



The Influence of Good Corporate Governance, Firm Size, and Operating Capacity on Financial Distress (Study of Retail Trade Sub-Sector Companies Listed on The Indonesian Stock Exchange in 2017-2022)

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ABSTRACT: Financial distress is a situation that arises when a company has an unstable financial situation. If this condition continues, it will impact the company's bankruptcy. This research aims to determine the influence of Good Corporate Governance, Firm Size, and Operating Capacity on Financial Distress in the retail trade sub-sector listed on the Indonesia Stock Exchange in 2017-2022. The independent variables of Good Corporate Governance include the audit committee, board of commissioners, board of directors, managerial ownership, and institutional ownership. The research method uses a quantitative and associative approach. The population in this study was 27 companies with a sampling technique using purposive sampling, and 25 companies were obtained as samples, so 150 observation data were obtained. The data analysis technique in this research uses logistic regression analysis using IBM SPSS 25 software. The partial research results show that the audit committee, managerial ownership, institutional ownership, and firm size do not affect financial distress. The board of commissioners, board of directors, and operating capacity negatively affect financial distress. Simultaneously, Good Corporate Governance, Firm Size, and Operating Capacity influence financial distress. This research implies that companies must pay attention to the good corporate governance sub-variables related to the board of commissioners and board of directors because these sub-variables have been proven to influence financial distress. Apart from that, companies must also pay attention to their operating capacity because, in this research, this variable was proven to influence financial distress.

Keywords: Financial Distress, Good Corporate Governance, Firm Size, Operating Capacity



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INTRODUCTION

In the current era of globalization, business competition is becoming increasingly fierce. Companies that want to grow must constantly improve all aspects of their operations. In a situation like this, no market is completely safe from industrial activity, both local and global.

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In 2017, several retail trade sectors experienced a decline in sales due to the emergence of the online shopping phenomenon among the public; this caused a rift in relations between retail traders and made consumer behavior reluctant to shop out because online shopping was more effective and efficient. The rise of online-based business platforms such as Shopee, TikTok Shop, Instagram Shop, Tokopedia, and Lazada has caused business competition to become increasingly fierce. Added to this is the decline in the purchasing power of people who have shifted to online platforms. This, of course, causes pressure on the retail trade sub-sector, which has an impact on the sales growth percentage in 2017 decreasing as reported by (databook.katadata.co.id).

The parameter used to indicate the state of financial distress in a company is the earning per share (EPS) value because, compared to other processes, EPS is an evident ratio when a company experiences a loss in its business (Hikmawati, 2022). The company will achieve good growth in the future if it produces positive EPS and experiences continuous increases in each period. On the other hand, if it produces negative EPS and EPS decreases continuously over several periods, it shows that the profit prospects are not good, so it is not attractive to investors and has the potential for financial distress (Sunarwijaya, 2017). The following is the development of earnings per share (EPS) in the retail trade sub-sector for 2017-2022.

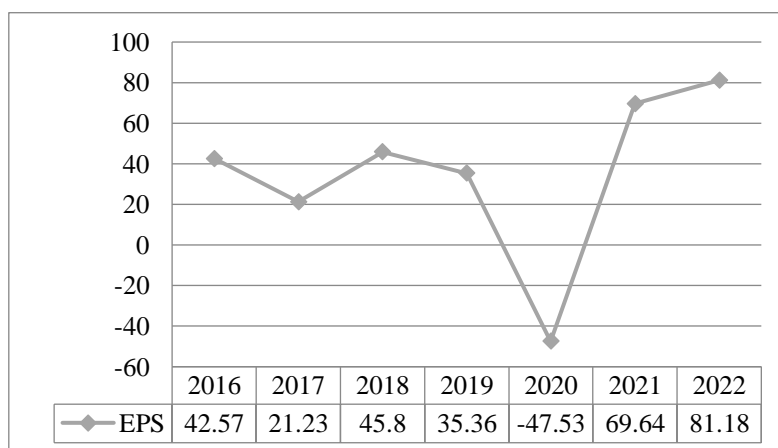


Figure 1. Development of Earning Per Share (EPS)

Source: idx.co.id (Processing data, 2023)

Figure 1 shows the average EPS value for the retail trade sub-sector, where in 2017, it showed a decline in EPS caused by the phenomenon of online platforms resulting in a decline in people's purchasing power, which had an impact on a decline in sales, which was marked by a decline in a company's earnings per share (EPS). The decreasing earnings per share (EPS) trend indicates that the company has decreased profits in a certain period (Masita & Purwahandoko, 2020).

The closure of retail trade outlets in various regions illustrates the occurrence of sluggishness in the retail trade sub-sector. This was caused by the lack of buyers and the high operational costs incurred, so the company experienced losses. The influence of online platforms makes it easier for customers to get goods without having to go to the outlet. Several companies are starting to close their outlets one by one, as experienced by PT. Matahari Department Store Tbk (LPPF) is the pioneer of the modern fashion business in Indonesia. Pt. Matahari Department Store closed 25 of

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its outlets in Jakarta and Manggarai areas due to a drastic decline in profits of 52,3%, and these outlets did not provide significant income for the company ([CNN Indonesia, 2021](#)). Then PT. Mitra Adiperkasa Tbk closed three of its outlets, followed by Lotus Department Store closing two of its outlets. The two Hypermart stores, which are part of the Matahari group, also closed their outlets. Ramayana also closed six outlets in 2017. Furthermore, PT. Hero Supermarket Tbk closed 26 Giant outlets in various regions, and 532 employees were affected by the closure of these outlets ([cnbc.com](#)).

The company's inability to face the era of globalization will cause company bankruptcy. Bankruptcy is the failure of a company to obtain the expected profits. Meanwhile, financial difficulties are a phase where financial conditions experience a continuous decline and result in bankruptcy ([Christine et al., 2019](#)). Bankruptcy can be caused by general factors, company external factors, and company internal factors. In Indonesia bankruptcy is regulated in UU No.1 of 1998, which states that a debtor who has two or more creditors and cannot pay at least one overdue debt that cannot be collected, is declared bankrupt by an authorized court decision, either on his own request, or at the request of one or more creditors. This application can also be submitted by the prosecutor for the public interest ([Helastica & Paramita, 2020](#)). Therefore, financial distress analysis must be carried out as early as possible to predict a company's potential for financial difficulties or even bankruptcy. If not resolved immediately, it will result in a loss of investor confidence in the company.

As a hot topic, financial distress prediction (FDP), called corporate failure prediction or bankruptcy prediction, plays an essential role in decision-making in various areas, including accounting, finance, business, and engineering. Since academic research on financial distress prediction has gone on for nearly eighty years, there is abundant literature on this topic ([Sun et al., 2014](#)). There are various bankruptcy prediction models, each with weaknesses and advantages. In this research, we predict bankruptcy by using earnings per share (EPS) as a dummy variable with a criterion of 0 (zero), which indicates non-bankruptcy, and a value of 1 (one) as an indication of bankruptcy. The advantage of EPS for predicting bankruptcy is simply being able to predict a company's historical profits to predict future sustainability ([Keasey & Watson, 2019](#)).

According to ([Deviacita & Achmad, 2012](#)), one of the factors that can influence the emergence of financial distress is good corporate governance. Other indications of financial distress are firm size and operating capacity ([Hikmawati, 2022](#)). Good corporate governance is a unique mechanism for adjusting and controlling the company's running so that the company can run according to the wishes of shareholders. Suitable corporate governance mechanisms are essential in improving a company's financial performance to avoid financial problems ([Situmorang, 2016](#)). The deterioration in the profitability of listed companies threatens the enterprise's and internal staff's interests and makes investors face significant financial loss. Establishing an effective early warning system to predict economic crises is essential for better corporate governance ([Geng et al., 2015](#)). Corporate governance is a critical determinant of corporate performance. Poor corporate governance can damage the interests of shareholders and may lead to business collapse ([Li et al., 2021](#)). In line with this, ([Avramov et al., 2013](#)) convey the importance of using profitability as a

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financial distress prediction strategy. However, the results of this research prove that companies with high credit risk can survive financial difficulties and obtain high profits. They call this an anomaly-based trading strategy. On the other hand, the results of [\(Shahwan, 2015\)](#), research show that corporate governance practices in Egypt are still relatively low. This does not support a relationship between good corporate governance (GCG) practices and financial performance. Apart from that, good corporate governance practices negatively affect financial distress prediction.

This research use good corporate governance as proxied by the size of the audit committee, board of commissioners, board of directors, managerial ownership, and institutional ownership as company's determinant factors that influence financial distress [\(Nasiroh & Priyadi, 2018\)](#).

The Audit Committee is a complementary organ required to implement the principles of good corporate governance, which carries out a directing function in implementing company management and manages essential tasks related to the company's existing financial reporting system [\(Masak & Noviyanti, 2019\)](#). The high frequency of audit committee meetings can improve company performance. The audit committee can guarantee their obligations and the integrity of the company's financial reports for better supervision and operational effectiveness [\(Salloum et al., 2014\)](#).

The Board of Commissioners is a company organ responsible for supervising the company's budget and advising the directors. In implementing good corporate governance mechanism, the company's board of commissioners is essential [\(Setiawan & Amboningtyas, 2018\)](#). Based on Financial Services Authority Regulation Number 33/POJK 04/2014 article 28 concerning duties, responsibilities, and authority states that the board of commissioners in a company is responsible for supervising company's management policies, supervising all aspects of the issuer's operations, and providing recommendations to the board of directors.

The board of directors is an essential organ in the management of a company to determine the policies and strategies taken by the company [\(Hanafi & Breliastiti, 2016\)](#). The company's success is determined by the policy or strategy decisions carried out by a board of directors, both long-term and short-term strategies [\(Helena & Saifi, 2018\)](#). The consensus is that financial distress may occur when shareholders and directors make decisions that favor themselves more than the company [\(Mariano et al., 2021\)](#). Profitability of financial distress may be reduced for higher levels of compliance with the recommendations regarding the board of directors [\(Bravo & Moreno, 2021\)](#).

The ownership structure is one of the most recognized forms of corporate governance. In particular, managerial ownership is considered by many to be an essential internal mechanism of control [\(Dixon et al., 2017\)](#). Managerial ownership is the presentation of shares owned by managers, directors, and commissioners [\(Yudha & Fuad, 2014\)](#). The existence of managerial share ownership makes the position between shareholders and managers equal so that the company's financial distress becomes the responsibility of shareholders and managers [\(Fadhilah & Syafruddin, 2013\)](#).

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Institutional ownership is share ownership owned by an institution or organization ([Yudha & Fuad, 2014](#)). The greater the institutional ownership, the more efficient the use of company assets, thereby minimizing the potential for financial distress, because companies with institutional ownership greater than 5% demonstrate their ability to supervise management activities ([Hakim et al., 2020](#)).

Firm size is a scale that can describe the size or size of a company and can be measured in various ways, one of which is total assets. The size of a company's total assets can be used as a benchmark to assess the size of a company, where a company with significant total assets indicates that company has reached a stable phase and can be able to maintain its performance over a long period ([Rahma & Dillak, 2021](#)).

Operating capacity is the total asset turnover to describe the operational efficiency of a particular company or entity ([Widhiari & Merkusiwati, 2015](#)). The proxy used to measure operating capacity is total asset turnover (TATO). Using total asset turnover (TATO), you can see how a company uses an asset to generate income. Using operating capacity. The more efficient the company is in managing its assets, the less likely it is to experience financial distress. On the other hand, a company that is less efficient in managing its assets is more likely to experience financial distress ([Radiansyah, 2013](#)).

The theoretical basis of this research is signaling theory and agency theory. Signaling theory is the provision of information from the owner of the information to transmit signals, whether good news or bad news, to recipients or parties external to the company ([Wolk et al., 2013](#)). Signaling theory explains asymmetric information or lack of accurate information between management and investors. The company's financial report contains information that can describe the company's performance to related parties. One form of this information is financial reports. Conditions when the company's financial reports are high are a positive signal for investors, whereas if the financial statements are low, it is a negative signal for investors ([Hikmawati, 2022](#)). If a company's financial condition is good, this is a positive signal for users of financial reports. However, suppose a company's financial reports show losses or financial distress over several periods. In that case, this is a negative signal for users of financial reports because it is feared that the company will experience bankruptcy. The relationship between signaling theory and the variables in this research is that a high firm size value shows a positive signal for stakeholders because the company can finance its investment to gain profits. Companies with a high operating capacity value show a positive signal for stakeholders because the company is considered capable of managing assets well to increase sales within the company.

Agency theory, coined by ([Jensen & Meckling, 1976](#)), is an agency relationship involving the principal and the agent. The agent is the company management, while the principal is the owner (shareholder). In agency theory, there is inequality in information disclosure, which is related to differences in desires, goals, and behavior between the principal and the agent, thus triggering agency problems. A form of effort to align the principal's interests with the agents is by selecting a board of commissioners and providing incentives ([Adinda & Musdholifah, 2020](#)). On other hand, the good corporate governance (GCG) was developed based on stewardship and agency theories,

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which were present first, Stewardship theory explains that managers will prioritize the interest of shareholders in carrying out company operations transparently (Paramita & Ali, 2023). The implementation of agency theory in this research uses the values of the audit committee, board of commissioners, board of directors, managerial ownership, and institutional ownership.

An audit committee is essential in a good corporate governance mechanism because this supervision is carried out to improve the company's performance. A large number of audit committees will increase the number of ideas for improving the quality of the company so that it can minimize the potential for financial distress (Ersyafdi et al., 2022). The greater the number of audit committees in a company, the more influential it will be in improving its operations. It can supervise every management activity of a company. Thus, the higher the size of the audit committee, the smaller the chance of the company experiencing financial distress. Based on agency theory, the audit committee is one of the most essential business tools for resolving agency conflicts, and minimizing agency costs, and minimizing the possibility of the company experiencing financial distress (Hariyani & Kartika, 2021). Research conducted by (Munawar et al., 2018); (Masak & Noviyanti, 2019); (Nasiroh & Priyadi, 2018), states that the audit committee has a negative effect on financial distress. Meanwhile, research conducted by (Ma'ruf & Kresnamurti, R, 2018); (Khoirunnisa Harahap et al., 2022); (Hanifah & Purwanto, 2013), states that the audit committee does not affect financial distress. Based on agency theory, the hypothesis that will be proposed is that the audit committee has a negative effect on financial distress. In this research, in general, the audit committee can be calculated using the formula:

$$\text{Audit Committee} = \sum \text{Audit Committee Members}$$

Thus the first hypothesis (H1a) in this study is:

H1a: The audit committee has a negative effect on financial distress

The board of commissioners is one of the good corporate governance mechanisms needed to reduce agency problems between principals and agents. This is supported by the existence of agency theory so that it does not cause agency costs that can cause financial distress to the company. In this way, the board of commissioners can influence financial distress. A board of commissioners with good performance will have a good influence on the company. The more the commissioners there are in a company, the more parties will supervise the company's operational performance. The greater the number of board of commissioners in a company, the less likely the company is to experience financial distress. Research conducted by (Bravo & Moreno, 2021) and (Triwahyuningtyas & Muharam, 2012), states that the board of commissioners negatively influence financial distress. Meanwhile, research was conducted by (Hanifah & Purwanto, 2013), states that the board of commissioners has a positive effect on financial distress. Based on agency theory, the hypothesis proposed is that the board of commissioners has a negative effect on financial distress. In this research, in general, the board of commissioners can be calculated using the formula:

$$\text{Board of Commissioners} = \sum \text{Board of Commissioners Members}$$

Thus the first hypothesis (H1b) in this study is:

H1b: The board of commissioners has a negative effect on financial distress

The board of directors is responsible for making decisions that influence the company's financial health. Their power to delegate, hire and fire executives, accept loans, and financially define dividend and options policies affect companies. Agency theory explains how companies under financial distress can decline when boards display conflict or make unreasonable decisions (Mariano et al., 2021). The board of directors is one of the applications of good corporate governance in a company, which according to agency theory, has a role as a way to minimize company agency problems because, with the right size of the board of directors, the company's operational activities will run optimally to reduce the possibility of agency problems, which occurs as a result of the inappropriate size of the board of directors. Research conducted by ([Mayda, 2021](#)); ([Freitas Cardoso et al., 2019](#)); ([Febriyanti & Khalifaturfi'ah, 2023](#)); ([Manzaneque et al., 2016](#)), state that the board of directors has a negative effect on financial distress. Meanwhile, according to ([Helena & Saifi, 2018](#)), the board of directors positively influences on financial distress. Meanwhile, research conducted by ([Nasiroh & Priyadi, 2018](#)); ([Arrum & Wahyono, 2021](#)), states that the board of directors has no effect on financial distress. Based on agency theory, the hypothesis proposed is that the board of directors has a negative effect on financial distress. In this research, in general, the board of directors can be calculated using the formula:

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

Thus the first hypothesis (H1c) in this study is:

H1c: The board of directors has a negative effect on financial distress

The relationship between managerial ownership and financial distress is based on agency theory, which aims to equalize views and minimize conflicts of interest to ensure a company avoids financial distress. Managerial ownership can provide high levels of information if the number of members in managerial ownership is high to provide anticipation of the possibility of financial distress. Increasing managerial ownership shows corporate governance control in preventing agency problems so that managerial ownership can align management interests with shareholders ([Deviacita & Achmad, 2012](#)). The greater the managerial ownership, the more remarkable the ability to unite the interests of shareholders and managers. Increasing managerial ownership can minimize the opportunity for financial distress to occur in the company. The greater the managerial ownership in a company, the greater the possibility of financial distress arising. ([Manzaneque et al., 2016](#)). Based on agency theory, managerial ownership negatively influences financial distress. Research conducted by ([Nasiroh & Priyadi, 2018](#)); ([Hanifah & Purwanto, 2013](#)); ([Chen et al., 2020](#)), states that managerial ownership has a negative effect on financial distress. Meanwhile, according to ([Ma'ruf & Kresnamurti, R, 2018](#)), managerial ownership positively affects financial distress.

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Meanwhile, research conducted by [\(Sunarwijaya, 2017\)](#); [\(Hariyani & Kartika, 2021\)](#); [\(Susilowati et al., 2020\)](#), states that managerial ownership does not affect financial distress. Based on this statement, the hypothesis proposed is that managerial ownership has a negative effect on financial distress. In this research, generally, managerial ownership can be calculated using the formula:

$$\text{Managerial Ownership} = \frac{\sum \text{Managerial Share Ownership}}{\sum \text{Outstanding Shares}} \times 100\%$$

Thus the first hypothesis (H1d) in this study is:

H1d: Managerial ownership has a negative effect on financial distress

The relationship between institutional ownership and financial distress, based on agency theory, explains the supervision carried out through institutions. Adequate supervision over company management can help companies avoid making mistakes in choosing strategies that lead to losses [\(Fathonah, 2016\)](#). Greater institutional ownership shows effectiveness in using company assets, and the more significant the monitoring provided, the smaller the potential for financial distress [\(Septiani & Dana, 2019\)](#). Research conducted by [\(Nasiroh & Priyadi, 2018\)](#); [\(Handriani et al., 2021\)](#), states that institutional ownership negatively influences financial distress. Meanwhile, research conducted by [\(Budiyari & Devi, 2023\)](#); [\(Sunarwijaya, 2017\)](#); [\(Khoirunnisa Harahap et al., 2022\)](#); [\(Susilowati et al., 2020\)](#), states that institutional ownership does not affect financial distress. Based on agency theory, the hypothesis proposed is that institutional ownership has a negative affect on financial distress. In this research, generally, institutional ownership can be calculated using the formula:

$$\text{Institutional Ownership} = \frac{\sum \text{Institutional Share Ownership}}{\sum \text{Outstanding Shares}} \times 100\%$$

Thus the first hypothesis (H1e) in this study is:

H1e: Institutional ownership has a negative effect on financial distress

The relationship between firm size and financial distress is based on signaling theory, interpreting a company's finances from all its asset values. The larger a company, the greater the assets its owns to meet its maturing obligations. This situation can minimize the potential for financial distress. The larger the size of a company, the smaller the potential for financial distress [\(Rahma & Dillak, 2021\)](#). Based on this statement, it is suspected that firm size negatively influences financial distress. Research conducted by [\(Rahma & Dillak, 2021\)](#); [\(Dirman, 2020\)](#); [\(Susilawati et al., 2017\)](#), states that firm size has a negative effect on financial distress. Meanwhile, research conducted by [\(Khoirunnisa Harahap et al., 2022\)](#); [\(Zelie, 2019\)](#); [\(Kristanti et al., 2016\)](#), states that firm size does not affect financial distress. Based on this statement, the hypothesis proposed is that firm size has a negative affect on financial distress. In this research, generally, firm size can be calculated using the formula:

$$\text{Firm Size} = \text{Ln Total Asset}$$

Thus the second hypothesis (H2) in this study is:

H2: Firm size has a negative effect on financial distress

The relationship between the values of operating capacity and financial distress is based on signaling theory, explaining that sending signals about a company's finances is funded by debt. A high operating capacity indicates that the company successfully markets its products, increasing sales and profits. The higher the level of operating capacity, the smaller the potential for financial distress because the company is considered capable of generating profits (Widhiari & Merkusiwati, 2015). Research conducted by (Setyowati & Sari, 2019); (Widhiari & Merkusiwati, 2015); (Susilowati et al., 2020), states that operating capacity has a negative effect on financial distress. Meanwhile, according to (Khasanah et al., 2021), operating capacity positively affect financial distress. Meanwhile, research by (Arrum & Wahyono, 2021), states that operating capacity does not affect financial distress. Based on this statement, the hypothesis proposed is that operating capacity has a negative effect on financial distress. In this research, operating capacity can generally be calculated using the formula:

$$\text{Total Asset Turn Over} = \frac{\text{Sales}}{\text{Total Asset}} \times 100\%$$

Thus the third hypothesis (H3) in this study is:

H3: Operating capacity has a negative effect on financial distress

Financial distress is associated with at least a company's incapacity to pay obligations or debt when due (Geng et al., 2015). According to (Ninh et al., 2018), financial distress is when a company cannot fulfill its obligations due to decreased illiquid business operations and high fixed costs. Meanwhile, according to (Yazdanfar & Ohman, 2020), financial distress is a condition where companies tend to have low cash flow and experience financial difficulties. Financial distress in this study uses a dummy variable, which provides two categories, namely zero (0) for positive earnings per share (EPS) and one (1) for negative earnings per share (EPS) (Widhiari & Merkusiwati, 2015).

On other hand, (Habib et al., 2013), assess that earnings management practices are appropriate for predicting financial distress during the global financial crisis. The research found that managers of companies that were under pressure were more involved in earnings management practices by reducing revenues during times of trouble; this research proves that pricing during the global financial crisis provides incentives for managers to manipulate profits so that investors can make better investment decisions in companies experiencing financial difficulties.

This research looks at a company experiencing financial distress as proxied by earnings per share (EPS). Earnings per share or profit per share is a measure of a company's ability to generate profits per owner's share (Sutrisno, 2017). Earnings per share (EPS) is essential information that is very important for an investor because EPS describes the company's profits for a period. EPS can explain how a company performs, in the past and future. A company that has positive earnings

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per share (EPS) or experiences continuous increases in each period shows good prospects in the future and can attract investors to invest in the company. However, if EPS is negative or experiences a continuous decline, this indicates poor prospects in the future. In this research, EPS can generally calculated using the formula:

$$Earning Per Share = \frac{\text{Earning After Tax}}{\sum \text{Outstanding Shares}}$$

METHOD

This research uses quantitative methods with descriptive and associative approaches. The research population in the retail trade sub-sector listed on the Indonesia Stock Exchange in 2017-2022 was 27 companies. The sample was determined using a purposive sampling technique, with the following criteria: (1) Companies that are consistently included in the retail trade sub-sector listed on the Indonesia Stock Exchange in 2017-2022. (2) Companies that publish financial reports regularly for six years in 2017-2022. (3) Companies that provide all the required data regarding research variables, namely audit committee, board of commissioners, board of directors, managerial ownership, institutional ownership, firm size, and operating capacity. Based on the criteria, 25 companies were obtained as research samples. The secondary data source for this research comes from the official website of the Indonesia Stock Exchange (BEI), namely IDX.co.id. The data analysis technique uses logistic regression analysis, supported by the IBM SPSS 25 program. The logistic regression analysis stage includes assessing the feasibility of model fit, overall model feasibility testing, coefficient of determination, classification matrix testing, and hypothesis testing (Ghozali, 2018). The logistic regression equation is as follows:

$$\ln \frac{p}{1-p} = \beta_0 + \beta_1 \text{KOM_AU} + \beta_2 \text{DEW_KOM} + \beta_3 \text{DEW_DIR} + \beta_4 \text{KEP_MAN} + \beta_5 \text{KEP+INST} + \beta_6 \text{SIZE} + \beta_7 \text{OP_CAP} + e$$

RESULT AND DISCUSSION

Model Feasibility Test Results (Goodness of Fit Test)

Model feasibility testing (goodness of fit test) can be carried out by paying attention to Hosmer Lemeshow's Goodness of Fit Test output. This test is carried out to assess the hypothesized model so that the empirical data is suitable for by the research model.

Table 1. Hosmer and Lemeshow's Test

Step	Chi-square	Df	Sig.
1	10,640	8	,223

Source: Processing data, 2023

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From the output result above, it can be seen that the chi-square value is 10,640 with a p-value (sig) of 0,223 > 0,05, so the null hypothesis (H_0) is accepted. It means that the logistic regression model is suitable for further analysis because there is no real difference between the predicted and observed classifications. This means that the model can predict the observed values well.

Overall Model Test Results (Overall Fit Test)

The overall model can be assessed by paying attention to the initial -2 log likelihood value when the model only includes constants (block number 0), with the final -2 log likelihood value when the model includes constants and independent variables (block number 1). Furthermore, if there is a decrease, the model shows a good regression model.

Table 2. Log likelihood (Block Number 0)

Iteration History ^{a,b,c}			
Iteration		-2 Log Likelihood	Coefficient
			Constant
Step 0	1	193,622	-,613
	2	193,608	-,634
	3	193,608	-,634

Source: Processing data, 2023

Table 3. Log likelihood (Block Number 1)

Iteration History ^{a,b,c,d}										
Iteration		-2 Log likelihood	Constant	Coefficients						
				KoM Au	DEW KOM	DEW DIR	KEP MAN	KEP INST	SIZE	OP CAP
Step 1	1	161,814	1,342	-,575	-,238	-,370	,034	,006	-,350	-,536
	2	159,252	1,742	-,751	-,299	-,457	,054	,014	-,663	-,764
	3	158,384	1,751	-,768	-,306	-,467	,056	,014	-,847	-,796
	4	157,627	1,718	-,753	-,304	-,469	,060	,016	-,887	-1,211
	5	157,132	1,672	-,738	-,302	-,471	,060	,019	-,889	-1,220
	6	156,926	1,619	-,725	-,300	-,472	,067	,019	-,892	-1,239
	7	156,890	1,589	-,716	-,299	-,473	,068	,020	-,896	-1,241
	8	156,889	1,582	-,714	-,299	-,473	,068	,021	-,898	-1,244
	9	156,889	1,581	-,714	-,299	-,473	,068	,021	-,898	-1,244

Source: Processing data, 2023

From the SPSS 25 output results above, it can be seen that the initial -2 log likelihood value (block number 0) is 193,608, and the final -2 log likelihood value (block number 1) is 156,889. These results show that there has been a decrease in the value at the final -2 log likelihood (block number 1), so the overall model shows a good regression model.

Hypothesis Test

Partial Test (Uji t)

According to (Ghozali, 2018), this test shows how far the influence of the independent variable (X) individually is in explaining the dependent variables (Y). The results of statistical calculations in this research used SPSS version 25 data processing. The partial test results can be obtained as follows:

Table 4. Partial Test

		Variable in the quation						
Step		B	S.E	Wald	Df	Sig.	Exp(B)	Keputusan
1 ^a	KOM_AU	-,714	,552	1,673	1	,196	,490	H ₀ Diterima
	DEW_KOM	-,299	,110	7,421	1	,006	1,348	H ₀ Ditolak
	DEW_DIR	-,473	,139	11,611	1	,001	,623	H ₀ Ditolak
	KEP_MAN	,068	,035	,842	1	,359	1,000	H ₀ Diterima
	KEP_INST	,021	,046	,337	1	,848	1,000	H ₀ Diterima
	SIZE	,898	,559	2,575	1	,109	1,000	H ₀ Diterima
	OP_CAP	-1,244	,393	8,769	1	,003	3,469	H ₀ Ditolak
	Constant	1,581	1,940	,665	1	,415	4,862	

Source: Processing data, 2023

Based on table 4, the logistic regression model equation is obtained as follow:

$$\ln \frac{p}{1-p} = 1,581 - 0,714KOM_AU - 0,299DEW_KOM - 0,473DEW_DIR + 0,068KEP_MAN + 0,021KEP+INST + 0,898SIZE - 1,244OP_CAP + e$$

From the equation model, it shows that:

1. A constant value of 1,581 indicates that with the influence of independent variables, namely the audit committee, board of commissioners, board of directors, managerial ownership, institutional ownership, firm size, and operating capacity, the company's chances of experiencing financial distress will increase by 1,581.
2. The coefficient (β_1) on the audit committee is -0,714, indicating that for every 1 unit increase in the audit committee, the chance of a company experiencing financial distress will decrease by 0,714.
3. The coefficient value (β_2) for the board of commissioners is -0,229, indicating that for every increase in the board of commissioners by 1 unit, the chance of a company experiencing financial distress will decrease by 0,229.
4. The coefficient value (β_3) for the board of directors is -0,473, indicating that for every 1 unit increase in the board of directors, the chance of a company experiencing financial distress will decrease by 0,473.

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5. The coefficient value (β_4) on managerial ownership is 0,068, indicating that for every 1 unit increase in managerial ownership, the chance of a company experiencing financial distress will increase by 0,068.
6. The coefficient value (β_5) on institutional ownership is 0,021, indicating that for every 1 unit increase in institutional ownership, the chance of a company experiencing financial distress will increase by 0,021.
7. The coefficient value (β_6) on firm size is 0,898, indicating that for every 1 unit increase in firm size, the chance of a company experiencing financial distress will increase by 0,898.
8. The coefficient value (β_7) on operating capacity is -1,244, indicating that for every 1 unit increase in operating capacity, the chance of a company experiencing financial distress will decrease by 1,244.

Simultaneous Test (Uji F)

This test is carried out to test whether the independent variables simultaneously influence the dependent variable. To determine whether (H_0) is accepted or rejected it is based on a significance level of 5%. The test results can be seen in the following table:

Table 5. Simultaneous Test

Onimbus Tests of Model Coefficients				
		Chi-Square	Df	Sig.
Step	Step	36,719	7	,035
	Block	36,719	7	,035
	Model	36,719	7	,035

Source: Processing data, 2023

From the test results in Table 5, the chi-square value is 36,719, with a significant value of $0,035 < 0,05$. This means that H_0 is rejected and H_a is accepted, that simultaneously, good corporate governance, firm size, and operating capacity influence financial distress.

Coefficient of Determination (Nagelkerke's R Square)

The coefficient of determination test is used to determine the percentage of influence of the independent and dependent variables. In logistic regression, Nagelkerke's R square output is used. A value close to one means that the independent variable provides almost all the information needed to predict variations in the dependent variable. The test results can be seen in the following table:

Table 6. Coefficient Determination (Nagelkerke's R Square)

Model Summary			
Step 1	-2 Log Likelihood	Cox & Snell R Aquare	Nagelkerke's R Square
	156,889 ^a	,217	,348

Source: Processing data, 2023

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Table 6 shows Nagelkerke's R Square value of 0,348, which means that the independent variable can explain 34,8% of the dependent variable, and the remaining 65,2% is explained by other variables not included in this research.

Classification Matrix

This test is carried out to predict the possibility of the company experiencing financial difficulties. The predictive power in this study is expressed in percentage. The test results can be seen in the following table:

Table 7. Classification Matrix

Observed		Predicted		Percentage Correct
		Positif	Negatif	
Step 1	Financial Distress	Positif	86	87,8
		Negatif	27	48,1
Overall Percentage				74,0

Source: Processing data, 2023

Based on table 7 shows that the prediction for companies experiencing financial distress characterized by negative earnings per share (EPS) is 48,1%, which is predicted by 25 out of a total of 52 observations, and companies that do not experience financial distress are characterized by earnings per share (EPS) positive was 87,8%, namely predicted by 86 out of a total 98 observations. Overall, it shows that $86 + 25 = 111$ samples, or 74% of the samples, can be used with this logistic regression model.

The Influence of The Audit Committee on Financial Distress

Based on the logistic regression test above results, the audit committee does not affect financial distress. This can be seen in Table 4, which shows a significance value of 0,196, where 0,196 is more significant than 0,05. So, in this case, H_0 is accepted, and H_a is rejected. Thus, this research rejects the hypothesis (H1a), which states that the audit committee has a negative affect on financial distress. This research is not in line with agency theory, which states that an audit committee is one of the most important businesses for resolving company agency conflicts to minimize agency costs and minimize the potential for financial distress. A large number of audit committees will give rise to many opinions, making them ineffective in determining the company's decision making. The increasing number of audit committees causes difficulties in determining an agreement in carrying out their performance (Hanifah & Purwanto, 2013). From the results of this research, the audit committee cannot avoid the company's potential financial distress.

The results of this research are in line with research conducted by (Hanifah & Purwanto, 2013) (Ma'ruf & Kresnamurti, R, 2018) (Khoirunnisa Harahap et al., 2022), which stated that audit committees does not affect financial distress. However, this is contrary to research conducted by (Munawar et al., 2018); (Masak & Noviyanti, 2019); (Nasiroh & Priyadi, 2018), which states that the audit committee negatively affect financial distress.

The Influence of the Board of Commissioners on Financial Distress

Based on the logistic regression test results above, it can be seen that the board of commissioners has a negative effect on financial distress. This can be seen in Table 4, which shows a significance value of 0,006, where 0,006 is minor compared to 0,05. So, in this case, H_0 is rejected, and H_a is accepted. Thus, this research accepts the hypothesis (H1b), which states that the board of commissioners has a negative affect on financial distress. This research is in line with agency theory, which states that the board of commissioners is a good corporate governance mechanism that can reduce agency problems between principals and agents so as not to cause agency costs that can cause financial distress in the company. This shows that the greater the number of board of commissioners in a company, the less likely the company will experience financial distress. Because the greater the number of commissioners in a company, the more parties there are who monitor the company's operational performance. Conversely, if a company has a small board of commissioners, supervision will weaken and could potentially experience financial distress.

The research results are in line with research conducted by ([Bravo & Moreno, 2021](#)) ([Triwahyuningtyas & Muharam, 2012](#)), which states that the board of commissioners negatively affect financial distress. However, this research contradicts research conducted by ([Hanifah & Purwanto, 2013](#)), which states that the board of commissioners positively affect on financial distress.

The Influence of the Board of Directors on Financial Distress

Based on the logistic regression test results above, it can be seen that the board of directors has a negative effect on financial distress. This can be seen in Table 4, which shows a significance value of 0,001, where 0,001 is minor compared to 0,05. So, in this case, H_0 is rejected, and H_a is accepted. Thus, this research accepts the hypothesis (H1c), which states that the board of directors has a negative affect on financial distress. This research is in line with agency theory, which states that the board of directors plays the role of a good corporate governance mechanism that can minimize the company's agency problems because, with the right size of the board of directors, the company's operational activities will run optimally so that it can minimize agency costs and minimize the potential for financial distress, caused by the inappropriate size of the board of directors. This shows that the greater the number of board of directors in a company, the more it minimizes the potential for financial distress because the board of directors make decisions that are beneficial for the company's survival and provide profits for the company. The more the board of directors, the more influential the company is in making decisions to avoid the potential for financial distress.

The results of this research are in line with research conducted by ([Mayda, 2021](#)); ([Freitas Cardoso et al., 2019](#)); ([Febriyanti & Khalifaturafi'ah, 2023](#)), which stated that the board of directors has a negative affect on financial distress. However, this is differs from research conducted by ([Helena & Saifi, 2018](#)), the board of directors positively influences on financial distress. Meanwhile, research conducted by ([Nasiroh & Priyadi, 2018](#)); ([Arrum & Wahyono, 2021](#)), which state that the board of directors does not affect financial distress.

The Influence of the Managerial Ownership on Financial Distress

Based on the logistic regression test results above, managerial ownership does not affect financial distress. This can be seen in Table 4, which shows a significance value of 0,359, which is more significant than 0,05. So in this case H_0 is accepted and H_a is rejected. Thus, this research rejects the hypothesis (H1d), that managerial ownership has a negative affect on financial distress. This research does not align with agency theory, which states that managerial ownership has the function of equalizing views and minimizing conflicts of interest to protect a company from financial distress. Companies that have low managerial ownership may not necessarily cause the potential for financial distress because, in Indonesia, the number of managerial shareowners is still relatively small. Hence, no harmony exists between the owner (principal) and the company manager (agent). Apart from that, the good and bad conditions of a company are caused by the size of the shares owned by the manager and the manager's ability and strategy in managing a company (Sunarwijaya, 2017). So, managerial ownership in this research does not affect financial distress.

The results of this research are in line with research conducted by (Sunarwijaya, 2017); (Hariyani & Kartika, 2021); (Susilowati et al., 2020), which stated that managerial ownership does not affect financial distress. However, this differs from research conducted by (Nasiroh & Priyadi, 2018); (Hanifah & Purwanto, 2013); (Chen et al., 2020), which state that managerial ownership negatively affects financial distress. Also, this research contradicts research conducted by (Ma'ruf & Kresnamurti, R, 2018), which states that managerial ownership positively affects financial distress.

The Influence of the Institutional Ownership on Financial Distress

Based on the logistic regression test results above, institutional ownership does not affect financial distress. This can be seen in Table 4, which shows a significance value of 0,848, which is more significant than 0,05. So, in this case, H_0 is accepted, and H_a is rejected. Thus, this research rejects the hypothesis (H1e), which states that institutional ownership has a negative affect on financial distress. This research does not align with agency theory, which states that institutional ownership explains supervision carried out through institutions. Adequate supervision over company management can help companies avoid making mistakes in choosing strategies that lead to losses. Financial distress conditions are not influenced by institutional ownership but rather by company managers or management decisions. Institutional ownership will not guarantee more substantial supervision by shareholders; with a significant level of institutional ownership, company management will still determine decisions about the company (Budiari & Devi, 2023). So, this research means that no matter how sizeable institutional ownership is in a company, financial distress can only be avoided if the institution's supervision is ineffective.

The results of this research conducted by (Budiari & Devi, 2023) (Sunarwijaya, 2017) (Khoirunnisa HarahapREFERENCE et al., 2022) (Susilowati et al., 2020), stated that institutional ownership does not affect financial distress. However, this is contrary to research conducted by (Nasiroh & Priyadi, 2018) (Handriani et al., 2021), which states that institutional ownership has a negative affect on financial distress.

The Influence of the Firm Size on Financial Distress

Based on the logistic regression test results above, firm size does not affect financial distress. This can be seen in Table 4, which shows a significance value of 0,109, where 0,109 is more significant than 0,05. So, in this case, H_0 is accepted, and H_a is rejected. Thus, this research rejects the hypothesis (H2), which states that firm size has a negative affect on financial distress. This research does not align with signaling theory, which states that companies cannot issue signals as predictions for investors or other parties regarding information regarding the big or small picture of a company's assets. The insignificant influence between firm size and financial distress can occur because large company size is also inseparable from the risk of financial distress, such as economic risk, namely fluctuations in the rupiah value, interest rates, and inflation. Companies can also use external funding so that the liabilities that arise in the future will also be significant, so that even the large size of the company does not affect reducing the risk of the company experiencing financial distress.

The results of this research are in line with research conducted by ([Khoirunnisa Harahap et al., 2022](#)) ([Zelie, 2019](#)); ([Kristanti et al., 2016](#)), which stated that firm size does not affect financial distress. However, this is contrary to research conducted by ([Rahma & Dillak, 2021](#)) ([Dirman, 2020](#)) ([Susilawati et al., 2017](#)), which states that firm size has a negative affect on financial distress.

The Influence of the Operating Capacity on Financial Distress

Based on the logistic regression test results above, operating capacity negatively affect financial distress. This can be seen in Table 4, which shows a significance value of 0,003, where 0,003 is minor compared to 0,05. So, in this case, H_0 is rejected, and H_a is accepted. Thus, this research accepts the hypothesis (H3), which states that operating capacity has a negative affect on financial distress. This research is align with signaling theory, namely that good operating capacity will provide good signals to investors and potential investors. The higher the operating capacity, the more influential the company's total assets are in generating sales. Because the effective use of assets to generate sales is expected to provide greater profits for the company, the possibility of financial distress is smaller.

The results of this research are in line with research conducted by ([Susilowati et al., 2020](#)) ([Setyowati & Sari, 2019](#)) ([Widhiari & Merkusiwati, 2015](#)), which stated that operating capacity has a negative affect on financial distress. However, this is differs from research conducted by ([Khoirunnisa Harahap et al., 2022](#)), which states that operating capacity positively affects financial distress. Also, this research contradicts research conducted by ([Arrum & Wahyono, 2021](#)), which statet that operating capacity does not affect financial distress.

CONCLUSION

Based on the results research, it can be concluded that, the audit committee does not affect financial distress in retail trade sub-sector listed on the Indonesia Stock Exchange for 2017-2022. The board of commissioners has a negative effect on financial distress in retail trade sub-sector listed on the Indonesia Stock Exchange for 2017-2022. The board of directors has a negative

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effect on financial distress in retail trade sub sector listed on the Indonesia Stock Exchange for 2017-2022. Managerial ownership does not affect financial distress in retail trade sub-sector listed on the Indonesia Stock Exchange for 2017-2022. Institutional ownership does not affect financial distress in retail trade sub-sector listed on the Indonesia Stock Exchange for 2017-2022. Firm size does not affect financial distress in retail trade sub sector listed on the Indonesia Stock Exchange for 2017-2022. Operating capacity has a negative effect on financial distress in retail trade sub-sector listed on the Indonesia Stock Exchange for 2017-2022. Simultaneously, the audit committee, board of commissioners, board of directors, managerial ownership, institutional ownership, firm size, and operating capacity influence financial distress in retail trade sub-sector listed on the Indonesia Stock Exchange for 2017-2022.

Based on the conclusions above, advice can be given to companies, investors, and potential investors to pay attention to good corporate governance so that their role in a company becomes optimal and is a step to protect the company from financial difficulties or financial distress. It can also, it can help provide information regarding the company's suitability conditions for investors in investing their capital in a company. Large companies may experience financial distress because of their inability to compete. Therefore, investors should be more vigilant in investing their fund ([Dianova & Nahumury, 2019](#)). There are limitations in this research; it is recommended that further researchers expand the research sample because the study only took samples from the retail trade sub-sector, and the researcher suggests that future researchers can add other variables so that financial distress can be projected widely and the research is more concrete.

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