International Journal of Environmental, Sustainability, and Social Sciences
ISSN 2720-9644 (print); ISSN 2721-0871 (online)
https://journalkeberlanjutan.com/index.php/ijesss

THE INFLUENCE OF MANAGERIAL OWNERSHIP, PROFITABILITY AND LEVERAGE ON FINANCIAL DISTRESS (Empirical Study on Property and Real Estate Companies Listed on the Indonesia Stock Exchange (IDX) 2016-2019)

Volume: 3
Number: 2
Page: 351 - 358

Article History:
Received: 2022-03-30
Revised: 2022-05-29
Accepted: 2022-07-17

[1]**Minanari MINANARI**
[1]Faculty of Economics and Business, University of Mercu Buana, Indonesia
Corresponding author: Minanari MINANARI
E-mail: minanari@mercubuana.ac.id

Abstract:
Financial distress is the stage of declining financial condition that occurs in a company prior to bankruptcy or liquidation (Platt & Platt 2002). The company can get out of this financial difficulty if the company has a strong determination to keep running its business even though it is in financial difficulty, on the condition that the company must really manage finances very carefully, thoroughly and precisely if this can be appropriately maintained. This study aims to examine the effect of Managerial Ownership, Return On Equity, Debt to Assets Ratio and Current Ratio on Financial Distress. The research object is property and real estate companies listed on the Indonesia stock exchange in 2009 – 2019. The total sample used in the study is 14 companies. The method was purposive sampling and a total sample of 35 annual report data. The analysis technique used in this study was the classical assumption test and multiple regression analysis. Based on the results of the analysis show that the profitability ratio as measured by Return On Equity (ROE) has a positive effect and the leverage ratio as measured by the Debt to Asset Ratio (DAR) has a negative effect on financial distress. Meanwhile, managerial ownership has no effect on financial distress.

Keywords: Managerial Ownership, Profitability Ratio, Leverage Ratio, Financial Distress.

Cite this as: MINANARI, M. (2022) "The Influence Of Managerial Ownership, Profitability And Leverage On Financial Distress." International Journal of Environmental, Sustainability, and Social Sciences, 3 (2), 351 – 358.

INTRODUCTION

Financial distress is the stage of declining financial condition that occurs in a company prior to bankruptcy or liquidation (Platt & Platt 2002). The company can get out of this financial difficulty if the company has a strong determination to keep running its business even though it is in financial difficulty, on the condition that the company must really manage finances very carefully, thoroughly and precisely if this can be appropriately maintained. Consistently and gradually paying off debt, the company will get out of financial trouble. Short-term financial difficulties are temporary and not so severe. But if this kind of difficulty is not handled, it can develop into an insolvable difficulty. If they are not solvable, the company can be liquidated or reorganized. Liquidation is chosen if the value of the liquidation is greater than the company's value if it is continued. Bankruptcy analysis was conducted to obtain an early warning of bankruptcy (early signs of bankruptcy). The earlier the signs are known, the better management can make improvements. Creditors and shareholders can make preparations to overcome various bad possibilities. (Hanafi and Halim, 2014:260-261). According to Law Number 37 of 2004 concerning Bankruptcy and Postponement of Debt Payment Obligations, the House of Representatives ratified. The process of resolving Indonesian bankruptcy cases is carried out in the Commercial Court (Court) within the general court environment.

According to (Brigham, 2012: 2-3) Failure of Signal Theory (Signalling Theory), a signal or signal is an action taken by the company to give the economy (Economic Distressed) is a condition where the company loses money or the company income is unable to cover its own costs, meaning this the rate of profit is less than the cost of capital or the present value of the company's cash flows is less than liabilities. Failure occurs when the actual cash flow of the company is far below the expected cash flow. Financial Distress is a company condition where funds are in difficulty, both in terms of funds in terms of cash or terms of working capital. Some asset-liability management plays a very important role in the arrangement to prevent financial failure. Financial failure can also be interpreted as insolvency that distinguishes between the cash flow basis and the stock basis.

Researchers chose property and real estate companies listed on the Indonesia Stock Exchange as objects of research because property and real estate companies are national in scale. Research on economic growth can sometimes go up and down over time. This is because researchers are interested in finding out its effect on financial difficulties. The purpose of this study is to determine and analyze the effect of managerial ownership, return on equity and debt to assets ratio on financial distress.

Signaling theory. Clues to investors on how management views the company's prospects. This signal is in the form of information about what management has done to realize the owner's wishes. Information released by the company is important because it influences the investment decisions of parties outside the company. Such information is important for investors and business people to essentially present information, notes or descriptions, both for past, present and future conditions for survival. Signaling theory explains why companies have the urge to provide financial statement information to external parties. The company urges to provide information because there is information asymmetry between the company and outsiders because the company knows more about the company and its future prospects than outside parties (investors and creditors). Lack of information to outsiders about the company causes them to protect themselves by charging a low price for the company. Firms can increase firm value by reducing information asymmetry. (Scott and Brigham, 2008).

This signaling principle teaches that every action contains information. This is due to the existence of asymmetric information. Information asymmetry is a condition where one party has more information than the other party. For example, the company's management has more information than investors in the capital market. Factors in the state and position of the company must be included in the stages of the company's life cycle so that by better understanding the position of the stages of the company's life cycle, the use of financial statements can determine the company's accounting information and how it affects the company. (Brightman, 2001:36).

Emphasize the importance of information issued by the company to the investment decisions of parties outside the company. Based on signal theory, if managers expect the company's growth in the future at a high level, they will give signals to investors through financial statements (Sidabalok et al., 2015). The relationship between signaling theory and financial ratios is that information signals from a company can be shown by analyzing the financial statements that can explain information about the company. (Fitriana et al., 2016). Companies with good management will encourage external parties or the public, and the information submitted will be an added value in informing the condition of the company operating well.

Grover Score (G-Score). Financial distress can be described between two extreme points, namely short-term liquidity difficulties (the mildest) to insolvability (the most severe). Short-term financial difficulties are usually temporary but can develop to be severe. Bankruptcy analysis is useful because bankruptcy can make companies take the necessary anticipation. Usually, relatively high bankruptcies are avoided or minimized until the company's financial statements. Rating agencies (if any) can also be a source of bankruptcy information. (Hanafi and Halim 2014: 272). Financial distress is a stage of decreasing financial condition before bankruptcy which starts from the company's inability to fulfill its obligations, especially short-term obligations, including liquidity obligations. Financial distress is a broad concept consisting of several situations where a company faces financial difficulties. The general term to describe the situation is bankruptcy, failure. (Nasution, 2019).

Managerial ownership. It is defined as share ownership owned by management. Managerial ownership in this study is measured by the percentage level of ownership by the board of directors and the board of commissioners. The ownership structure is one of the factors that can affect the company's condition in the future. The percentage of managerial ownership in property and real estate companies is very small, and perhaps there is no awareness from the directors or commissioners who are interested in their own shares. Managerial ownership can reduce agency problems that arise in a company. The greater the proportion of ownership of the company by management (directors or commissioners), the greater the ownership by management, the greater the responsibility of the management in managing the company. The owner as the manager runs the company as well as possible to increase effectiveness and reduce work fraud within the company. (Hastuti, 2014).

Profitability. Return on equity (ROE) measures the company's ability to generate profits based on specific share capital. This ratio is a measure of profitability from the perspective of shareholders and this ratio does not take into account dividends or capital gains for shareholders. Return on equity is influenced by return on assets and the level of corporate financial leverage. (Hery,2016:192). The ability to earn a profit can be measured from its own capital or from all funds invested in the company. A profitability ratio is a ratio to assess the company's ability to seek profit. This ratio also provides a measure of the level of management effectiveness of a company. This is indicated by the profit generated from sales and investment. (Adhi, 2017).

Leverage. The debt to assets ratio is the ratio used to measure the ratio between total debt and total assets. The ratio is used to measure how much the company's assets are financed by debt or how much the company's debt affects asset financing. If the debt-to-asset ratio is high, this will reduce the company's ability to obtain additional loans from creditors because it is feared that the company will not be able to pay off its debts with its total assets. (Hery, 2016: 166).

The Effect of Managerial Ownership on Financial Distress. According to Hastuti (2014), managerial ownership can reduce agency problems that arise in a company. The more significant the proportion of ownership of the company by management (directors or commissioners), the greater the ownership by management, the greater the responsibility of the management in managing the company. The owner as the manager runs the company as well as possible to increase effectiveness and reduce work fraud within the company. Hastuti (2014) has conducted research related to managerial ownership, which states that managerial ownership (KM) has an effect on financial distress. The more significant the proportion of ownership of the company by management (directors or commissioners), the greater the ownership by management, the greater the responsibility of the management in managing the company. The owner as the manager runs the company as well as possible to increase effectiveness and minimize the threat of financial distress. H1: Managerial Ownership has a positive effect on Financial Distress.

Effect of Profitability on Financial Distress. A profitability ratio is a ratio to assess the company's ability to seek profit. You could say the profitability ratio is a measurement of how able a company can make a profit. The use of profitability ratios can be done by using comparisons between the various components in the financial statements, especially the balance sheet financial statements and the income statement. Measurements can be made for several operating periods. And the measurement results can be used as a management performance evaluation tool, failure or success can be used as reference material for profit planning in the coming period. (Kasmir, 2015:196-197). The research results of Widati and Pratama (2015) prove that the profitability ratio (ROE) has a significant effect on financial distress by showing that the high return on equity of the company, the less likely the company is to experience financial distress. H2: Leverage has a positive effect on Financial Distress.

Influence of Debt to Assets Ratio on Financial Distress. The debt to assets ratio is the ratio used to measure the ratio between total debt and total assets. The ratio is used to measure how much the company's assets are financed by debt or how much the company's debt affects asset financing. If the debt-to-asset ratio is high, this will reduce the company's ability to obtain additional loans from creditors because it is feared that the company will not be able to pay off its debts with its total assets. (Hery, 2016: 166). Research related to Leverage (DAR) has been conducted by Septiani and Dana (2019), proving that DAR significantly affects financial distress. Showing a high DAR always has a high probability of bankruptcy and low. This is because companies that have high debt levels can fulfill their asset purchases and increase company profits so that companies avoid financial distress. H3: The debt to Assets Ratio has a positive effect on Financial Distress.

METHODS

Research Time and Place. The time needed to complete this research is two to three months after all data has been collected. The type of data used is secondary data. The secondary data source comes from annual financial reports on property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2009 to 2019, accessed through the www.IDX.co.id website.

Population and Sample. The population is a collection of research subjects or something that focuses on research. The population in this study are all Property and Real Estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2009 – 2019. The sample is part of the selected population and represents the selected population and represents population. The sampling technique used is purposive sampling is a technique of determining the sample with specific considerations or criteria and obtained a sample of 35 research data.

Data collection technique. Data collection techniques are carried out by collecting secondary data where the data obtained are not directly from the object but other sources. The data in this study were obtained from the official website of the Indonesia Stock Exchange, namely www.idx.com and the official website of each company. This study also conducted searches from various journals, articles and reference books as a reference in this research.

RESULT AND DISCUSSION

Descriptive Statistics Test Results. Descriptive statistics provide an overview of data that can be seen from the maximum, minimum, average (mean) and standard deviation values of the data. The results of the descriptive statistical test are as follows:

	Glover	KM	ROE	DAR
Mean	-0.161800	0.371429	-0.054743	0.505743
Median	-0.086000	0.000000	0.010000	0.482000
Maximum	-0.006000	1.000000	0.583000	1.839000
Minimum	-0.807000	0.000000	-3.0800000	0.167000
Std. Dev.	0.181427	0.490241	0.553164	0.291758
Skewness	-1.910052	0.532181	-4.807022	2.921747
Kurtosis	6.593387	1.283217	27.16032	13.74890
Jarque – Bera	40.11238	5.950309	986.0535	218.2910
Probability	0.000000	0.051040	0.000000	0.000000
Sum	-5.663000	13.00000	-1.916000	17.70100
Sum Sq.Dev.	1.119134	8.171.429	10.40369	2.894181
Observations	35	35	35	35

Source: Eviews 11 output

Panel Data Regression Model Selection

Test Chow

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.

Cross-section F	5.796000	(4.27)	0.0017
Cross-section Chi-square	21.695079	4	0.0002

Source: Eviews 11 output

Hausman test

Correlated Random Effects – Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	8.419124	3	0.0381

Source: Output Eviews 11

Simultaneous Significance Test Results (Test F)

R-square	0,794918	Mean dependent var	-0.161800
Adjusted R-squared	0.775071	S.D dependent var	0.181427
S.E of regression	0.086045	Akaike info criterion	-1.960688
Sum squared resid	0.229515	Schwarz criterion	-1.782934
Log-likelihood	38.31205	Hannan-Quinn criter	-1.899328
F-statistic	40.05293	Durbin-Watson stat	1.314653
Prob(F-statistic)	0.000000		

Source: Output Eviews 11

Hypothesis:
H0: there is no significant effect between the variables KM, ROE and DAR simultaneously on financial distress.
H1: there is a significant effect between the variables KM, ROE and DAR simultaneously on financial distress. Based on the results of the Eviews output, the calculated F value is 76,43629, while the F table with a level of = 5% is 3.82. Then it is also seen with a probability of 0.000, which is much smaller than 0.05, so that H0 is rejected. So it indicates that the regression model of Managerial Ownership (KM), Profitability (ROE), Leverage (DAR), together (simultaneously), have a significant effect on Financial Distress (G-Score).

Individual Parameter Significant Test Results (T-Test)

Variable	Coefficient	S td. Error	t- Statistic	Prob
C	0.083660	0.037677	2.220457	0.0338
KM	0.008890	0.032529	0.273290	0.7864
ROE	0.073833	0.028493	2.591223	0.0145
DAR	-0483883	0.057470	-8.419718	0.0000

Source: Output Eviews 11

Based on the results of the T-test in the table above, it can be concluded that:

a) Effect of Managerial Ownership (KM) on Financial Distress
Variable X1, Managerial Ownership (KM), has an at-count value of 1.170 with a significant probability of 0.273. this shows a significant probability far above 0.05 (0.7864 > 0.05). So this shows that H1 is rejected, which means that the KM variable does not affect financial distress.

b) The Effect of Profitability (ROE) on Financial Distress
Variable X2, Return On Equity (ROE), has an at-count value of 2.591 with a significant probability of 0.0145. This shows a significant probability below 0.05 (0.0145 < 0.05). So this shows that H2 is accepted, which means that the ROE variable has a significant positive effect on financial distress.

c) Effect of Leverage (DAR) on Financial distress

Variable X3, Debt to Asset Ratio (DR), has an at-count value of -8.419 with a significant probability of 0.000. this shows a significant probability far below 0.05 (0.000 < 0.05). So this shows that H3 is accepted, which means that the DAR variable has a significant negative effect on financial distress.

Effect of Managerial Ownership on Financial Distress. Managerial ownership has no effect on financial distress. The greater the managerial ownership in the company, the management will work harder to improve its performance because management has a responsibility to the interests of shareholders, who are none other than itself, to reduce financial risks that may occur in the company. This is because the high level of managerial ownership will improve its performance because management has responsibility for the interests of shareholders who are themselves and are more careful in determining policies. High enough managerial ownership will unite the interests of shareholders and managers to reduce the potential for financial distress. The results of this study are in line with Damayanti et al. (2017), which state that Managerial Ownership (KM) has no effect on financial distress. This illustrates that if the company has large managerial agency costs, it includes company managers who tend to use company resources exploitatively to fulfill their goals, if this happens continuously, it can cause instability of company resources and can cause financial conditions to decline. Moreover, increase the occurrence of financial distress.

Effect of Return on Equity on Financial Distress. Return on Equity (ROE) has a positive effect on financial distress. Return On Equity to measure the rate of return on investment for shareholders. With the value of Return On Equity, which tends to be high, the return on equity means that the company has high profits, with high corporate profits, the company can fulfill its obligations easily. Return on equity is a ratio that shows how much equity contributes in creating net income. The results of this study are in line with Widati, and Pratama (2015), which state that Profitability as measured by Return On Equity (ROE) has a positive effect on financial distress. The higher the equity obtained, the higher the profit earned, it is also possible for funds to be idle, unused, or company funds used as needed, if this cannot be observed, it can be ascertained that the company can experience financial distress.

Effect of Debt to Asset Ratio on Financial Distress. Debt to Asset Ratio (DAR) has a negative effect on financial distress. This ratio is used to measure how much the company's debt affects asset financing. If the amount of debt is higher, it will have an impact on the company in obtaining loans from creditors because it is feared that the company will not be able to pay off debts with total assets owned. Therefore, it can be said that the higher the Debt to Asset Ratio of a company, the higher the possibility of the company experiencing financial distress.

The results of this study are in line with the research of Septiani and Dana (2019), a high DAR value does not always have a high probability of bankruptcy but is also low. This is because companies that have high debt levels that can be appropriately used will be able to fulfill the purchase of assets and increase company profits and be able to pay the company's fixed costs.

CONCLUSION

a) Managerial Ownership has no effect on Financial Distress obtained by property and real estate companies for the 2009-2018 period. High enough managerial ownership will unite the interests of shareholders and managers to reduce the potential for financial distress.
b) Profitability measured by Return On Equity (ROE) has a significant positive effect on Financial Distress obtained by property and real estate companies for the 2009-2018 period. The higher the equity obtained, the higher the profit earned, it is also possible for funds to be idle, unused, or company funds used as needed, if this cannot be observed, it is certain that the company will experience financial distress.
c) Leverage measured by the Debt to Asset Ratio (DAR) has a significant negative effect on Financial Distress obtained by property and real estate companies for the 2009-2018 period. Because companies that have high debt levels can be appropriately used will be able to fulfill

the purchase of assets and increase company profits and be able to pay the company's fixed costs.

Suggestion, Based on the research results and conclusions, the following suggestions can be given:

a) For Issuers (Companies)
Because more and more companies in the same field will create intense competition, innovation and breakthroughs are needed. Companies should be able to improve performance to get higher profits. Profits that rise will attract investors to invest their capital. And the more people who are interested in becoming investors in a company, the stock price will rise.
b) For Investors
For investors or potential investors, before starting to invest, it would be better to find out the company's financial condition that we will choose. By looking at a company's financial statements by observing the company's profits and debts. If more debt means the company is financed by debt. We recommend that you choose a company that has high assets and high profits as well. So that investors can invest in the right company and not feel anxious.
c) For Further Researchers
For further researchers who can improve the shortcomings that exist in this study it is expected to choose variables other than internal and can further develop research with other factors outside this research.

REFERENCES

Andina, N. F. (2016). Pengaruh Penerapan Good Corporate Governance terhadap Financial Distress. Jurnal Ilmiah Akuntansi Vol.1 No.2, Hal 133-150. https://doi.org/10.23887/jia.v1i2.9989

Brigham, E. F. (2011). Dasar-dasar Manajemen Keuangan terjemahan. Edisi 10. Jakarta: Salemba Empat .

Dian P. A, .. &. (2018). Analisis Perbandingan Metode Altman (Z-Score), Springate (S-Score), dan Zmijewski (X-Score) dalam Memprediksi Kebangkrutan Perusahaan Tekstil dan Garmen yang terdaftar di Bursa Efek Indonesia. Jurnal Administrasi Bisnis (JAB) Vol.60 No.1.

Eva, L. S. (2016). Rasio Keuangan dalam Memprediksi Kebangkrutan Perusahaan Pertambangan Batubara. Equity Universitas Mulawarman Samarinda Vol 20 No.2.

Ghozali, I. (2018). Aplikasi Analisis Multivariate Dengan Program SPSS. Semarang: Universitas Diponegoro.

Githa A.P.S, .. Y. (2017). Analysis of Effect of Good Corporate Governance Financial Performance and Firm Size on Financial Distress in Property and Real Estate Company lised BEI. . Fakultas Ekonomika dan Bisnis Universitas Pandanaran Semarang.

Halim, M. H. (2015). Analisis Laporan Keuangan edisi tujuh . Yogyakarta: UPP STIM .

Hasan, E. d. (2018). Penggunaan Rasio Keuangan dan Good Corporate Governance untuk memprediksi Financial Distress. Jurnal Reviu Akuntansi dan Keuangan Vol. 8 No. 2. https://doi.org/10.22219/jrak.v8i2.34

Hery. (2016). Analisis Laporan Keuangan . Jakarta: Gramedia.

Irsyad M, A. F. (2016). Pengaruh Good Corporate Governance terhadap Financial Distress. e-Proceeding of Management Vol.5 No.2.

Kasmir. (2015). Analisis Laporan Keuangan Edisi Kesatu, Cetakan Kedelapan . Jakarta: Raja Grafindo Persada.

Khirstina C, .. &. (2018). Financial Distress pada Perusahaan sektor Properti Go Public di Indonesia. Seminar Nasional Pakar ke 1.

Kristina, N. I. (2018). Pengaruh Risk Profile, Good Corporate Governance, Earnings, dan Capital terhadap Prediksi Financial Distress pada Bank Perkreditan Rakyat. Permana Vol. IX No. 2.

Made R. C. P, .. E. (2017). Pengaruh Struktur Corporate Governance dan Ukuran Perusahaan terhadap Kesulitan Keuangan pada Perusahaan Property dan Real Estate yang terdaftar di Bursa Efek Indonesia. e-Journal S1 Akuntansi Vol.8 No.2. https://doi.org/10.36448/jak.v8i1.825

Nasution, S. A. (2019). Faktor yang Mempengaruhi Kondisi Financial Distress Perusahaan Property dan Real Estate. Riset dan Jurnal Akuntansi Vol.3 No.1. https://doi.org/10.33395/owner.v3i1.97

Ni Wayan A, .. &. (2019). Pengaruh Rasio Keuangan Pada Financial Distress Perusahaan Ritel Yang Terdaftar di Bursa Efek Indonesia. E-Jurnal Akuntansi Universitas Udayana Vol.26. 251 -280. https://doi.org/10.24843/EJA.2019.v26.i01.p10

Rangga P.A, .. R. (2017). Pengaruh Good Corporate Governance, Leverage, Profitabilitas, dan Ukuran Perusahaan terhadap Financial Distress pada Perusahaan barang Konsumsi yang terdaftar di Bursa Efek Indonesia. Jurnal Ekonomi dan Bisnis Dharma Andalas Vol.19 No.1.

Rika A, .. R. (2017). Analisis Rasio Likuiditas, Profitabilitas, dan Solvabilitas Untuk Memprediksi Kondisi Financial Distress Pada Perusahaan Manufaktur di BEI. Jurnal Riset Akuntansi Vol. 1 No. 1.

S, S. (2018). Analisis Prediksi Kebangkrutan Perusahaan dengan menggunakan Metode Altman Z-Score pada Perusahaan Sektor Perkebunan yang terdaftar di Bursa Efek Indonesia. Jurnal Ilman. Vol. 6 No. 2. 51-61. https://doi.org/10.32502/jab.v2i1.1165

Savera H, .. &. (2017). Pengaruh Corporate Governance terhadap Financial Distress. Jurnal Administrasi Bisnis (JAB) Vol. 60 No. 2.

Verani C, .. E. (2017). Analisis Rasio Keuangan untuk Memprediksi Kondisi Financial Distress pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. Jurnal Akuntansi Maranatha Vol. 9 No. 2, Hal 137 - 145. https://doi.org/10.28932/jam.v9i2.481