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THE EFFECT OF LIQUIDITY AND GOOD CORPORATE GOVERNANCE ON FINANCIAL DISTRESS
(EMPIRICAL STUDY OF FOOD AND BEVERAGE SUB-SECTOR COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE FOR THE PERIOD 2017-2021)

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Abstract. Every year, Indonesia's food and beverage industry contributes significantly to GDP (Gross Domestic Product) growth. However, it does not rule out the potential of financial distress suffering certain companies. This study looks at the impact of liquidity and good corporate governance on financial distress in food and beverage sub-sector companies listed on the Indonesia Stock Exchange between 2017 and 2021. The purpose of this study was to learn how liquidity, institutional ownership, management ownership, and independent commissioners influence financial distress. The purposive sample strategy was used in this study to get 8 firms that fit the requirements for the 2017-2021 timeframe. Eviews software was utilized for descriptive statistical analysis and panel data regression analysis. According to the hypothesis testing results, liquidity has a significant negative effect on financial distress. Meanwhile, institutional ownership, management ownership, and the presence of independent commissioners do not affect financial distress.

Keywords: liquidity; good corporate governance; financial distress

I. INTRODUCTION

The condition of the country's economy is of key concern. Although the food and beverage industry in Indonesia contributes significantly to the national economy, it does not guarantee that Indonesia's economic conditions are in good shape. The first step in evaluating the state of the nation's economy is to pay more attention to and examine the annual increase of GDP (Gross Domestic Product). Based on data from **[1]**, the growth rate of Indonesia's GDP (Gross Domestic Product) in 2018-2021 shows that there was a decline in the GDP growth of the food and beverage industry. This decline is caused by lockdowns that limit all activities outside the home where almost most food and beverage sales occur in traditional markets and retail. A firm's performance must be examined so that the company may stand upright and make a significant contribution to national economic progress. One of the difficulties and challenges that companies must be able to face is related to financial distress. Financial distress, as described by **[2]**, is a poor state of a firm's financial health quality in which the company has liquidity challenges that fail to satisfy financial commitments according to the payment period. The company will face bankruptcy when financial distress occurs continuously without adequate solutions **[3]**.

Financial distress indicates an organization's failure to fulfill its obligations. When EBITDA is less than the financial expenditure spent and/or there is a fall in market value for two consecutive years, the firm is considered to be in financial distress **[15]**. A corporation that continues to have high fixed expenses, liquid assets, and even sensitive income as a result of a recession may go insolvent. Financial distress not only has an impact on the financial structure but on all parts of the organization. The risk of financial distress arises due to management failure in decision-making **[9]**.

This research combines several indicators to assess the company's health, including liquidity and effective corporate governance in terms of control features. The most significant indicator of a company's ability to pay down existing creditors is liquidity **[4]**. The firm's high level of current debt, which is not proportionate to its current assets, might lead to financial crisis conditions in which the firm is unable to meet its immediate financial commitments on time. One company with high current debt is MLBI in 2020, leading to a bank loan of IDR 1 trillion and a decrease in net profit due to COVID-19. Liquidity reflects the level of current debt that will soon be due which has a significant and negative effect on financial distress conditions **[4]**. However, this contradicts the outcome of **[5]**, who believe that liquidity does not influence financial distress. The liquidity ratio is one approach for determining how well a business is able to fulfill its loans which need to be repaid within one year. By analyzing this ratio, stakeholders and shareholders can assess the efficiency level in the usage of the company's working capital and comprehend the data given in the financial statements **[16]**. When a corporation can pay off its short-term debts, it is assumed to be liquid, as evidenced by a high number on liquidity ratio **[17]**.

H1: Liquidity has a significant effect on financial distress

Financial distress in Indonesia may also be identified depending on the organization's implementation of good corporate governance. Companies that do not implement GCG can cause a conflict of interest called an agency problem between the principal and the agent **[6]**. Agency problems are caused by inequality of information obtained by the principal

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and agent, so difficulties arise in monitoring agent performance **[7]**. This conflict can result in the misuse of financial statements. Implementing corporate governance can give investors more confidence in the benefits they will get and how investors can control the actions that managers will take in managing the invested funds **[3]**. As the party in charge of overseeing management performance, the board of commissioners is responsible for a variety of instances involving financial statements. In 2021, two former PT AISA directors were charged with manipulating money totaling IDR 1.4 trillion in AISA's 2017 financial statements to enhance the company's share price on the IDX **[8]**. These types of problems should be detected early by independent commissioners so that they can function more effectively to protect the company from risks and lawsuits. Weak supervision can cause the company to be in unfavorable conditions such as the high potential for errors, failures, and financial distress **[9]**. The control elements, which include managerial ownership, institutional ownership, the responsibility of the audit committee, and independent commissioners, may be utilized to show how good corporate governance is being implemented **[3]**.

The presence of GCG is beneficial to monitor and control business activities and stakeholder relationships in the organization **[7]**. GCG is built to establish a favorable investment climate based on the company's competitiveness. GCG can also encourage compliance and the establishment of high morals for every business actor against the law. Implementing effective corporate governance may create a fair and transparent environment while also protecting shareholders' rights to information **[3]**. The proxies used to measure the implementation of GCG include, Institutional ownership is the total proportion of majority share ownership from an institution which is calculated based on all shares owned by the company in circulation. The high percentage of share ownership will encourage a strict monitoring system of company performance so that the potential to save the company will be much higher **[10]**. The investor has the authority to be allowed to participate in managing the company in monitoring the management. While carrying out their obligations, management will be more careful when choosing solutions., and investors will consider the possibilities of investment prospects. **[18]**. A stronger level of monitoring given by institutional ownership of the firm could assist the company avoid financial distress **[11]**. This argument contradicts the findings of **[12]**, who found no correlation between these two variables.

H2: Institutional ownership has a significant effect on financial distress

Managerial ownership requires managers to have a dual role, as shareholders in the organization **[3]**. Managerial ownership can align interests to reduce the probability of agency problems between management and investors, lowering the risk of financial distress **[13]**. This role also has an influence on decreasing agency expenses or resolving agency issues, which will persuade shareholders that the risks taken are similar to the rewards received **[19]. [14]**, on the other side, believes that management ownership does not influence financial distress.

H3: Managerial ownership has a significant effect on financial distress

Based on **[14]** research, the presence of independent commissioners affects firm control and transparency, decreasing the possibility of potential financial distress. Independent commissioners are board of commissioners members from public corporations who make up at least 30% of the total membership, ensuring that corporate management will be scrutiny more rigorously. The presence of high-level independent commissioners improves the quality of an organization's internal control system because it is fair, unbiased, and resistant to manipulation **[5]**. However, the functions of independent commissioners as monitors are limited in that they aren't allowed to interfere with operational decisions **[3]**. A board of commissioners is an essential aspect of any corporation since it guarantees that management's goals are implemented and can establish an environment of fairness inside the firm **[20]**. Reference **[9]** disagrees and claims that independent commissioners have no significant effect on financial distress.

H4: Independent commissioner has a significant effect on financial distress

H5: Liquidity, institutional ownership, managerial ownership, and independent commissioners simultaneously have a significant effect on financial distress.

II. RESEARCH METHODS

This study is classified as quantitative research. This research belongs to the category of panel data research, which mixes research with data structured in time series with the same cross-section unit. The sample in this study was chosen using a nonprobability sampling technique with a purposive sampling strategy, which chooses objects/subjects based on certain criteria to avoid any information gaps that might lead to an error in the research. Because the period analyzed contains a time series of more than a year and employs a sample of more than one firm, the panel data regression method is one of the data analysis approaches used in this study **[21]**. The sample consisted of eight food and beverage sub-sector businesses that were listed on the Indonesia Stock Exchange between 2017 and 2021. So, in this research, there were 40 observations. Samples are obtained through annual reports, which are available on the IDX.co.id and linked firm websites. This data will be analyzed using the liquidity ratio and the share of institutional ownership, management ownership, and independent commissioners as proxies for good corporate governance. The eviews software was used to examine the data using a panel data regression analysis technique.

Altman Z-Score is a method that applies statistical techniques, namely discriminant analysis using a combination of several financial ratios to form a prediction model that can identify whether a firm is bankrupt or not **[22]**. The obtained findings will be divided into three categories. Companies with an amount greater than 2.99 are considered healthy, whereas those with a score of less than 1.23 may go bankrupt. Companies with scores in the range of 1.81 to 2.99 are classified as being in the gray. The current ratio is applied in this study to calculate the liquidity ratio, meaning a method to measure the firm’s capacity to pay debts that must be fulfilled within one year through using the number of current assets

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possessed. Institutional ownership is the overall proportion of an institution's majority share ownership. Managerial ownership shows the percentage of share ownership that comes from management. Independent commissioners are a part of the board of commissioners who work for publicly traded firms.

III. RESULTS AND DISCUSSION

Test Classical Assumption

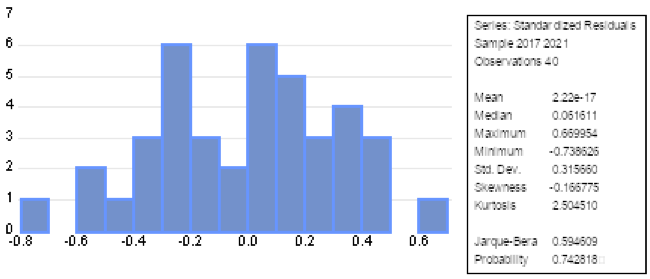

Figure1. Normality Test

Source: Data processed by author, 2023

Based on Figure 2, the normality test results reveal that the probability is 0.742818, which is larger than 0.05, indicating that the data is normally distributed.

Table 1. Multicollinearity Test

	X1	X2	X3	X4
X1	1	-0.24007	0.58990	0.38843
X2	-0.24007	1	-0.53142	-0.56335
X3	0.58990	-0.53142	1	0.06126
X4	-0.01452	-0.56335	0.06126	1

Source: data processed by author, 2023

According to Table 1, the correlation coefficient value for each independent variable according the research is less than 0.9. This signifies that the regression model equation utilized has no issues with multicollinearity. This test demonstrates that there is no high correlation between liquidity (X1), institutional ownership (X2), management ownership (X3), and independent commissioners (X4), indicating that this study passes the multicollinearity test.

Table2. Heteroscedasticity Test

Variable	*Prob.*
C	0.8886
X1	0.0765
X2	0.8438
X3	0.6344
X4	0.3701

Source: data processed by author, 2023

According to Table 2, each independent variable in this investigation had a probability value larger than the significance level (>0.05). This implies that the heteroscedasticity test was passed by the regression model utilized in this investigation

Hypotheses Testing

Table 3. Partial Hypothesis Test

Variable	*Coefficient*	*t-Statistic*	*Probability*
C	2.503333	1.651549	0.1098
X1	0.799402	7.134423	0.0000
X2	-0.016202	-0.945353	0.3526
X3	-0.034687	-1.376961	0.1794
X4	-0.006912	-0.333059	0.7416

Source: data processed by author, 2023

This study has a free degree (df) of 38 which is calculated using df = N - 2 = 40 - 2 = 38. Based on df, it can be found that the t table is 2.02439. These are the test results, according to Table 3:

1. The value of probabilities given by liquidity (X1) is 0.0000 when the result is less instead of the significance level (0.05). According to this statement, H0 gets rejected while H1 gets approval, demonstrating that liquidity has a significant effect on financial distress. As a result, from 2017 to 2021, any increase in liquidity will affect the Altman Z-Score score, indicating that food and beverage subsector firms are in good health. The conclusions of this study are compatible with what it found in **[4]**, which states that a corporation with strong liquidity has a high ability to pay down its obligations using current assets. To be able to meet its commitments, the corporation must have a source of payment in the form of current assets that is greater than the number of liabilities that must be paid immediately. This is because the ability of current assets that are easily converted into cash will make it easiest for the firm to pay its current liabilities, lowering its risk of failure.
2. The probability value provided by institutional ownership (X2) is 0.3526 where this value is above the significance level (> 0.05). Based on the statement, it is clear that H0 is accepted, showing that institutional ownership has no significant effect on financial distress. As a result, from 2017 to 2021, any change in institutional ownership will not result in an adjustment in the value of financial distress in food and beverage sub-sector companies. **[12]** discovered that the share of institutional ownership had no effect on the company's ability to maximize earnings by employing assets, indicating that there isn't any meaningful relationship between institutional ownership and financial distress. According to **[19]**, the potential of financial distress has nothing to do with the large or small proportion of institutional ownership, but rather with the institution's effectiveness or ineffective monitoring of corporate management.
3. The probability value provided by managerial ownership (X3) is 0.1794 where this value is above the significance level (> 0.05). Based on this statement, it is clear that H0 is accepted, showing that no significant effect between managerial ownership on financial distress. As a result, any changes to managerial ownership will not affect the value of financial distress in the food and beverage sub-

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sector from 2017 to 2021. This is because the financial distress situation is influenced by the management's ability to handle and supervise the business, rather than the quantity of shares owned **[23]**. The findings of this study may be explained by the limited proportion of managerial ownership in Indonesia, as well as the possibility that the shares owned by management are intended to improve profitability **[24]**.

4. The probability value provided by independent commissioners (X4) is 0.7416 where this value is above the significance level (> 0.05). Based on this statement, it is clear that H0 is accepted, showing that no significant influence between independent commissioners on the financial distress value of the food and beverage sub-sector between 2017 and 2021. The findings of this study contradict corporate governance theory, which implies that the presence of independent commissioners is one aspect of GCG that helps decrease agency problems, this means the number of independent commissioners had no effect on the company's health **[9]**. Independent commissioners only supervise and advise the board of directors, putting operational decisions exclusively in the hands of management. Meanwhile, independent commissioners, according to **[13]**, do not support agency theory as an effective party to oversee management activities.

Table 4. Simultaneous Hypothesis Test (F-test)

Prob (F-statistic)	0.0000

Source: data processed by author, 2023

Based on the panel data regression analysis in Table 4, the findings show that the value of probability on the F-statistic obtained was 0.0000, which is less than the significance level (0.05), thus H0 has been declined and H1 is accepted.. According to this statement, liquidity, institutional ownership, management ownership, and independent commissioners simultaneously have significant effects on financial distress in food and beverage sub-sector companies from 2017 to 2021.

Table 5. Coefficient of Determination

Model	*R. Square*	*Adjusted R Square*	*S.E. of regression*
Y	0.938002	0.913645	0.372540

Source: data processed by author, 2023

According to Table 5, the coefficient of determination in this study is 0.938002 or 93.8%, which means that the independent variables such as liquidity, institutional ownership, managerial ownership, and independent commissioners can explain the dependent variable, financial distress, by 93.8%, while other variables outside the study explain 6.2%.

IV. CONCLUSION

The financial reports and the implementation of GCG can be utilized to determine the company's health. This study examined liquidity, institutional ownership, management ownership, and independent commissioners to forecast financial distress situations in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. Based on the findings of data research, liquidity has a significant effect on financial distress. Financial distress is unaffected by institutional ownership, management ownership, or independent commissioners. Liquidity, institutional ownership, management ownership, and independent commissioners simultaneously have significant effects on financial distress. Based on the research findings, further studies are required to consider different industrial sectors over an extended time frame to provide analysis results and conclusions that are more representative of actual conditions based on the theories and concepts used. Further research is also encouraged to include other independent variables linked to financial ratios and/or other aspects of GCG control, such as the audit committee. The company's management should concentrate on improving the liquidity ratio and appropriately implementing good corporate governance. Investors are recommended to evaluate the current ratio value and choose firms with a CR value of more than 1.0, as well as the proportion of every aspect of good corporate control when making capital investments.

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