[5th] *NCBMA (Universitas Pelita Harapan, Indonesia)*
"The Opportunity of Digital and Technology Disruption"
18 Mei 2022, Tangerang.

THE IMPACT OF CORPORATE GOVERNANCE, PROFITABILITY AND LIQUIDITY TOWARD FINANCIAL DISTRESS IN CONSUMER GOODS INDUSTRY LISTED AT INDONESIA STOCK EXCHANGE

Thania Luis [1)*], Frinan [2)]

[1,2)] *Universitas Pelita Harapan Medan*

[*)]e-mail: thanialuis09@gmail.com [1)*] frinan.satria@lecturer.uph.edu [2)]

ABSTRACT

The purpose of this research is to examine the impact of corporate governance, profitability and liquidity toward financial distress on consumer goods industry companies listed at Indonesia Stock Exchange (IDX) from 2018 to 2020. This study is using three independent variables namely corporate governance proxies by institutional ownership, profitability assessed by return on assets (ROA) and liquidity assessed by current ratio (CR). The original Altman Z-Score, designed for public manufacturing companies, is used to measure financial distress. This research is using secondary data that gathered from consumer goods industry listed at Indonesia Stock Exchange (IDX) from 2018 to 2020. Using purposive sampling method, 28 consumer goods industry companies are selected as sample. Since this research is conducted starting from 2018 to 2020, the total sample is 84 observations. Data analysis method utilized in this research is multiple linear regression that processed by Statistical Product and Service Solutions 25 (SPSS 25). The result of this study shows that corporate governance (institutional ownership) and liquidity (CR) do not give a significant impact on financial distress. While profitability (ROA) has a significant impact on financial distress. Simultaneously, those three independent variables have significant impact on financial distress.

Keywords: *financial distress, corporate governance, profitability, liquidity, consumer goods industry*

4. INTRODUCTION

Company is an organization that was established by an individual or group of people for the purpose of generating maximum profit by utilizing various resources including capital, humans, materials and so on. Earned profits are used for its operations as well as development of the company. Apart from expanding the company, the other goal of the company is to be able to survive for a long period of time without experiencing financial difficulties or until liquidation occurs. Establishing a company is not easy because internal factors such as employees, business processes and other factors that are under company grasp should be controlled and adapt with uncertainty from external factors such as economic growth in order to sustain in the market. If the company is not able to control its internal factors and adapt with uncertainty, losses will be experienced which result in financial distress and the worst bankruptcy.

Identifying factors that affected financial distress should be done earlier so that company's management can immediately take corrective action in order to solve the problems and prevent bankruptcy. In general, research on bankruptcy and financial distress are using financial indicators as a tool to predict the future condition of the company (Prusak, 2020). These indicators are obtained from financial ratio analysis by using financial statements that are published by the company in Indonesia Stock Exchange (IDX). Financial statements is issued by the companies and can be used as source of information regarding the company's financial position, performance and changes in its equity which is very useful for decision making (Robinson, 2020). This is reinforced by the result of Altman Z-Score Model research which shows that Altman Z-Score Model is able to obtain a level of accuracy by 95% for data one year before bankruptcy and 72% for data two year prior to bankruptcy (Lau & Trinugroho, 2019). Financial distress indications should be monitored year after

year because it reflects the company's performance and condition. Altman Z-Score may indicate that a company had already experienced financial distress. For example, the case of PT Kimia Farma Tbk (KAEF) from 2018 to 2020. From 2018 to 2020, the score of Altman Z-Score are 3.027, 1.167 and 2.182 consecutively. This indicates that the company was in healthy condition in 2018, then it was in financial distress condition in the 2019. In 2020, KAEF was in a moderate condition after taking corrective action. The results signify the importance of assessing financial distress consistently as a company can be healthy in a particular year but suddenly be in financial distress in the next years. Financial distress condition in 2019 might happens due to decrease in profitability.

Financial distress issues are associate with corporate management practice. A company is usually owned by the shareholders and is managed by managers. When managers have less control over the financial conditions or make poor decisions, there is a possibility for financial distress to arise. Being the person who runs the company, management often has different interests with its shareholders which may result in asymmetry information (Zogning, 2017). Corporate governance can be used as a tools to make sure that manager is using the funds from investors efficiently and effectively. Corporate governance also provides assurance that manager works for the interest of the company instead of his self-interest. One of the mechanism of corporate governance is institutional ownership (Rezaee, 2019). Institutional ownership means ownership of share by other institutions such as pension funds, insurance companies, mutual funds, hedge funds and endowments of not-for-profit companies for example foundations and universities. Institutional ownership creates a monitoring system in order to align company's business decisions with its main objectives. High level of institutional ownership will create a control mechanism to review the investment growth and prevent management's fraudulent actions that might decline the company value. Many scholars, including those in Indonesia, have analyzed the impact of corporate governance on financial distress. According to Jannah et al. (2021), institutional ownership has significant impact on financial distress. On the other hand, Atika et al. (2020) states that institutional ownership does not have impact on the financial distress.

Corporate governance is used to maximize the shareholders' wealth. Therefore, company's profitability is crucial for both managers and shareholders particularly in today's growing business environment. Company's success relies on the capability of the company to generate profits consistently (Kieso et al., 2019). With this capability, company may avoid financial distress and the possibility of bankruptcy in the future. As a result, companies must understand how profitability affects financial distress. Company's profitability can be measured by using Return on Assets (ROA). ROA reveals whether or not a company is generating profits from its assets efficiently and effectively. Based on the aforementioned example, KAEF was listed as being in financial distress in 2019 due to decline in its profitability. ROA of KAEF from 2018 to 2020 are 0.042, 0.001 and 0.001 consecutively. Profitability of KAEF decreases significantly in the year 2019. This contributes to KAEF's financial distress. Therefore, it is crucial to analyze how profitability influences financial distress. The impact of profitability toward financial distress had been analyzed by many scholar. According to Kusumawati & Chaniago (2021), profitability has significant impact on financial distress. On the contrary, Kusuma & Sumani (2017) states that profitability does not give significant impact on financial distress.

High profitability, as targeted by companies, does not automatically imply that the company will be free from the risk of financial distress. It is also crucial to consider how liquid the company is. Liquidity refers to the ability of a company to fund its operations and pay off its short-term liabilities without undue stress. If the company is adequately finance and able to pay off its short-term obligations as it dues, the likelihood of experiencing financial distress will be lower. Liquidity of a company can be measured by using Current Ratio (CR). CR shows how much total current assets can cover its total current liabilities. According to aforementioned case above, besides a decrease in profitability, liquidity also contributed to KAEF's financial distress. CR of KAEF from 2018 to 2020 are 1.423, 0.994 and 0.898 consecutively. It can be seen that there was a sharp decrease in liquidity in the year 2019. This is also contributes to KAEF's financial distress. Therefore, it is important to analyze how liquidity influences financial distress. The impact of liquidity toward

financial distress had been analyzed by many scholar. Study done by Ghofur (2018) shows that liquidity has a significant impact on financial distress. On the other hand, Jannah et al. (2021) states that liquidity does not have impact on financial distress.

Manufacturing companies including consumer goods industry companies are asset-intensive companies because those companies have a significant amount of assets for example raw materials, factories or equipment. Because of this reason, Return on Assets (ROA) is a suitable tool to measure profitability of consumer goods industry companies because these companies generate revenue through their assets. Moreover, companies usually have account payable that arise from its operating activities which are expected to be settled within 12 months or in its normal operating cycle. Hence, analysis of liquidity toward financial distress on consumer goods industry is essential. Liquidity can be measured by using Current Ratio (CR). This ratio shows the ability of the company to pay its short term liabilities without undue stress. Furthermore, head of research of BNI Securities, Mr. Norico Gaman, suggests that investors also should consider the quality of management before making investment. Poor management also can cause bankruptcy for example the case of Enron Company (Carroll et al., 2017). In this case, Enron executives utilized off-the-book practices to hide billions dollars of debt. They also lied to investors and employees about the disastrous financial condition of the company and keep selling their stock (Carroll et al., 2017). Hence, it is also vital to consider the impact of institutional ownership on financial distress because it acts as monitoring tool on the management's decisions which may reduce the risk of opportunistic behaviors. Subsequently, Altman Z-Score is a useful tool to assess financial distress because it provides information about the company's condition. Based on these background and examples, this research will use the title "The Impact of Corporate Governance, Profitability and Liquidity toward Financial Distress in Consumer Goods Industry Listed at Indonesia Stock Exchange."

2. LITERATURE REVIEW

2.1. Signaling Theory

Signaling theory was introduced by Michael Spence in his research namely Job Market Signaling in 1973. When two parties (individuals or organizations) have access to different information, signaling theory is useful for describing their behaviors (Zoogah, 2018). In most cases, the sender must decide whether and how to communicate that information while the receiver must decide how to interpret the signal (Ting et al., 2021). Signaling theory, often known as signal theory, explained why companies have the urge to provide financial statement information to third parties. One of the ways to reduce asymmetry information is by giving signals to outsiders in the form of reliable financial statements. By doing this, information provided by company will be more trusted because it knows more about the company and its future prospects rather than the outsiders which will reduce uncertainty about the future prospects of the company. According to Brigham & Houston (2019), signal is an action done by the company's management to inform investors about the company's prospects according to thier prespectives. Company with promising future will seek for a new financing way for example through debt instead of selling share. Company with less promising future will tend to sell their shares. Signaling theory also explained the usefulness of information provided by company on investment decisions. This piece of information is crucial for market since it gives relevant data and a picture about past, present and future of the company. When the information is released, market will analyze and interpret them as either good or bad signals. If the information contains good signals, it is believed that market will be attracted to buy the share of the company. Vice versa, if it contains bad signals, investors will look for another companies. Annual reports which comprise information such as financial statements or corporate governance of a company are the signals sent by management to external parties (Sinta, 2019).

2.2. Agency Theory

Agency theory was firstly proposed by Stephen Ross and Barry Mitnick in 1973. However, the classic paper by Jensen and Meckling published in 1976 remains the most quoted and notable

source. According to Jensen & Meckling (1976) states in Zogning (2017), agency theory is the study about a contractual relationship between one or more parties namely principals and agents in which the principal (company owner or investor) appoints the agents (management) to manage the company on their behalf as well as give management the authority to make decisions. Moreover, agency theory is a theory that explaining the natural conflict between shareholders and managers (Mierzejewska & Jung, 2018). According to Jensen & Meckling (1976) in Mierzejewska & Jung (2018), this conflict arises when the company's management prioritizes its own interest over the interests of the shareholders. For example, a company has suffered financial distress during some period of time. The principals expect that it takes corrective actions so that the company can be in a stable condition again. On the other hand, agents might not want to reveal the real condition to its shareholders because it might put their position or job in a danger. As such, agents might prepare a false financial statements in order to make it seems like in stable condition and the share was still valuable. When managers decide to make a false financial statements and uncovered, shareholders of the company will lost a lot of money because the value of the shares dropped significantly. Lost a lot of money can be referred as agency cost.

The other causes of agency problem is asymmetric information. Asymmetric information is imbalance information. On the other words, the information possesses by the principals and agents are different. Managers may have an opportunity to manipulate the data they have accessed to because they are the one who know the most about the company's real condition while principals only have some understanding on the company's problems and they do not fully understand whether the decisions made by agents served their best interests or manager's best interests. As a result, perceptions between principals and agents are different.

2.3. Financial Distress

Financial distress is a condition that happens when company faces financial difficulties. According to Platt & Platt (2006), financial distress is the stage of declining in the financial condition of a company prior to bankruptcy or liquidation. This condition happens because the company is not able to pay off its financial obligations to creditors. Parkinson (2018) stated that financial distress is a condition that happens when the company experienced a gradual decrease in profitability on year-to-year basis. In addition, Pozzoli & Paolone (2017) defined financial distress as a condition that happens when the company is not able to cover its current obligations with its current monetary assets.

2.4. Corporate Governance

Corporate governance is the processes and practices that direct and control a company. Corporate governance primarily involves balancing the interests of a company's internal and external stakeholders. It is carried out to ensure that the company behavior is fair, responsible, transparent, accountable and independent. According to the Financial Services Authority (OJK) regulations, there are several corporate governance mechanisms which are board of directors, board of commissioners, independent commissioners, audit committees, managerial ownership and institutional ownership. Among the corporate governance mechanisms mentioned above, institutional ownership will be used to assess corporate governance in this study. The formula is as follows :

$$\boldsymbol{Institutional\ Ownership} = \frac{\boldsymbol{Total\ share\ owned\ by\ institutional\ owners}}{\boldsymbol{Total\ share\ outstanding}}$$

Institutional ownership means ownership of share by other institutions such as pension funds, insurance companies, mutual funds, hedge funds and endowments of not-for-profit companies for example foundations and universities (Rezaee, 2019). The presence of institutional ownership can improve monitoring mechanism on the manager's behavior. This will reduce manager opportunistic behaviors that can hurt the company and lower the likelihood of financial distress. Furthermore, institutional ownership may offer outside or external perspective on the company's strategy. Increased institutional ownership will strengthen oversight and provide useful

external inputs which will improve performance of the company and financial distress can be avoided. This research is supported by Kusumawati & Chaniago (2021), Khairuddin et al., (2019) and Jannah et al., (2021) which explained that institutional ownership has a significant impact on financial distress. Based on those researches, the first hypothesis of this study is as follows:

H_1: Corporate Governance (Institutional Ownership) has a significant impact on financial distress in consumer goods industry companies listed at Indonesia Stock Exchange (IDX).

2.5. Profitability

Profitability ratio is used to assess company's ability to make a profit or generate a return on invested capital over a certain period of time as well as to measure how efficient and effective management of a company is in carrying out the company's operations. High profitability implies that the company's assets have been used optimally, allowing it to minimize unnecessary or overrun costs. Profitability ratio consist of Gross Profit Margin (GPM), Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Assets (ROA) and Return on Equity (ROE).Among the profitability ratios mentioned above, Return on Assets (ROA) will be utilized to assess profitability in this study. The formula is as follows:

$$\boldsymbol{ROA} = \frac{\boldsymbol{Net\ Income}}{\boldsymbol{Total\ Assets}}$$

Return on Assets (ROA) ratio assesses a company's capacity to generate profits with its total assets after deducting costs to fund those assets. High ROA shows that assets are being used effectively. Thus, company generates more profits and the possibility of facing financial distress can be avoided. Otherwise, low ROA shows that the company is having difficulty growing its profit. As a result, financial distress will happen. This research is supported by Islamiyatun et al., (2021), Neldawati (2018), and Atika et al., (2020) which explained that profitability proxies by ROA has a significant impact on financial distress. Thus, the second hypothesis of this study is as follows:

H_2: Profitability (ROA) has a significant impact on financial distress in consumer goods industry companies listed at Indonesia Stock Exchange (IDX).

2.6. Liquidity

Liquidity reflects the ability of a company to fulfill its upcoming debt obligations such as unpaid invoices (Brown, 2017). Among the aforementioned liquidity ratios, this study will use Current Ratio (CR) to assess how liquid a company is. The formula is as follows:

$$\boldsymbol{CR} = \frac{\boldsymbol{Current\ Assets}}{\boldsymbol{Current\ Liabilities}}$$

Current ratio measures how capable a company is to pay its obligations to short-term creditors. A high current ratio means short-term liabilities are more likely to be paid. As a result, possibility of facing financial distress can be avoided. However, if current ratio is excessively high, it indicates that earning power of the company is not very strong. A low current ratio frequently signals a company is having difficulty in converting its current assets into cash.

This research is supported by Trisanti (2020), Mappadang et al., (2019) and Ghofur (2018) which explained that liquidity proxies by Current Ratio (CR) has a significant impact on financial distress. Hence, the third hypothesis of this study is as follows:

H_3: Liquidity (CR) has a significant impact on financial distress in consumer goods industry companies listed at Indonesia Stock Exchange (IDX).

2.7. Corporate Governance, Profitability, Liquidity toward Financial Distress

H_4: Corporate Governance (Institutional Ownership), Profitability (ROA) and Liquidity (CR) have significant impact on financial distress in consumer goods industry companies listed at Indonesia Stock Exchange (IDX) simultaneously.

3. RESEARCH METHOD

Population of this research is manufacturing company that listed at Indonesia Stock Exchange (IDX) during 2018 to 2020. In this study, writer uses purposive sampling method and obtained 28 eligible companies that can be used as samples. The total sample is 84 observation since this research will do research starting from 2018 to 2020.

Table 3.1 Determination of Sample

No.	Requirements	Total
1.	Company should be listed at Indonesia Stock Exchange (IDX) and categorized in Manufacturing sector during the period of 2018 to 2020.	155
2.	Company in Manufacturing sector that were not categorized as Consumer Goods Industry during the period of 2018 to 2020.	(109)
3.	Consumer Goods Industry companies listed at Indonesia Stock Exchange (IDX) during the period of 2018 to 2020	46
4.	Consumer Goods Industry companies that did not issued and published the annual report consistently from 2018 to 2020.	(1)
4.	Consumer Goods Industry companies that did not have financial figures needed to calculate the variables in this research during the period of 2018 to 2020.	(3)
5.	Consumer Goods Industry companies that suffer loss during the period of 2018 to 2020.	(14)
6.	Consumer Goods Industry companies that did not present its financial statements in the Indonesian Rupiah (Rp.) during the period of 2018 to 2020.	(0)
Number of companies eligible to be sample		**28**
Total research sample		**84**

In this research, researcher uses data collection method namely secondary data. This research gathered secondary data from annual reports of companies listed at Indonesia Stock Exchange (IDX) from 2018 to 2020. This report can be obtained by visiting www.idx.co.id website or the websites of relevant companies. This research is using data analysis method namely quantitative analysis. It employs numerical and statistical calculations with the help of analytical tools to test hypotheses. In this research, statistical data analysis method utilized to test the developed hypothesis is multiple linear regression analysis method. This analysis is carried out with IBM SPSS 25.0. It is a program to analyze data and perform statistical calculations either parametric or non-parametric on a windows basis (Ghozali, 2013). According to Ghozali (2013), there is more than one independent variable used to describe the variance of dependent variable in multiple linear regression analysis. It is also used to measure the relationship between the independent and dependent variables. The coefficient of regression shows the importance of each independent variables in predicting the dependent variable. The obtained data will be analyzed by conducting statistical tests such as descriptive statistics, classic assumption test such as normality test, heteroscedasticity test, multicollinearity test and autocorrelation test, hypothesis testing such as coefficient of determination, t-test, F-test and predictor contribution such as effective contribution (SE) and relative contribution (SR).

4. RESULT AND DISCUSSION

This research conducts descriptive statistics, classical assumption tests, hypothesis testing and predictor contribution test.

4.1. Descriptive Statistics

Table 4.1 Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
INSTOWN	84	0.214	0.946	0.75544	0.153233
ROA	84	0.001	0.467	0.11370	0.095982
CR	84	0.653	12.757	2.75811	2.051961
ALTMAN Z-SCORE	84	1.167	27.681	7.80085	6.210154
Valid N (listwise)	84				

Table 4.1 summarizes the descriptive statistics for the independent variables in this research namely institutional ownership (INSTOWN), return on assets (ROA) and current ratio (CR) as well as the dependent variable namely Altman Z-Score. It will be explained further as follows:

Altman Z-Score (Y): With a total sample (N) of 84, Altman Z-Score (Y) has a minimum value of 1.167 represented by PT Kimia Farma Tbk (KAEF) in 2019 and a maximum value of 27.681 represented by PT Hanjaya Mandala Sampoerna Tbk (HMSP) in 2018. The value of mean of this variable is 7.80085 and its standard deviation is 6.210154.

Institutional Ownership (X1): With a total sample (N) of 84, institutional ownership (X1) has a minimum value of 0.214 represented by PT Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) in 2020 and a maximum value of 0.946 represented by PT Kimia Farma Tbk (KAEF) in 2019. The value of mean of this variable is 0.75544 and its standard deviation is 0.153233.

Return on Assets (X2): With a total sample (N) of 84, return on assets (ROA) has a minimum value of 0.001 represented by PT Kimia Farma Tbk (KAEF) in 2019 and 2020 as well as PT Sekar Bumi Tbk (SKBM) in 2019 and a maximum value of 0.467 represented by PT Unilever Indonesia Tbk (UNVR) in 2018. The value of mean of this variable is 0.11370 and its standard deviation is 0.095982.

Current Ratio (X3): With a total sample (N) of 84, current ratio (CR) has a minimum value of 0.653 represented by PT Unilever Indonesia Tbk (UNVR) in 2019 and a maximum value of 12.757 represented by PT Hartadinata Abadi (HRTA) in 2020. The value of mean of this variable is 2.75811 and its standard deviation is 2.051961.

4.2. Result of Data Quality Testing

This research conducts classical assumption test namely normality test, heteroscedasticity test, multicollinearity test and autocorrelation test to test the quality of data being used.

Table 4.2 Normality Test Result using Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		84
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	0.22253447
Most Extreme Differences	Absolute	0.071
	Positive	0.071
	Negative	-0.070
Test Statistics		0.071
Asymp. Sig. (2-tailed)		0.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Table 4.2 shows the significance level (Asymp.Sig. 2-tailed) is 0.200, which is greater than 0.05 (0.200 > 0.05). This means that the residual is normally distributed and the normality test is passed.

Table 4.3 Heteroscedasticity Test using Glejser Test

Coefficients[a]

Model			Unstd. Coeff		Std. Coeff	t	Sig.
			B	Std. Error	Beta		
1		(Constant)	0.140	0.045		3.148	0.002
	INSTOWN	LG_X1	0.018	0.122	0.016	0.147	**0.884**
	ROA	LG_X2	-0.050	0.027	-0.210	-1.850	**0.068**
	CR	LG_X3	-0.029	0.050	-0.066	-0.579	**0.564**
a. Dependent Variable : ABS_RES							

Table 4.3 shows that the significant level of all independent variables is more than 0.05, with institutional ownership, ROA and CR have significant level of 0.884, 0.068 and 0.564 respectively. This shows that there is no heteroscedasticity and the regression model passed heteroscedasticity test.

Table 4.4 Multicollinearity Test

Coefficients[a]									
Model			Unstd. Coeff		Std. Coeff	t	Sig.	Collinearity Statistics	
			B	Std. Error	Beta			Tolerance	VIF
1		(Constant)	1.233	0.083		14.797	0.000		
	INSTOWN	LG_X1	0.220	0.229	0.071	0.960	0.340	**0.991**	**1.009**
	ROA	LG_X2	0.457	0.051	0.688	9.007	0.000	**0.918**	**1.090**
	CR	LG_X3	0.219	0.094	0.179	2.344	0.022	**0.915**	**1.093**
a. Dependent Variable : LG_Y (Altman Z-Score)									

To summarize, the result of multicollinearity test shows that all independent variables have tolerance value higher than 0.10 and VIF lower than 10. This means that multicollinearity problem does not exist in the regression model.

Table 4.5 Autocorrelation Test using Durbin-Watson Test

Model Summary[b]					
Model	R	R^2	Adj. R^2	Std. Error of the Estimate	Durbin-Watson
1	0.756[a]	0.572	0.556	0.22667	0.948
a. Predictors : (Constant), LG_X3 (CR), LG_X1(INSTOWN), LG_X2(ROA)					
b. Dependent Variable : LG_Y (Altman Z-Score)					

Table 4.5 shows the value of Durbin-Watson Test (D-W Test) is 0.948. In this research, the significance level (α) is 5% or 0.05, the total number of independent variables (k) are 3 and the total samples (n) are 84. According to Durbin-Watson table (α = 5% ; k = 3; n = 84), the lower bound (dL) is 1.5723 and the upper bound (dU) is 1.7199.

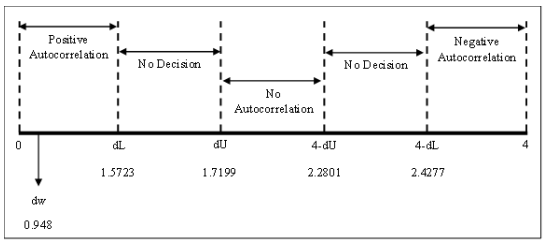

Figure 4.1 Durbin-Watson Test Result

Based on Figure 4.1, Durbin-Watson Test (D-W Test) shows that there is a positive autocorrelation. In order to solve this autocorrelation problem, the writer uses Cochrane Orcutt Test. Cochrane Orcutt Test is a method for resolving autocorrelation problem by adding lag of related

variable and treating it as a single independent variable. After conducting Cochrane Orcutt Test, the result is as follows:

Table 4.6 Durbin-Watson Test Result after Conducting Cochrane Orcutt Test

Model Summary[b]

Model	R	R^2	Adj. R^2	Std. Error of the Estimate	Durbin-Watson
1	0.731[a]	0.534	0.516	0.19190	1.802

a. Predictors : (Constant), LAG_X3 (CR), LAG_X1(INSTOWN), LAG_X2(ROA)

b. Dependent Variable : LAG_Y (Altman Z-Score)

Table 4.6 shows that the value of Durbin-Watson Test (D-W Test) is 1.802. In this research, the significance level (α) is 5% or 0.05, the total number of independent variables (k) are 3 and the total samples (n) are 84. According to the Durbin-Watson table (α = 5% ; k = 3; n = 84), the lower bound (dL) is 1.5723 and the upper bound (dU) is 1.7199.

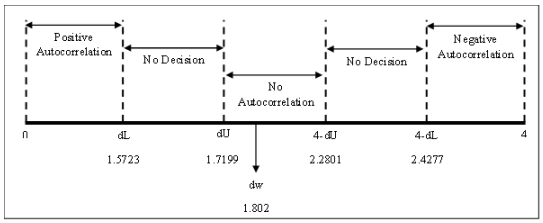

Figure 4.2 Durbin-Watson Test Result after Conducting Cochrane Orcutt Test

Figure 4.2 shows the result of Durbin-Watson Test (D-W Test) is 1.802 which falls between 1.7199 and 2.2801. This means that there is no autocorrelation and the regression model passed autocorrelation test.

4.3. Multiple Linear Regression Analysis

Table 4.7 Multiple Linear Regression Analysis

Coefficients[a]

Model			Unstd. Coeff		Std.Coeff	t	Sig.
			B	Std. Error	Beta		
1		(Constant)	0.620	0.045		13.910	0.000
	INSTOWN	LAG_X1	0.261	0.226	0.089	1.152	0.253
	ROA	LAG_X2	0.450	0.053	0.681	8.559	0.000
	CR	LAG_X3	0.160	0.099	0.128	1.608	0.112

a. Dependent Variable : LAG_Y (Altman Z-Score)

Multiple regression model built from the result of multiple linear regression analysis on Table 4.7, using Altman Z-Score as Y, institutional ownership as X1, return on assets (ROA) as X2 and current ratio (CR) as X3, is as follows :

$Y = 0.620 + 0.261X1 + 0.450X2 + 0.160X3 + \varepsilon$

The interpretation of the regression model is as follows :

1. Constant value of the regression model is 0.620, indicating that the value of Altman Z-Score is 0.620 if institutional ownership, ROA and CR remain constant or have a value of zero.
2. Institutional ownership variable has a coefficient of 0.261 and it is not significant (significant level of 0.253 > 0.05). This means that if all other variables remain constant, one-unit increases in institutional ownership, the measurement of corporate governance, will result in a 0.261 increases in the value of Altman Z-Score.
3. Return on Assets (ROA) variable has a coefficient of 0.450 and it is significant (significant level of 0.000 < 0.05). This indicates that if all other variables remain constant, one-unit increases in

Return on Assets (ROA), the measurement of profitability, will result in a 0.450 increases in the value of Altman Z-Score.

4. Current Ratio (CR) variable has a coefficient of 0.160 and it is not significant (significant level of 0.112 > 0.05). This shows that if all other variables remain constant, one-unit increases in Current Ratio (CR), the measurement of liquidity, will result in a 0.160 increases in the value of Altman Z-Score.

4.4. Result of Hypothesis Testing

Table 4.8 Results of Partial T-Test

Coefficients[a]

Model			Unstd. Coeff		Std. Coeff	T	Sig.
			B	Std. Error	Beta		
1		(Constant)	0.620	0.045		13.910	0.000
	INSTOWN	LAG_X1	**0.261**	0.226	0.089	**1.152**	**0.253**
	ROA	LAG_X2	**0.450**	0.053	0.681	**8.559**	**0.000**
	CR	LAG_X3	**0.160**	0.099	0.128	**1.608**	**0.112**

b. Dependent Variable : LAG_Y (Altman Z-Score)

Table 4.8 shows the result of partial t-test and the interpretations are as follows:

1. T -test conducted on institutional ownership (INSTOWN) variable (X1) toward Altman Z-Score (Y) result in t-count with a value of 1.152. This value is less than the value of t-table which is 1.98969 (1.152 < 1.98969). While its significance level is 0.253 which is more than 0.05 (0.253 > 0.05) and coefficient of the variable is 0.261. With t-count < t-table, a significant level > 0.05, it shows that institutional ownership does not give significant impact on Altman Z-Score. Since it has a positive coefficient, it means institutional ownership has positive relationship with Altman Z-Score.
2. T-test conducted on return on assets (ROA) variable (X2) toward Altman Z-Score (Y) result in t-count with a value of 8.559. This value is higher than the value of t-table which is 1.98969 (8.559 > 1.98969). While its significance level is 0.000 which is less than 0.05 (0.000 < 0.05) and coefficient of the variable is 0.450. With t-count > t-table, a significant level < 0.05, it shows that ROA has a significant impact on Altman Z-Score. Since it has positive coefficient, it means ROA has positive relationship with Altman Z-Score.
3. T-test conducted on current ratio (CR) variable (X3) toward Altman Z-Score (Y) result in t-count with a value of 1.608. This value is lower than the value of t-table which is 1.98969 (1.608 < 1.98969). While its significance level is 0.112 which is more than 0.05 (0.112 > 0.05) and coefficient of the variable is 0.160. With t-count < t-table, a significant level > 0.05, it shows that CR does not give significant impact on Altman Z-Score. Current ratio has positive relationship with financial distress since it has positive coefficient.

Table 4.9 Result of Simultaneous F-Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.331	3	1.110	**30.150**	**0.000[b]**
	Residual	2.909	79	0.037		
	Total	6.240	82			

a. Dependent Variable : LAG_Y (Altman Z-Score)

b. Predictors : (Constant), LAG_X3 (CR), LAG_X1 (INSTOWN), LAG_X2 (ROA)

Table 4.9 shows the value of F-count is 30.150. This value is higher than the value of F-table which is 3.11 (30.150 > 3.11). While its significant level is 0.000 which is less than 0.05 (0.000 < 0.05). With F-count > F-table and a significant level < 0.05, it shows that corporate governance (institutional ownership), profitability (ROA) and liquidity (CR) have significant simultaneous impact on financial distress (Altman Z-Score).

Table 4.10 Coefficient of Determination (Adjusted R^2)

Model Summary[b]

Model	R	R^2	Adj. R^2	Std. Error of the Estimate
1	0.731[a]	0.534	0.516	0.19190
a. Predictors : (Constant), LAG_X3 (CR), LAG_X1 (INSTOWN), LAG_X2 (ROA)				

Table 4.10 shows the value of Adjusted R^2 is 0.516, indicating that the multiple linear regression model accounts for 51.6% of the total variability. It means that 51.6% of the dependent variable namely financial distress (Altman Z-Score) is impacted by the independent variables namely corporate governance (institutional ownership), profitability (ROA) and liquidity (CR), while the remaining 48.4% is impacted by the other variables that are not studied in this research.

5. PENUTUP

1. The first hypothesis (H1) is rejected. Corporate governance which proxies by Institutional Ownership does not give significant impact toward financial distress on consumer goods industry listed at Indonesia Stock Exchange (IDX) from 2018 to 2020. Corporate governance which proxies by Institutional Ownership has a negative relationship with financial distress. This means that the higher the institutional ownership, the less likely a company facing financial distress even though it is not significant.
2. The second hypothesis (H2) is accepted. Profitability which measures by Return on Assets (ROA) has significant impact toward financial distress on consumer goods industry listed at Indonesia Stock Exchange (IDX) from 2018 to 2020. Profitability which proxies by Return on Assets (ROA) has a negative relationship with financial distress. This means that the higher the company's profit, the less likely it is to experience financial distress.
3. The third hypothesis (H3) is rejected. Liquidity which measures by Current Ratio (CR) does not give significant impact toward financial distress on consumer goods industry listed at Indonesia Stock Exchange (IDX) from 2018 to 2020. Liquidity which measures by Current Ratio (CR) has a negative relationship with financial distress. This signifies that the higher the company's liquidity, the less likely it is to experience financial distress, even though it is not significant.
4. The fourth hypothesis (H4) is accepted. Corporate governance (institutional ownership), profitability (ROA) and liquidity (CR) have a significant simultaneous impact towards financial distress on consumer goods industry companies listed at Indonesia Stock Exchange (IDX) from 2018 to 2020.
5. According to the result of adjusted coefficient of determination, 51.6% of financial distress on consumer goods industry companies listed at Indonesia Stock Exchange (IDX) during the period of 2018 to 2020 are impacted by corporate governance (institutional ownership), profitability (ROA) and current ratio (CR) while the remaining 48.4% is impacted by the other variables that are not studied in this research.

DAFTAR PUSTAKA

Altman, E. I., Hotchkiss, E., & Wang, W. (2019). *Corporate Financial Distress, Restructuring, andBankruptcy : Analyze Leveraged Finance, Distressed Debt and Bankruptcy(4th ed.). John Wiley & Sons, Inc.*

Altman, Edward I. (1968). Financial Ratios, Discriminant Analysis And The Prediction Of Corporate Bankruptcy. *The Journal of Finance*, *23*(4), 589–609. https://doi.org/https://doi.org/10.2307/2978933

Atika, G. A., Jumaidi, & Kholis, A. (2020). Pengaruh Likuiditas Dan Ukuran Perusahaan Terhadap Financial Distress. *Prosiding WEBINAR Fakultas Ekonomi Universitas Negeri Medan, 976-623-94335-0–5*, 86–101. http://repository.unsada.ac.id/cgi/oai2

Brigham, E. F., & Houston, J. F. (2019). *Fundamentals of Financial Management (Fifteenth Edition)*. Cengage. https://www.academia.edu/42150671/_15th_Eugene_F_Brigham_and_Joel_F_Houston_Fundamentals_of_Financial_Management_15th_edition_Cengage_2019_

Brown, R. E. (2017). *Business Essentials for Utility Engineers*. CRC Press.

Carroll, A. B., Brown, J., & Buchholtz, A. K. (2017). *Business & Society: Ethics, Sustainability & Stakeholder Management*. Cengage Learning. https://www.google.co.id/books/edition/Business_Society_Ethics_Sustainability_S/cuLdDQAAQBAJ?hl=id&gbpv=0

Damodaran, A. (1997). *Corporate Finance: Theory and Practice (Second Edition)*. John Wiley & Sons, Inc.

Ghofur, A. (2018). Pengaruh Likuiditas, Profitabilitas, Leverage Dan Arus Kas Operasi Terhadap Financial Distress Pada Perusahaan Manufaktur Sub Sektor Makanan Minuman Yang Terdaftar Di Bei Tahun 2012-2017. *Jurnal Sekolah Tinggi Ekonomi Perbanas Surabaya*.

Ghozali, I. (2013). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 21 (Seventh Edition)*. Badan Penerbit Universitas Diponegoro.

Grover, J. (2001). Financial Ratios, Discriminant Analysis and Prediction of Corporate Bankruptcy: A Service Industry Extension of Altman's Z-Score Model of Bankruptcy Prediction. *Southern Finance Association*. http://www.ibrarian.net/navon/paper/A_Service_Industry_Extension_of_Alt%0Aman_s_Z_Score.pdf?paperid=238482.

Hirawati, H. (2017). Analisis Prediksi Financial Distress Berdasarkan Model Altman Dan Grover Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Universitas Tidar*, *0668*(1), 49–57.

Islamiyatun, S. B., Hermuningsih, S., & Cahya, A. D. (2021). *Pengaruh Profitabilitas, Likuiditas Dan Solvabilitas Terhadap Kondisi Financial Distress*. *5*(2), 25–34.

Jannah, A. M., Dhiba, Z. F., & Safrida, E. (2021). Pengaruh Struktur Kepemilikan , Likuiditas Dan Leverage Terhadap Financial Distress Pada Perusahaan Manufaktur Di BEI. *JAKP: Akuntansi, Keuangan Dan Perpajakan*, *4*(1), 14–23.

Jensen, M. C., & Meckling, W. H. (1976). Theory Of The Firm : Managerial Behavior , Agency Costs And Ownership Structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/10.1177/0018726718812602

Khairuddin, F., Mahsuni, A. W., & Afifudin. (2019). Pengaruh Good Corporate Governance dan Rasio Likuiditas terhadap Financial Distress di Perusahaan Manufaktur yang Terdaftar di BEI 2015-2018. *Jurnal Ilmiah Riset Akuntansi*, *08*(01), 1–13.

Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2019). The Accounting Environment. *Financial Accounting*, 17–36. https://doi.org/10.4324/9781315728445-10

Kusuma, E., & Sumani. (2017). Pengaruh Likuiditas, Leverage Dan Profitabilitas Terhadap Financial Distress (Z-Score) Perusahaan Property, Real Estate, Dan Manufaktur Periode 2014-2016. *Jurnal Manajemen*, *14*(1), 1–16.

Kusumawati, E., & Chaniago, A. S. D. (2021). *Analisis Faktor Penentu Financial Distress Pada Perusahaan Jasa Yang Terdaftar Di BEI*. 489–499. https://doi.org/10.32528/psneb.v0i0.5202

Lau, E., & Trinugroho, I. (2019). *Business Innovation and Development in Emerging Economies : Proceedings of the 5th Sebelas Maret International Conference on*

Business, Economics and Social Sciences (SMICBES 2018), July 17-19, 2018, Bali, Indonesia. CRC Press.

Lizal, L. (2002). Determinants of Financial Distress: What Drives Bankruptcy in a Transition Economy? The Czech Republic Case. *SSRN Electronic Journal*, *451*. https://doi.org/10.2139/ssrn.307224

Mappadang, A., Ilmi, S., Handayani, W. S., & Indrabudiman, A. (2019). Faktor-Faktor Yang Mempengaruhi Financial Distress Pada Perusahaan Transportasi. *Jurnal Riset Manajemen Dan Bisnis (JRMB) Fakultas Ekonomi UNIAT*, *4*(3), 683–696. http://journal.pnm.ac.id/index.php/aksi/article/view/296

Mierzejewska, B., & Jung, J. (2018). *Handbook of Media Management and Economics* (J. J. Alan Albarran, Bozena Mierzejewska (ed.)). Taylor & Francis. https://www.google.co.id/books/edition/Handbook_of_Media_Management_and_Economi/aFkPEAAAQBAJ?hl=id&gbpv=1&dq=agency+theory+is+a+theory+that+explaining+the+natural+conflict+between+shareholders+and+managers&pg=PA209&printsec=frontcover

Neldawati. (2018). *Pengaruh Good Corporate Governance, Profitabilitas, Dan Ukuran Perusahaan Terhadap Financial Distress (Studi Empiris Pada Perusahaan Manufaktur Yang Bergerak Disektor Aneka Industri Dan Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Periode 2013-2*. *1*(1), 1–8.

Ohlson, J. A. (1980). Financial Ratios and the Probabilistic Prediction of Bankruptcy. *Journal of Accounting Research*, *18*(1), 109–131. https://doi.org/https://doi.org/10.2307/2490395

Oktiviani, V. (2018). *Pengaruh Corporate Governance Dan Kinerja Keuangan Terhadap Financial Distress*. http://lib.unnes.ac.id/38057/

Parkinson, M. M. (2018). *Corporate Governance in Transition : Dealing with Financial Distress and Insolvency in UK Companies*. Springer International Publishing. https://www.google.co.id/books/edition/Corporate_Governance_in_Transition/aDBtDwAAQBAJ?hl=id&gbpv=0

Platt, H., & Platt, M. (2006). Understanding Differences Between Financial Distress and Bankruptcy. *Review of Applied Economics*, *2*(2), 141–157. https://doi.org/10.22004/ag.econ.50146

Pozzoli, M., & Paolone, F. (2017). *Corporate Financial Distress: A Study of the Italian Manufacturing Industry*. http://search.ebscohost.com/login.aspx?direct=true&db=edsebk&AN=1594211&amp%0Alang=pt-pt&site=eds-live&authtype=sso

Pratama, C. (2020). *The Influence of Corporate Governance, Profitability and Leverage toward Financial Distress in Miscellaneous Industry Listed at Indonesia Stock Exchange*.

Prusak, B. (2020). *Corporate Bankruptcy Prediction : International Trends and Local Experience*. Mdpi AG. https://www.google.co.id/books/edition/Corporate_Bankruptcy_Prediction/RrbrDwAAQBAJ?hl=id&gbpv=0

Rezaee, Z. (2019). *Business Sustainability, Corporate Governance, and Organizational Ethics*. https://www.google.co.id/books/edition/Business_Sustainability_Corporate_Govern/udK8DwAAQBAJ?hl=id&gbpv=1

Robinson, T. R. (2020). *International Financial Statement Analysis*. Wiley. https://www.google.co.id/books/edition/International_Financial_Statement_Analys/Q7nEDwAAQBAJ?hl=id&gbpv=0

Schroeder, R. G., Clark, M. W., & Cathey, J. M. (2020). *Financial Accounting Theory and Analysis : Text And Cases (Tenth Edition)*.

Sinta. (2019). Signaling Theory. *Journal of Chemical Information and Modeling*, *53*(9), 13–16.

Soetedjo, S. (2019). *Pembahasan Pokok-Pokok Pikiran Teori Akuntansi Vernon Kam*. Airlangga University Press. https://www.google.co.id/books/edition/Pembahasan_pokok_pokok_pikiran_teori_aku/ueCkDwAAQBAJ?hl=id&gbpv=0

Tazkia, A. N. (2019). Pengaruh Corporate Governance, Leverage dan Operating Capacity terhadap Financial Distress Perusahaan Keluarga di Indonesia. *Skripsi*, 1–136.

Ting, I.-H., Wang, K., & Uden, L. (2021). *Knowledge Management in Organizations : 15th International Conference, KMO 2021, Kaohsiung, Taiwan, July 20-22, 2021, Proceedings*. Springer. https://www.google.co.id/books/edition/Knowledge_Management_in_Organizations/WvI4EAAAQBAJ?hl=id&gbpv=0

Tone, K. (2017). *Advances in DEA Theory and Applications : with Extensions to Forecasting Models*.

Trisanti, T. (2020). Analysis of Factors that Lead to Financial Distress for Property and Real Estate Companies in Indonesia. *INOBIS: Jurnal Inovasi Bisnis Dan Manajemen Indonesia*, *3*(3), 302–315. https://doi.org/10.31842/jurnalinobis.v3i3.139

Zmijewski, M. E. (1984). Methodological Issues Related to the Estimation of Financial Distress Prediction Models. *Journal of Accounting Research*, *22*, 59–82. https://doi.org/https://doi.org/10.2307/2490859

Zogning, F. (2017). Agency Theory : A Critical Review. *European Journal of Business and Management*, *9*(2), 1–8.

Zoogah, D. B. (2018). *Theoretical Perspectives of Strategic Followership*. Taylor & Francis. https://www.google.co.id/books/edition/Theoretical_Perspectives_of_Strategic_Fo/7GcPEAAAQBAJ?hl=id&gbpv=0