory applies that debt consists of negative and positive sides, the positive side is that interest payments can reduce taxable income, while the negative is that more debt will increase various risks.

Financial distress

Financial distress is defined as a period of deteriorating financial condition that occurs before bankruptcy or liquidation (Platt and Platt (2002). Kristanti (2019) suggests that financial distress can be defined from various points of view, namely economic, financial, from incapacity to Hanafi and Halim (2018) explains that financial distress can be described between two extremes, namely short-term solvency (lightest) to insolvency (most serious).

Effect of profitability on financial distress

Hery (2015: 66) profitability ratio is a ratio that describes the company's ability to generate profits. In addition, this ratio also aims to measure the level of effectiveness of Management in running the company's operations. The greater the level of profit shows the better management in managing the company and avoid financial distress.

The profitability indicator that will be used in this study is the return on assets. Return on assets is a ratio that shows how much the contribution of assets in creating net income. In other words, this ratio is used to measure how much net profit will be generated from each rupiah of funds embedded from total assets. The greater the profitability ratio owned, the

better the company in managing its assets. The more net profit the company has, the more the company avoids financial distress.

Companies that have a high Return on assets (ROA) demonstrate their ability to use their assets to generate profits through sales and investments. This reflects the effectiveness and efficiency of the company's Asset Management, which ultimately reduces the costs incurred by the company. Thus, the company can save funds and obtain sufficient capital to carry out its business activities. On the other hand, a low ROA indicates the potential for greater financial difficulties, which can even lead to an unhealthy financial state (financial distress) for the Wijaya company (2019).

The research results of Cahyani & Indah (2021) and Damayanti et al (2017) provide empirical evidence that profitability affects financial distress. The higher the level of profitability that a company has, the smaller the risk that a company will get in the face of financial distress. So that the formulation of the first hypothesis of this study is as follows:
H1: profitability affects financial distress.

Effect of sales growth on financial distress

Sales growth (sales growth) is a ratio that describes the company's ability to maintain its economic position amid economic growth and its business sector (Kasmir, 2018). Companies with positive sales growth provide a sign that the company's condition is good so that the more likely the company to avoid financial distress, while on the contrary, continuous negative sales growth can indicate financial distress.

Positive Sales growth in the company, indicating that the company can be said to have reached the target of using a strategy that has been developed in the activities of selling products and promotions, but if the value of negative sales growth can indicate the company's ability to make sales decreased, it could have an impact on the financial distress of a company.

Sales growth shows the growth of the company's strength in the industry and indicates the company's ability to maintain its business continuity. Companies with negative growth indicate a greater tendency toward financial distress.

Research results according to Digdowiseiso & Ningrum (2022) and Subagyo et al. (2022) provides empirical evidence that sales growth affects financial distress. The higher the sales growth, the lower the risk of financial distress. Based on the description above, the second hypothesis of this study is as follows:
H2: Sales growth affects financial distress

Effect of Leverage on financial distress

Leverage is a ratio used to measure the extent to which the company's assets are financed with debt (Kasmir, 2017), meaning how much debt burden the company bears compared to its assets. The use of too much debt but the company cannot optimize the funds is feared that there will be a decrease in profits obtained by the company so that the possibility of financial distress is greater.

Leverage is needed to measure the company's ability to pay debts (short-term and long-term). Leverage describes the relationship between a company's debt to capital and assets. If the Lavery ratio is high, and the management is not optimal, the potential for financial distress is even greater. The greater the total assets owned by the company, it is expected that the company will be able to pay off obligations in the future, so that the company can avoid financial distress.

Leverage ratio serves to determine each rupiah of own capital used for debt security. This ratio also provides clues about the viability and financial risks of the company. A company that has a high leverage ratio means that the company has a lot of debt to outside

parties. This means that if the utilization of debt is not optimal, the company has a high risk of experiencing financial distress.

Research by Hertina et al. (2022) and Hidayat et al. (2014) leverage has a significant effect on financial distress. The higher the level of leverage owned by the company, the potential for financial distress will also be higher. Based on the description above, the third hypothesis of this study is:

H3: Leverage affects financial distress

Effect of cash flow ratio on financial distress

Cash flow is a report that describes cash inflows and cash outflows in detail from each activity, ranging from operating activities, investment activities, to financing/financing activities for a certain period of time (Hery, 2016). If the cash flow generated by the company has increased, then the more likely the company to avoid financial distress.

Martani (2012: 145), cash flow is a report that provides relevant information regarding the receipt and expenditure of cash in a certain period of time. Every company in carrying out its business operations will experience cash inflows and outflows. Cash flow information is needed by creditors to determine the company's ability to pay its debts. If the cash flow of an enterprise is of little value, then creditors do not get confidence in the return of the credit provided. If this happens continuously, the creditor will not entrust the credit back to the company because the company is considered to be experiencing financial problems or financial distress.

Cash flow is a report that provides relevant information about the receipt and expenditure of cash of a company in a given period by classifying transactions on operating, financing and investment activities (Harahap, 2015). If the cash flow generated by the company has increased, then the greater the chances of the company avoiding financial distress, and vice versa if the company's cash flow has decreased continuously without being overcome, the company may experience financial distress.

Research Fatmawati (2017) and Amarilla et al (2017) provide empirical evidence that cash flow affects financial distress. This means that the greater the cash flow obtained, the greater the potential for the company to avoid financial distress. Based on the description above, the fourth hypothesis of this study is:

H4: cash flow affects financial distress.

Effect of managerial ownership on financial distress

Managerial ownership can reduce agency problems that arise in a company. The greater the ownership proposition of the company by the management (board of directors or commissioners), the greater the responsibility of the management in managing the company. So that the amount of stock ownership by management will minimize the company experiencing financial distress.

Managers have a tendency to earn extra income from the company's resources for their own consumption. This shows that the management is more emphasis on profit alone. While the owner hopes the manager is able to manage the company well and earn high profits. Where the higher the managerial ownership of a manager, the more information the company has in anticipation of financial distress.

With the existence of managerial ownership that is proxied by the cost of managerial agency, so that managerial is able to reduce agency problems that arise in a company so that the amount of share ownership by management will minimize the company experiencing financial distress.

Research by (Hastuti, 2014) provides empirical evidence that managerial ownership has an effect on financial distre ss. This means that the greater the share ownership by

management, the smaller the company experiencing financial distress. Based on the description above, the fifth hypothesis of this study is as follows:
H5: managerial ownership affects financial distress

METHOD

This study is a quantitative research, namely research conducted by processing research data using statistics. Quantitative Data obtained by using secondary data in the form of financial reporting documents that can be accessed through www.idx.co.id.

The population used in this study is all non-financial companies listed on the Indonesia Stock Exchange (IDX) in the form of financial statements. The sampling method used in this study was purposive sampling which means sampling deliberately and selected based on certain criteria required. The samples contained in this study are non-financial companies listed on the IDX for a period of three years starting from 2020-2022.

Operational definition of variables and their measurement

Measurement of each variable in this study can be seen in the table below, as follows:

Table 1. Variable Measuremment

Variable	Indicators	References
	Variable Dependen	
Financial Distress	$Z = 6{,}56\ X_1 + 3{,}26\ X_2 + 6{,}72\ X_3 + 1{,}05\ X_4$	(Chrissentia dan Syarief, 2018)
	Variable Independen	
Profitability	$\text{ROA} = \frac{\text{Profit After Tax}}{\text{Total assets}}$	(Kusumawati et al, 2018)
Sales Growth	$\text{Sales Growth} = \frac{\text{Sales t} - \text{Sales t} - 1}{\text{Sales t} - 1}$	(Harahap, 2010)
Leverage	$\text{DAR} = \frac{\text{Total Debt}}{\text{Total assets}}$	(Kasmir, 2016)
Cash Flow Ratio	$\text{Cash Flow Ratio} = \frac{\text{Total Operating Cash Flow}}{\text{Current Debt}}$	(Hery, 2012)
Managerial Ownership	$\text{KM} = \frac{\text{Total shares by managerial}}{\text{Total outstanding shares}}$	(Seri et al, 2021)

RESULTS AND DISCUSSION

Data Acquisition Results

The results of the sample selection based on the criteria determined as follows:

Table 2. Sampling Process

Description	Total
Non-financial companies listed on the IDX in 2020-2022	608
The company did not present financial statements in the observation period 2020-2022	(82)
Non-financial companies that suffered losses	(272)
Companies that do not present the financial statements according to the required information	(117)
Total sample for one year	137
Total sample for three years	411
Outlier	(5)
Total samples for three years processed	406

Source: Data Analysis Results, 2024

Descriptive statistical analysis is presented in the table below:

Table 3. Results Of Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Dev
Profitability	406	0,0001	0,5925	0,0745	0,0806
Sales Growth	406	-0,6449	3,2651	0,1576	0,3989
Leverage	406	0,0019	0,8881	0,3801	0,1864
Cash Flow Ratio	406	-3,4447	13,1687	0,5924	1,0330
Managerial Ownership	406	0,0000	0,8174	0,1260	0,1916
Financial Distress	406	-3,5696	7,3483	2,2078	1,5356

Source: Data Analysis Results, 2024

Based on Table 3 of descriptive statistical test results show that the amount of data analyzed in this study as many as 406 units of analysis. Proxied profitability with return on assets (ROA) has an average value of 0.0745. The company's ability to bring in Net Profit after tax of 7.45% of total assets. Every one rupiah of total assets is able to contribute Profit after tax of Rp0, 0745. The higher the ROA of an entity can be interpreted that the entity is more able to bring profit.

Sales growth is proxied by sales growth has an average value of 0.1576 or 15.76%. It can be interpreted that from 406 non-financial companies listed on the Indonesia Stock Exchange during the 2020-2022 period, the company showed a sales growth rate of 15.76%. Leverage proxied with DAR has an average value of 0.3801 this can be interpreted that the percentage of financing provided by creditors is 38.01% of all financing in the company. This means that every 0.3801 rupiah of liabilities is guaranteed one rupiah of total assets.

Proxied cash flow ratio with AKO has an average value of 0.5924. This can be interpreted as each Rp1,00 of current liabilities secured by Rp0, 5924 of operating cash flows. The higher the AKO, the creditors will be more interested in lending because the debt is more guaranteed to be repaid. Managerial ownership is proxied by the proportion of managerial ownership has an average value of 0.1260 or 12.60%. This shows that the average ownership of shares in non-financial companies listed on the Indonesia Stock Exchange during the 2020-2022 period of 12.60% is owned by managerial parties. Financial distress has an average value of 2.2078. It can be interpreted that the average value of financial distress of non-financial companies for the period 2020-2022 is 2.2078 it is concluded that the average non-financial company for the period 2020-2022 does not have the potential to go bankrupt

Normality test was conducted using the Central Limit Theorem (CLT). This study used data totaling 406 with this number can be said if the number of data exceeds 30, then this indicates that the data studied can be said to be normal. Based on multicollinearity testing, it is known that the SPSS output results that the tolerance value and VIF value of all independent variables show a VIF value < 10 and tolerance value > 0.10. So it can be concluded that there is no multicollinearity between independent variables in the regression model. Autocorrelation test results in this study using the Runs Test method with a significance value of 0.487 where this value is more than 0.05 and less than 0.05, it can be concluded that the research data does not occur autocorrelation. Based on the results of heteroscedasticity test using spearman rank test, it can be seen that the SPSS output results show that all variables have a significance value > 0.05. So it can be concluded that there is no heteroscedasticity between independent variables in the regression model.

Table 4. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.Error	Beta		
1 (Constant)	4,234	0,118		35,844	0,000
Profitability	3,582	0,531	0,188	6,743	0,000
Sales Growth	-0,175	0,100	-0,046	-1,753	0,080
Leverage	-6,231	0,221	0,756	-28,20	0,000
Cash Flow Ratio	0,189	0,040	0,127	4,779	0,000
Managerial Ownership	-0,073	0,205	-0,009	-0,355	0,723
F		245,225			,000[b]
Adjusted R Square		0,751			

Source: Data Analysis Results, 2024

Based on the table above can be made multiple linear regression equation as follows:
FD = 4,234 + 3,582PF – 0,175SG – 6,231LV + 0,189RAK – 0,073KM + e

Constant is 4.234, meaning that if the independent variables (profitability, sales growth, leverage, cash flow ratio, and managerial ownership) are considered constant, then the average financial distress has increased by 4.234. The coefficient of profitability regression is a positive value of 3.582. It can be interpreted that the higher the profitability ratio of the company, the higher the value of the z-score, which means the possibility of financial distress is smaller. Sales growth regression coefficient is negative value of -0.175. This can be interpreted that the higher the company's sales growth, the lower the value of the z-score, which means that the possibility of financial distress is greater.

The leverage coefficient is negative at -6.231. It can be interpreted that the higher the leverage of a company, the lower the value of the z-score, which means that the greater the likelihood of financial distress. The coefficient of cash flow ratio is positive at 0.189. It can be interpreted that the higher the cash flow ratio of a company, the higher the value of the z-score, which means that the possibility of financial distress is smaller.

Regression coefficient of managerial ownership is a negative value of -0.073. It can be interpreted that the higher the proportion of managerial ownership in a company, the lower the value of the z-score, which means the greater the likelihood of financial distress. The error value is 0.118 which means that the level of error or deviation that may not be known in the regression model is 0.118.

Based on the table above, the F test results show a significance value of 0.000. The significance value shown by the F test is less than 0.05, it can be concluded that the regression model with the dependent variable financial distress and five independent variables, namely profitability, sales growth, leverage, cash flow ratio, and managerial ownership is suitable for use or fit regression model.

Coefficient of determination can be seen from the value of Adjusted R Square, the table below shows the value of Adjusted R Square of 0.751 or 75.1%. This means that the independent variables of profitability, sales growth, leverage, cash flow ratio, and managerial ownership can explain the dependent variable of financial distress by 75.1% while the remaining 24.9% (100% - 75.1%) is explained by other independent variables that are not included in this study.

Research Discussion

Profitability affects financial distress

The research results provide empirical evidence that profitability as proxied by return on assets (ROA) has an effect on financial distress. The influence of profitability on financial

distress shows that the level of profitability of a company has an impact on financial distress conditions. The higher the company's profitability ratio, the lower the probability of the company experiencing financial distress. Thus, it can be said that profitability influences financial distress.

Return on assets is a ratio that shows how much assets contribute to creating net profit. In other words, this ratio is used to measure how much net profit will be generated from each rupiah of invested funds from total assets. The greater the profitability ratio that is owned, the greater the company's ability to generate profits, so that the company is increasingly protected from financial distress.

The higher the return on assets (ROA) value a company has, the company concerned has the ability to generate higher profits using the assets it owns. High profitability is the main indicator of a company to see how far the company has developed through the profits it generates. Companies that have high profitability are assumed to have good growth prospects, so this will reduce the probability of the company experiencing financial distress. Thus, return on assets influences financial distress.

The results of this research are consistent with research by (Muntanganah et al, 2021) and (Fitri et al, 2020), which prove that profitability has an effect on financial distress.

Sales growth has no effect on financial distress

The research results provide empirical evidence that sales growth has no effect on financial distress. High or low sales growth value has no effect on financial distress. Healthy sales growth is usually accompanied by increased cash flow from operating activities. The company does not generate sufficient cash flow from new sales to cover the additional costs associated with this growth, so sales growth has no effect on financial distress.

Positive sales growth indicates that the company has improved its operational efficiency. By increasing production scale or improving cost efficiency, companies can maintain or increase their profit margins, even with significant sales growth. This research provides empirical evidence that positive sales growth is not accompanied by good expense management, so that high levels of sales are not accompanied by an increase in profits, so sales growth has no effect on financial distress.

There is no influence of sales growth on financial distress, due to the rise and fall of sales growth values not being able to be followed by company profits. The large company burden is the reason that the profits obtained are not enough to support financial conditions, so that sales growth has no effect on financial distress.

The results of this research are consistent with research by (Digdowiseso & Ningrum, 2022) and (Subagyo et al, 2022), which prove that sales growth has no effect on financial distress.

Leverage affects financial distress

The research results provide empirical evidence that leverage as proxied by the debt to asset ratio (DAR) has an effect on financial distress. The higher the leverage, the higher the possibility of financial distress. Leverage is a ratio used to measure the extent to which a company's assets are financed with debt so that it can be seen to what extent the debt burden is borne by the company compared to its assets. A high level of leverage will increase the possibility of financial distress in a company. Companies that want additional debt must also be accompanied by additional assets. Unpreparedness for additional assets will lead the company to financial distress.

Based on the results of tests that have been carried out, it shows that the relationship between leverage and financial distress is in line and in accordance with signaling theory. The higher the leverage a company has, the more debt the company has to external parties.

This means that if debt utilization is not optimal, the company has a high risk of experiencing financial distress, so leverage has an effect on financial distress.

Leverage as proxied by the debt to asset ratio is proven to have an effect on financial distress. So it can be interpreted that the lower the debt to asset ratio value of a company, the company concerned has the ability to fulfill all its obligations using the assets it owns. On the other hand, if the company's debt, both short-term debt and long-term debt, is high and the company is unable to generate income to pay these debts, then this will increase the probability of the company experiencing financial distress. Thus, the debt to asset ratio influences financial distress.

The results of this research are consistent with research by (Hertina et al, 2022) and (Hidayat et al, 2014), which prove that leverage has an effect on financial distress.

Cash flow ratio affects financial distress

The results of this research show that the cash flow variable which is proxied by operating cash flow divided by current debt has an effect on financial distress. The higher the company's operating cash flow ratio, the smaller the possibility of financial distress occurring.

Cash flow is a report that provides relevant information about a company's cash receipts and expenditures in a certain period by classifying cash inflows and outflows from operating activities. If the ratio of operating cash flow to current debt generated by the company increases, the greater the company's chance of avoiding financial distress, conversely, if the ratio of operating cash flow to current debt of the company experiences a continuous decline without being able to overcome it, the company could experience financial distress.

Creditors need operating cash flow information to determine the company's ability to pay its current debts. If a company's operating cash flow is large, the creditors receive a guarantee for the return of the credit provided. If a company's cash flow is small, then creditors do not have confidence in the company's ability to pay debts. If this continues continuously, creditors will not entrust their credit back to the company because the company is considered to be experiencing financial problems or financial distress. Thus, cash flow influences financial distress.

The results of this research are consistent with research (Finishtya, 2019) and (Pandapotan and Puspitasari, 2022), which prove that cash flow has an effect on financial distress.

Managerial ownership has no effect on financial distress

The research results provide empirical evidence that managerial ownership has no effect on financial distress. This means that the size of the proportion of managerial ownership does not affect the occurrence of financial distress. The average proportion of ownership for non-financial companies for the 2020-2022 period is 12.6%, which is still relatively small, so there is no harmony between company owners and managers.

Apart from that, the good or bad condition of a company in Indonesia is not only due to the size of the shares owned by the manager, but more to the ability and strategy of the managers in managing the company. Managers with significant share ownership in the company have greater control over strategic and financial decisions. They can have a greater interest in ensuring that decisions benefit the company in the long term, rather than simply benefiting their own or short-term interests. Thus, the proportion of managerial ownership does not affect the occurrence of financial distress.

The reason why managerial ownership has no effect on financial distress is due to the agent's (management) ability to manage a company's finances. So it can be concluded that the size of the shares owned by the agent (management) does not affect the company's financial

difficulties. And not all companies have a managerial ownership structure. Thus, managerial ownership has no effect on financial distress.

The results of this research are consistent with research by (Lenny & Endang, 2020) and (Sunarwijaya, 2017), which prove that managerial ownership has no effect on financial distress.

CONCLUSION

Based on the test results and the discussion obtained, it can be concluded as follows: profitability affects financial distress, the higher the profitability of a company, the lower the likelihood of financial distress. Sales growth does not affect the financial distress, the size of sales growth does not affect the occurrence of financial distress. Leverage affects financial distress, the higher the leverage of a company,the higher the likelihood of financial distress. The higher the value of a company's cash flow ratio,the lower the likelihood of financial distress. Managerial ownership has no effect on financial distress, the size of the proportion of the company's managerial ownership does not affect the occurrence of financial distress.

The limitation of this study is that this research is only carried out in the scope of non-financial companies listed on the IDX for the period 2020-2022. The study year period used for this study was only three years, so it is still less specific to describe long-term conditions. And this study only uses Altman Z-score modification method in predicting financial distress. The research model tested only one model with financial distress as a dependent variable so that the author can not compare the research model with other dependent variables.

Suggestions for further research, namely, this study uses samples of non-financial companies listed on the Indonesia Stock Exchange in the period 2020-2022. For further researchers can expand the object of research on all companies listed on the Indonesia Stock Exchange, state-owned enterprises, banking companies, and others. For further researchers are expected to extend the research period and can compare with several research models to measure financial distress variables, such as liquidity, company size, and corporate governance.

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