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THE INFLUENCE OF FINANCIAL PERFORMANCE, COMPANY SIZE, AND GOOD CORPORATE GOVERNANCE ON FINANCIAL DISTRESS

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Abstract

This study aims to determine and analyze the effect of financial performance, company size, and good corporate governance on financial distress in raw goods sector companies listed on the Indonesia Stock Exchange for the period 2020 - 2023. The independent variables studied are: (1) Profitability proxied by Return on Assets (ROA); (2) Liquidity proxied by Current Ratio (CR); (3) Leverage proxied by Debt to Equity Ratio (DER); (4) Company size proxied by Natural Logarithm of Total Assets; (5) Managerial Ownership; (6) Institutional Ownership; (7) Independent Board of Commissioners; and (8) Audit Committee. The dependent variable is Financial Distress with the Modified Altman Z-Score indicator. This study uses three theories as the basis of its research, namely agency theory, signal theory, and pecking order theory. This research is a causal quantitative research. The sampling technique used is purposive sampling. The data analysis used is logistic regression test by utilizing Statistical Package for Social Science (SPSS) v25 software. The results showed that the profitability variable had a significant negative effect on financial distress and the liquidity variable had a significant positive effect on financial distress. Meanwhile, the variables of leverage, company size, and managerial ownership, institutional ownership, independent board of commissioners, and audit committee have no effect on financial distress. The implications of this research are expected to contribute to expanding the literature on the effect of financial performance, company size, and good corporate governance (GCG) on financial distress. The limitations of this study are the sample coverage which only focuses on the raw goods sector, research variables, variable proxies (measuring instruments), and observation period. Further research is recommended to use a wider sample coverage to obtain more comprehensive results.

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INTRODUCTION

Every company, both large and small, faces challenges such as market fluctuations, regulations, and geopolitics. The inability to adapt can lead to a decline in financial performance, which if it continues will increase the risk of financial distress, which is the condition of the company's inability to meet financial obligations and an early sign of bankruptcy (Ningsih & Permatasari, 2019). The global strategy consulting service company Alvarez & Marsal (A&M) conducted research from 2019 to June 2023, resulting in findings that there were 44 percent of companies listed on the Indonesia Stock Exchange (IDX) experiencing increasingly fragile financial performance, where the raw goods sector was one of the sectors experiencing the highest pressure (Kurnia, 2024). The phenomenon of default in the raw goods sector has been experienced by PT Trinitan Metals and Minerals Tbk (PURE), which was sued for default in the amount of 182 billion rupiah on March 4, 2021 at the Cibinong Class 1 A District Court by Hakua Trading Co Ltd, a Japanese import-export company (Intan, 2021). Failure to fulfill matured obligations reflects that the PURE company is experiencing poor performance with illiquid conditions and has the potential to experience financial distress.

Table 1. Percentage of Companies on the IDX with Negative EPS in 2023

No.	Sector Name	Number of Companies with Negative EPS	Total number of companies in the sector	Percentage
1	Consumer Cyclicals	65	153	42,5%
2	Basic Materials	39	103	37,9%
3	Properties and Real Estate	35	93	37,6%
4	Technology	15	44	34,1%
5	Healthcare	11	33	33,3%
6	Infrastructures	21	67	31,3%
7	Transportation and Logistics	10	37	27,0%
8	Industrials	17	63	27,0%
9	Consumer Non-Cyclicals	29	125	23,2%
10	Energy	19	83	22,9%
11	Financials	22	105	21,0%

Source: Data processed, IDX Yearly Statistics 2023

Research conducted by Elloumi & Gueyié (2001), and reaffirmed by Platt & Platt (2002) resulted in findings that companies can be categorized as experiencing financial distress if they have negative earnings per share. Table 1 presents information in the form of the percentage of companies experiencing negative earnings per share (EPS) in each sector based on the IDX-IC (Industrial Classification) classification in 2023. The data from Table 1 shows that 37.9 percent of raw goods sector companies listed on the IDX experience negative EPS, which puts them in second place as the worst performing sector. One of the raw goods sector companies that showed negative earnings per share (EPS) during the observation period from 2020-2023 is Berlina TBK (BRNA) with a negative EPS value of 191 in 2020, negative 197 in 2021, negative 139 in 2022, and negative 83 in 2023 (https://www.idx.co.id).

Damodaran (2007) argues that there are three indicators that reflect the occurrence of financial distress, namely cash flow difficulties, the amount of debt owned is greater than the company's total assets (negative equity), and there are losses in the company's operational activities

for several years which have an impact on the decline in financial performance. Some companies in the raw goods sector show poor financial conditions, characterized by negative equity and allegations of poor governance. This shows the importance of studying financial distress.

Table 2. Raw Goods Sector Companies with Negative Equity in 2023

No	Company Name	Total Equity
1	PT Waskita Beton Precast Tbk (WSBP)	-IDR 664,494,091,554.00
2	Jakarta Kyoei Steel Works Tbk (JKSW)	-Rp 493,880,668,288.00
3	Tirta Mahakam Resources Tbk (TIRT)	-Rp 635,584,467,177.00
4	Eterindo Wahanatama Tbk (ETWA)	-Rp 412,627,905,083.00 (Q2)
5	PT HK Metals Utama (HKMU)	-Rp 69,880,678193.00 (Q1)

Source: Data processed, https://www.idx.co.id

Table 2 shows that there are companies in the raw goods sector that experience negative equity in 2023, including PT Waskita Beton Precast Tbk (WSBP) with an equity value of negative 664 billion rupiah, PT Jakarta Kyoei Steel Works Tbk (JKSW) with an equity value of negative 493 billion rupiah, and Tirta Mahakam Resources Tbk (TIRT) with an equity value of negative 635 billion rupiah. This indicates the risk of financial distress in the raw goods sector. Another factor that causes companies to experience financial distress is the weak implementation of a good corporate governance system. According to Indonesia Corruption Watch (ICW), the case of PT Timah Tbk (TINS), which is one of the companies in the raw goods sector, is a portrait of poor corporate governance (T. Natalia, 2024). PT Timah Tbk (TINS) conducted illegal tin ore mining and corruption committed by the company's directors.

Determinants of financial distress can be caused by financial and non-financial factors (Utami, 2021). The financial factors in this study are financial performance and company size. Furthermore, the non-financial factor in this research is good corporate governance. Financial performance is developed into three financial ratios which become independent variables, namely profitability, liquidity, and leverage ratios. Meanwhile, there are four components of GCG, namely managerial ownership, institutional ownership, independent board of commissioners and audit committee (Lindra et al., 2022). These four components are the independent variables that will be tested in this study.

Research related to factors that influence the occurrence of financial distress has been widely tested by previous researchers, but there are still inconsistencies or differences in results. According to Salim & Yanti (2023), profitability has a positive effect on financial distress, but in research Stepani & Nugroho (2023) produced findings that profitability has a negative effect on financial distress. Maximillian & Septina (2022) state that liquidity has a positive effect on financial distress, but Stepani & Nugroho (2023) argue that liquidity has a negative effect on financial distress. In research Dwiantari & Artini (2021), leverage has a positive effect on financial distress, but research Wijaya and Suhendah (2023) produces different findings, namely leverage has a negative effect on financial distress. Then, Salim & Dillak (2021) states that the company size variable has a positive effect on financial distress, but Wangsih et al., (2021) found different results, namely company size has a negative effect on financial distress.

Research conducted by Utami & Taqwa (2023) shows that managerial ownership has a positive effect on financial distress, while Nuraini et al. (2022) states that managerial ownership has a negative effect on financial distress. According to Theresa & Pradana (2022), institutional ownership has a positive influence on financial distress, while Ramadhanti & Subagyo (2022) produces a different relationship, namely institutional ownership has a negative effect on financial distress. Furthermore,

research Maronrong et al.(2022) resulted in the finding that the independent board of commissioners has a positive effect on financial distress, while Handoko & Handoyo (2021) stated that the independent board of commissioners has a negative effect on financial distress. Research by Ramadhanti & Subagyo (2022) shows that the audit committee has a positive effect on financial distress, while Putra & Wirawati (2024) found different results, namely the audit committee has a negative effect on financial distress,

This research is a development of previous research conducted by Wijaya and Suhendah (2023) , which in the study tested the consumer cyclicals sector and only focused on financial variables without involving the influence of other factors. The novelty in this study is that it tests the raw goods sector which is considered to be rarely researched, even though this sector has a large contribution to the national economy. In addition, this study adds other variables outside of financial factors by integrating the role of the GCG mechanism as a mitigation of financial distress risk. This study uses the 2020-2023 timeframe which is expected to produce up-to-date tests and reflect complex financial dynamics, including the impact of the COVID-19 pandemic and economic recovery, which provide a unique context in analyzing the risk of financial distress. This study uses the Altman Z-Score indicator that has been modified according to the context of companies in Indonesia, so that it will improve the accuracy of financial distress predictions, when compared to the original Z-Score model based on foreign data which is considered irrelevant.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory

Agency theory was developed by Jensen & Meckling (1976) to explain the relationship between the owner of capital (principal) and the manager of the company (agent). This relationship is often colored by potential conflicts of interest (agency conflict) due to differences in goals between the two parties. In the context of the company, capital owners want an optimal return on investment, while managers tend to prioritize personal interests, such as bonuses or compensation.

The relationship between agency theory and financial distress is the emergence of information asymmetry. Asymmetric information is a condition of unbalanced information distribution, where usually the manager (agent) who has more detailed information obtained about a matter than the principal (Safitri & Rokhayati, 2024). This can lead to opportunistic actions, such as manipulation of financial statements or excessive risk taking, which can worsen the company's financial condition to lead to financial distress. The imbalance of information and interests arising in a company can increase agency costs, such as supervision by the board of commissioners or audit committee, which in turn can affect the company's financial stability. The mechanism of good corporate governance (GCG) serves to minimize conflicts of interest through independent supervision (independent board of commissioners), ownership transparency (institutional ownership), and better control (audit committee). This mechanism of GCG can help reduce the risk of financial distress.

Signaling Theory

Signalling theory was developed by Spence (1973) which explains how information provided by a party (in this case, the company) can be used as a signal to other parties (investors or other stakeholders). In the context of companies, these signals are usually in the form of published financial and non-financial information, such as financial reports, policy announcements, or certain performance indicators.

The relationship between signaling theory and financial distress is that when a company has good financial performance, it will provide positive signals to investors and creditors, such as increased profitability, adequate liquidity, or good governance. These signals reflect the stability and

sustainability of the business, thus increasing market confidence and reducing the risk of financial distress. Conversely, companies that show a decline in performance, such as poor financial ratios (e.g. low ROA, CR, or high DER), may send negative signals that raise concerns of potential financial distress. This decline may lead to a loss of investor confidence, an increase in the cost of capital, or difficulty securing funding. Therefore, companies often report profitability gains more quickly as good news than when the company experiences losses which are considered to have an impact on reducing the value of the company (Ubwarin et al., 2021). Companies that have information asymmetry, as well as being in a financial distress situation may attempt to hide their true condition by manipulating the signals sent, such as non-transparent financial reports or earnings management actions (income smoothing) to avoid undesirable things such as decreasing share value, losing funding sources, and even intervention from regulators.

Pecking Order Theory

Pecking order theory was developed by Myers & Majluf (1984) to explain how firms choose their funding sources based on a hierarchy of preferences. This theory states that firms prefer internal funding (retained earnings) over external funding (debt or issuance of new shares) because the information costs associated with external funding are higher (Yasmi et al., 2023). In general, internal funding from retained earnings is the first choice or priority because it does not involve additional costs such as interest expense or a decrease in share value. If internal funding is insufficient, companies tend to choose debt because it is cheaper than issuing new shares. However, excessive use of debt can increase financial risk if it is not balanced with the consistency of profits generated. Furthermore, issuing new shares is the last option due to high issuance costs, potential dilution of ownership, and the company may lose information that is considered important and sensitive from the company's prospectus disclosure when IPO (Initial Public Offering).

Companies that are overly dependent on debt (high leverage) tend to face greater interest expenses. If operating cash flow is insufficient to cover interest and principal obligations, the risk of financial distress will increase. On the other hand, companies that are able to utilize internal funding efficiently tend to have a lower risk of financial distress because they are less dependent on external funding sources that are considered less profitable.

Profitability

Profitability is the company's ability to generate profits from its operations during a certain period. Profitability ratios reflect management efficiency in managing resources to achieve profits. According to Munawir (2010), the profitability ratio is one of the main indicators in assessing the company's financial performance, which also plays an important role in attracting investor interest and maintaining business sustainability (going concern).

Liquidity

Liquidity describes the company's ability to meet its short-term obligations that will soon be due (Hery, 2015). In other words, if the company can pay off its matured obligations in accordance with the agreed time, the company can be categorized as liquid.

Leverage

Leverage refers to the extent to which a company uses debt in its capital structure. Leverage reflects the relationship between funding sources derived from debt and equity, and is a key indicator to measure a company's financial risk. A high level of leverage indicates a heavy reliance on external funding, which can increase interest expense and default risk.

Company Size

Company size refers to the scale or size of the company which can be measured through various parameters such as total assets, total sales, or number of employees. In financial research, company size is often used to analyze its impact on the financial stability, competitive ability, and financial risk of the company. Large companies tend to have a better ability to diversify their business, so they are better able to deal with financial pressures than small companies.

Managerial Ownership

Managerial ownership refers to the percentage of shares owned by the management or management of the company, which includes members of the board of directors and commissioners. According to Jensen & Meckling (1976), share ownership by management is considered capable of reducing agency problems, especially conflicts of interest, because management has a direct incentive to improve company performance. The existence of managerial shares can trigger more active motivation from managers and create a sense of responsibility for the shares they invest in the company they manage.

Institutional Ownership

Institutional ownership is the proportion of total outstanding shares owned by business entities or institutions. The forms of institutions in question include financial institutions (insurance companies, mutual funds, banks, foundations, hedge funds, and pension funds), government institutions, private institutions, domestic and foreign institutions. The higher the institutional ownership, the more efficient the use of company assets. As a result, the amount of institutional ownership can minimize managerial waste (Fathonah, 2016).

The existence of institutional investors is considered to function as an effective and optimal monitoring mechanism for all decisions taken by management (Amaliyah & Herwiyanti, 2019). Company management must disclose information to stakeholders in a transparent, credible and accountable manner so as to minimize the possibility of agency conflict between the agent and the principal, which in turn is expected to reduce the risk of financial distress problems.

Independent Board of Commissioners

The independent board of commissioners is a board of commissioners that has no relationship with management, other members of the board of commissioners, or controlling shareholders, and is not involved in share ownership relationships or other affiliations that may affect its ability to act objectively and freely (National Committee on Governance Policy, 2006). The selection of independent commissioners is regulated in the Financial Services Authority Regulation (POJK) Number 33 / POJK.04 / 2014 concerning Directors and Board of Commissioners of Companies or Public Companies which states that the proportion of the board of commissioners must be at least 30 percent of the total members of the board of commissioners of the company.

The selection process of the board of commissioners is carried out at the General Meeting of Shareholders (GMS) based on recommendations from the Nomination and Remuneration Committee (KNR) which has met the applicable requirements and strict criteria from various aspects, including competence, experience, integrity, reputation, commitment, and independence. Fama & Jensen (1983) argue that independent commissioners have an important role because their position can mediate conflicts between managers, oversee management behavior, and provide objective advice and recommendations regarding management policies. Thus, the presence of independent commissioners can increase financial stability and reduce the risk of business failure.

Audit Committee

The Indonesian Audit Committee Association (IKAI) describes the audit committee as a group formed by the board of commissioners with the main task of overseeing the financial reporting process and the company's internal control system. Based on the Decree of the Chairman of the Capital Market Supervisory Agency and Financial Institutions (Bapepam and LK) Number: KEP-643/BL/2012 concerning the Establishment and Implementation Guidelines for the Audit Committee, each company is obliged to have an audit committee charter published on the company's website. The committee is formed with a minimum of three members, where the chairman of the audit committee serves as an independent commissioner. The remaining members are outsiders who are not affiliated with management, and at least one of them has knowledge in accounting and/or finance.

The audit committee has a vital purpose to ensure the quality of financial accounting and control systems, in the sense that this committee will ensure the company is managed in accordance with applicable regulations and laws. By monitoring and assessing the financial statements on a regular basis, the audit committee can assure shareholders of the accuracy and credibility of the information submitted by management.

Financial Distress

Financial distress is a gradual process of financial events characterized by a decline in financial condition before the company is liquidated or declared bankrupt (Platt & Platt, 2002). There are four terms that can describe the condition of financial distress, namely failure, insolvency, default, and bankruptcy (Altman et al., 2019). Preventive measures of financial distress can be analyzed using prediction models that have been formulated by previous researchers. In essence, this model aims to identify companies that are at risk of bankruptcy, debt default, or face other financial instability. In this study, the financial distress indicator used is the Altman Z-Score which has been modified to suit companies in Indonesia so that it is considered more relevant.

Effect of Profitability on Financial Distress

Profitability ratio measures the company's ability to generate profits from available resources. According to signalling theory, high profitability can increase trust and provide positive signals to the market, creditors, and investors because management is considered to have used the company's assets efficiently to generate optimal profits, thereby reducing the risk of financial distress. According to agency theory, a high level of profitability tends to reduce conflicts between management (agent) and capital owners (principal), because it reflects management's ability to manage resources well to achieve company goals. Companies with low profitability ratios are more vulnerable to unstable market conditions, while companies with high profitability have sufficient financial reserves to cope with fluctuations in income.

Research by Dwiantari & Artini (2021) produced findings that profitability (ROA) has a significant negative effect on financial distress. A high ROA indicates management efficiency in generating profits, which reduces the risk of financial distress. Adielyani & Pangestuti (2023) state that a company is less likely to experience financial distress if it is able to generate maximum revenue or profit. Based on theory and previous studies, the first hypothesis that can be formulated is:

H_1: Profitability has a negative effect on financial distress

Effect of Liquidity on Financial Distress

Liquidity reflects the company's ability to meet its short-term obligations using available current assets. According to signalling theory, a high level of liquidity provides a positive signal to investors and creditors that the company has sufficient ability to meet its obligations. This signal increases market confidence and helps companies reduce financial stress. According to agency theory, adequate liquidity helps reduce conflicts between management and creditors by showing that the company has sufficient resources to pay off its short-term obligations, thereby lowering the risk of default.

Research by Feanie & Dillak (2021) concluded that liquidity (CR) has a negative influence on financial distress. Then, Ikpesu (2019) states that low liquidity is often one of the early indicators of default risk and can lead to financial distress. Based on theory and previous studies, the second hypothesis that can be formulated is:

H_2: Liquidity has a negative effect on financial distress

Leverage Effect on Financial Distress

Leverage reflects the extent to which a company uses debt to fund its operations. According to agency theory, high leverage can increase conflicts between shareholders and creditors. Shareholders may encourage greater risk-taking, while creditors prefer stability. This conflict can worsen the company's financial condition. According to pecking order theory, companies with high leverage tend to use debt as the main source of funding. Dependence on debt increases fixed costs in the form of interest expenses that must be paid, so that it will increase the risk of default and financial distress in the event of unstable market conditions and experiencing fluctuations in income or insufficient profits generated.

Research by Isayas (2021) concluded that leverage (DER) has a significant positive effect on financial distress. Companies with high leverage are more at risk of experiencing financial stress due to the high fixed costs that must be paid in the form of interest expense on debt loans. Rissi & Herman (2021) states that companies can be at risk of financial distress if they have high debt (leverage) and do not produce maximum sales and profit consistency. Based on theory and previous research, the third hypothesis that can be formulated is:

H_3: Leverage has a positive effect on financial distress

The Effect of Company Size on Financial Distress

Company size refers to the scale or size of a company, which can be measured using the logarithm of total assets. According to signalling theory, a large company size provides a positive signal to investors and creditors that the company has financial strength in various conditions of market fluctuations, risk diversification capabilities, and better operational stability. This can reduce the risk of financial distress. According to agency theory, large companies usually have a more complex governance structure, so that supervision of management is tighter. Large companies will usually be more responsible to stakeholders, one of which is by disclosing detailed and quality financial statement information (Putri & Erinos, 2020). This can help minimize information asymmetry and the risk of adverse decisions for companies that can trigger financial stress.

Research by Salim & Yanti (2023) concluded that company size has a significant negative effect on financial distress. Smaller company sizes have a higher risk of financial distress due to limited resources and lack of access to capital markets. Adityaningrum et al. (2024) stated that companies with large total assets are considered to have good management capabilities in overcoming complex situations and able to guarantee healthy financial conditions. Based on theory and previous studies, the fourth hypothesis that can be formulated is:

H_4: Company size has a negative effect on financial distress

The Effect of Managerial Ownership on Financial Distress

Managerial ownership refers to the percentage of company shares owned by management (directors or managers). According to agency theory, managerial ownership can reduce the conflict of interest between management (agent) and shareholders (principal). Management who own company shares are more motivated and responsible for ensuring that the company remains in a healthy financial condition because they have a direct incentive and the company's performance will have an impact on the value of the shares they own. According to signalling theory, a high level of managerial ownership provides a positive signal to the market that management will be more careful in making decisions to create good company prospects, which can increase investor confidence. Thus, this can reduce the risk of financial distress.

Research by Nuraini et al. (2022) and Khurshid et al. (2019) produced findings of a negative effect of managerial ownership variables on financial distress, because the amount of managerial share ownership can align the interests between the agent and the principal, namely obtaining maximum profit. Based on theory and previous studies, the fifth hypothesis that can be formulated is:

H_5: Managerial ownership has a negative effect on financial distress

The Effect of Institutional Ownership on Financial Distress

Institutional ownership refers to the number of shares owned by institutions (legal entities), such as financial institutions (insurance companies, mutual funds, banks, foundations, hedge funds, and pension funds), government institutions, private institutions, domestic and foreign institutions. According to agency theory, institutional ownership can reduce conflicts of interest between management and shareholders. The amount of institutional ownership will improve corporate governance (GCG) by providing more motivation for management to work optimally by making the best strategic decisions, increasing information transparency and management accountability (Lin & Fu, 2017). According to signalling theory, institutional ownership provides a positive signal to the market that the company is supervised by competent investors and has expertise in assessing risks that can help reduce uncertainty, thereby increasing the confidence of other investors and creditors.

Research by Ramadhanti & Subagyo (2022) shows that institutional ownership has a significant negative effect on financial distress, because the monitoring process becomes more effective in controlling manager performance. Natalia & Rudiawarni (2022), state that the existence of institutional ownership can influence company management decisions. Management will be more careful, and decisions taken will focus on company goals, and can reduce fraud or opportunistic behavior, so that this will reduce the risk of financial distress. Based on theory and previous research, the sixth hypothesis can be formulated as follows:

H_6: Institutional ownership has a negative effect on financial distress

Effect of Independent Board of Commissioners on Financial Distress

An independent board of commissioners is a member of the board of commissioners who has no affiliation with company management, major shareholders, or other parties that could affect its independence. According to agency theory, an independent board of commissioners acts as an effective oversight mechanism to reduce conflicts of interest between management (agent) and shareholders (principal). This independent oversight can help reduce adverse decision making and mitigate financial risk. According to signalling theory, the presence of a strong independent board of commissioners provides a positive signal to the market that the company has an effective supervisory

system. The independent board of commissioners can function as a perfector regarding the efficiency and effectiveness of company operations by directing directors (agents) to more optimal actions through advice and recommendations.

Research by Nursiva & Widyaningsih (2020) resulted in the finding of a significant negative effect of the independent board of commissioners variable on financial distress, because they are able to provide objective and transparent supervision of management behavior, so that it will improve company performance. Abrori et al. (2023) states that the independent board of commissioners can ensure that the company avoids poor performance through its independence in making judgments without pressure from certain parties. Based on theory and previous research, the seventh hypothesis can be formulated as follows:

H_7: The independent board of commissioners has a negative effect on financial distress

Effect of Audit Committee on Financial Distress

The audit committee is an institution formed by the board of commissioners to support efforts to oversee financial reports, internal control systems, and corporate governance principles. According to agency theory, the audit committee acts as a monitoring mechanism to reduce conflicts of interest between management and shareholders. The audit committee monitors and evaluates the financial reporting process to ensure that the company's financial statements reflect its true condition. This oversight helps detect financial risks early, which can prevent financial distress. According to signaling theory, the existence of a well-functioning audit committee provides a positive signal to the market that the company has a strong internal control system. The audit committee is considered capable of ensuring the accuracy and integrity of financial statements, as well as preventing practices that can threaten the company's financial stability such as fraud and the dissemination of information that is considered vital and important.

Research by Masak & Noviyanti (2019) shows that the existence of an effective audit committee has a significant negative effect on financial distress, because they are able to improve the quality of internal control and prevent manipulative actions. The audit committee can minimize the occurrence of errors (misstatements) in the disclosure of financial statements, or they will ensure proper and accountable financial reporting, so as to strengthen the trust of stakeholders. Arrum & Wahyono (2021) state that the large size of the audit committee can produce maximum decisions to improve company performance. This is because each member can provide opinions from various perspectives according to their competence and experience. Active participation of audit committee members in providing effective arguments and solutions can reduce the risk of financial distress.

H_8: The audit committee has a negative effect on financial distress

RESEARCH METHOD

The type of research used is causal quantitative. This type aims to test the cause-and-effect relationship between the independent variable (financial performance, company size, and good corporate governance mechanism) and the dependent variable (financial distress). The population in this study are basic materials sector companies listed on the Indonesia Stock Exchange (IDX) in the 2020-2023 period. The sample determination used is purposive sampling technique, with a total of 81 companies included in the test criteria. The data source in this study is secondary data where the data collection method is carried out by means of documentation. The data used are company financial reports and are obtained through the IDX website, the official websites of related companies, and financial data provider platforms such as Stockbit or RTI Business.

Conceptual and Operational Definition of Variables

Dependent Variable (Y)

Financial Distress

The dependent variable financial distress is measured using the Altman Z-score method which has been modified to adjust to companies in Indonesia to make it more accurate and relevant. The prediction model equation is carried out by conducting step-wise multiple discriminate analysis (MDA) to distinguish companies that are categorized as safe and distressed through SPSS software. The Altman Z-score prediction model equation obtained is as follows:

Z = - 0.190 + 6.347A - 0.261B - 0.021C

Source: Nuraini et al. (2022)

Notes:
A = Earnings Before Interest and Taxes / Total Assets
B = Total Liabilities / Total Assets
C = Current Assets / Current Liabilities

The cut-off point used as a benchmark to categorize the condition of a company, namely if the Z value ≥ 0.000293 then the company is included in the healthy zone, while if the Z value < 0.000293 then the company is declared to be in a bad condition. Then, this variable uses a dummy variable in binary or dichotomous form, meaning that the variable is expressed in an artificial measure with only two categories, namely zero (0) if the company is in good health and one (1) if the company is indicated to be experiencing financial distress.

Independent Variable (X)

Profitability (X_1)

Profitability is a ratio used to assess how well a company performs in earning profits in a certain period. The higher the profitability value, the greater the profit generated by a company. Profitability is proxied using the Return on Assets (ROA) ratio. This ratio measures the effectiveness and efficiency of the company in generating expected profits by maximizing its assets.

$$\text{Return on Assets (ROA)} = \frac{\text{Laba Bersih Setelah Pajak}}{\text{Total Aktiva}} \quad \text{.....(1)}$$

Source: Cashmere (2019)

Liquidity (X_2)

Liquidity shows the company's ability to meet its short-term obligations. The higher the liquidity, the more easily liquid assets the company has to pay off maturing short-term debt and minimize the potential for default. Liquidity can be measured using the Current Ratio (CR), which is by comparing the company's current assets with its current liabilities.

$$\text{Current Ratio (CR)} = \frac{\text{Aktiva Lancar}}{\text{Kewajiban Lancar}} \quad \text{.....(2)}$$

Source: Cashmere (2019)

Leverage (X_3)

Leverage is a ratio that describes the extent to which the company uses debt to finance its business operations. The higher the leverage value, the greater the debt the company uses to run its business. Leverage can be measured using the Debt to Equity Ratio (DER), which is a ratio that shows the proportion of the company's debt to its liabilities.

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Kewajiban}}{\text{Total Ekuitas}} \quad \text{.....(3)}$$

Source: Cashmere (2019)

Company Size (X_4)

Company size is something that can be a measure of the size of a company by looking at various aspects, one of which is the company's total assets. The company size indicator used in this research is the natural logarithm of total assets (Ln total assets). Measurement of company size is often carried out using the logarithm of total assets to reduce the scale of differences between companies and avoid data distortion due to asset values that are too large (Kautsar, 2014) .

Managerial Ownership (X_5)

Managerial ownership is the proportion of shares owned by management in a company. The amount of this ownership will improve company performance because management will be responsible for their own capital, so that the decisions taken will be more well considered.

$$\text{Kepemilikan Manajerial (KM)} = \frac{\text{Jumlah Saham Milik Manajemen}}{\text{Total Saham Beredar}} \quad \text{.....(4)}$$

Source: Khurshid et al. (2019)

Institutional Ownership (X_6)

Institutional ownership is the proportion of share ownership by institutions, both foreign, domestic, private and government institutions in a company. The greater institutional ownership can improve the supervision and control system, so that it will minimize information asymmetry and also prevent opportunistic actions from managers (agents).

$$\text{Kepemilikan Institusional (KI)} = \frac{\text{Jumlah Saham Milik Institusi}}{\text{Total Saham Beredar}} \quad \text{.....(5)}$$

Source: Natalia & Rudiawarni (2022)

Independent Board of Commissioners (X_7)

The independent board of commissioners is a board that comes from outside the company that has no affiliation with the internal company. The greater the proportion of the independent board of commissioners, the smaller the risk of financial distress (Indarti et al., 2021).

$$\text{Dewan Komisaris Independen} = \frac{\text{Jumlah komisaris independen}}{\text{Total anggota dewan komisaris}} \quad \text{.....(6)}$$

Source: Handoko & Handoyo (2021)

Audit Committee (X_8)

The audit committee is a body formed by the board of commissioners to assist and oversee the performance of the board of directors, as well as ensure the quality of the financial statements it produces. The greater the number of audit committees, the less likely financial distress will occur (Putra & Wirawati, 2024). The audit committee can be measured by adding up the total audit committee members in a company (Arrum & Wahyono, 2021).

Data Analysis Technique

This study uses logistic regression analysis as a testing instrument, and by utilizing the Statistical Program for Social Science (SPSS) software which aims to process the data owned and produce a conclusion from testing the hypothesis that has been previously determined. According to Ghozali (2018), there are several requirements or steps that must be met in conducting logistic regression analysis to assess the quality of the data being tested, including: (1) Goodness of Fit Test (Model Accuracy Test); (2) Overall of Fit Test; (3) Determination Coefficient Test (Nagelkerke R Square); (4) Classification Matrix Test (2x2 Classification Table); and (5) Hypothesis testing (Wald).

RESULTS AND DISCUSSION

Goodness of Fit Test (Model Accuracy Test)

Hosmer and Lemeshow's Fit Test is used to test the null hypothesis that the analyzed data fits the model used. The null hypothesis cannot be accepted if the significance value is smaller than 0.05, which indicates that the model is not able to predict the value of the observations correctly and is considered bad.

Table 3. Goodness of Fit Test

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	2,681	8	0,953

Source: Data processed in 2025

Table 3 shows a significance value of 0.953> 0.050, meaning that the null hypothesis is accepted and the model fits the empirical data, and is able to accurately predict the observed value.

Overall of Fit Test

The Overall of Fit Test aims to determine the overall suitability of the model under study, whether the model compiled is able to explain the relationship between the variables studied appropriately. This test is carried out by comparing the difference in the initial -2 Log Likehood value (block number 0) with the final -2 Log Likehood value (block number 1). The greater the decrease in the final -2 Log Likehood value, the better the research model (Aritonang, 2013).

Table 4. Overall of Fit Test (Block 0: Beginning Block)

Iteration History			
Iteration		-2 Log Likelihood	Coefficients Constant
Step 0	1	387,474	-0,296
	2	387,473	-0,298
	3	387,473	-0,298

Source: Data processed in 2025

Table 5. Overall of Fit Test (Block 1: Method = Enter)

Iteration History											
Iterat.		-2 Log LL	Const.	Prof	Lik	Lev	UP	KM	KI	DKI	KA
Step 1	1	226,070	4,018	-20,117	0,082	0,177	-0,064	0,189	0,181	0,919	-0,873
	2	171,132	4,924	-40,991	0,168	0,152	-0,065	0,871	0,514	1,266	-1,161
	3	138,196	5,880	-70,506	0,287	0,068	-0,078	1,399	0,897	1,183	-1,234
	4	121,448	7,411	-107,352	0,438	-0,005	-0,083	1,631	1,235	0,451	-1,439
	5	116,318	8,867	-140,125	0,573	-0,049	-0,078	1,854	1,546	-0,546	-1,726
	6	115,727	9,626	-155,722	0,638	-0,064	-0,075	2,064	1,735	-1,113	-1,894
	7	115,717	9,755	-158,082	0,647	-0,065	-0,075	2,115	1,772	-1,207	-1,923
	8	115,717	9,758	-158,127	0,647	-0,065	-0,075	2,116	1,773	-1,209	-1,923
	9	115,717	9,758	-158,127	0,647	-0,065	-0,075	2,116	1,773	-1,209	-1,923

Source: Data processed in 2025

Table 5 shows the final -2 Log Likelihood value of 115.717 or a decrease of 271.757 from the initial -2 Log Likelihood value shown in Table 1 of 387.474. The decrease in the -2 Log Likelihood value indicates that the model formed is better and suitable (fit) for further testing.

Determination Coefficient Test (Nagelkerke R Square)

This test aims to measure the strength of the relationship between the two variables studied. The Nagelkerke R Square test ranges from zero (0) to one (1), where when the value approaches one, the model is increasingly able to predict the dependent variable.

Table 6. Test Coefficient of Determination (Nagelkerke R Square)

Model Summary			
Step	-2 Log Likelihood	Cox & Snell R Square	Negelkerke R Square
1	115,717[a]	0,616	0,827

Source: Data processed in 2025

Table 6 shows the Nagelkerke R Square value of 0.827 which means that the ability of the predictor or independent variables to explain the financial distress variable is 82.7 percent. Meanwhile, the remaining 17.3 percent is the influence of other variables or factors outside the model that can explain the dependent variable financial distress.

Classification Matrix Test (2x2 Classification Table)

Table 7. Classification Matrix Test (2x2 Classification Table)

Classification Table					
			Predicted		
			Z-Score		Percentage Correct
	Observed		FD	Non-FD	
Step 1	Z-Score	FD	111	10	91,7
		Non-FD	11	152	93,3
Overall percentage					**92,6**

Source: Data processed in 2025

The classification matrix test is used to evaluate model performance by identifying correct and incorrect predicted values. The 2x2 Classification Table presents a comparison between the results of the model estimates and the actual results. Table 7 shows the total accuracy or ability of the model as a predictor in this study which is 92.6 percent.

Hypothesis Test (Wald)

Table 8. Hypothesis Test (Wald)

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Profitability (X_1)	-158,127	24,664	41,103	1	0,000	0,000
	Liquidity (X_2)	0,647	0,181	12,856	1	0,000	1,911
	Leverage (X_3)	-0,065	0,219	0,088	1	0,767	0,937
	Company Size (X_4)	-0,075	0,143	0,273	1	0,602	0,928

Managerial Ownership (X_5)	2,116	2,806	0,569	1	0,451	8,299
Institutional Ownership (X_6)	1,773	1,636	1,175	1	0,278	5,889
Independent Board of Commissioners (X_7)	-1,209	2,865	0,178	1	0,673	0,299
Audit Committee (X_8)	-1,923	1,280	2,257	1	0,133	0,146
Constant	9,758	5,342	3,337	1	0,068	17294,032

Source: Data processed in 2025

Hypothesis testing is carried out to measure the extent to which the coefficient of each independent variable analyzed has significance. The Wald test was conducted to determine the effect of the independent variable on the dependent variable partially. The wald test in this study uses a 95 percent confidence level or a significance of 0.05. If the significance value is smaller than 0.05, the hypothesis cannot be rejected or there is a significant effect of the dependent variable on the independent variable.

The logistic regression model equation formed based on the information obtained from Table 8 is:

FD = 9.758 - 158.127X1 + 0.647X2 - 0.065X3 - 0.075X4 + 2.116X5 +1.773X6 - 1.209X7 - 1.923X8 + ε

Explanation of hypothesis testing results based on information obtained from Table 8, as follows:

The profitability variable (X1) has a coefficient of -158.127 and a significance value of 0.000. This indicates that the profitability variable has a significant effect on financial distress with a negative direction because the significance value is smaller than 0.05. So that the first hypothesis **is accepted**.

The liquidity variable (X2) has a coefficient of 0.647 and a significance value of 0.000. This indicates that the liquidity variable has a significant effect on financial distress in a positive direction because the significance value is smaller than 0.05. So the second hypothesis **is rejected**. H2 formulates a negative effect of the liquidity variable on financial distress.

The leverage variable (X3) has a coefficient of -0.065 and a significance value of 0.767. This indicates that the leverage variable has no effect on financial distress because the significance value is greater than 0.05. So that the third hypothesis **is rejected**.

The firm size variable (X4) has a coefficient of -0.075 and a significance value of 0.602. This indicates that the company size variable has no effect on financial distress because the significance value is greater than 0.05. So the fourth hypothesis **is rejected**.

The managerial ownership variable (X5) has a coefficient of 2.116 and a significance value of 0.451. This indicates that the managerial ownership variable has no effect on financial distress because the significance value is greater than 0.05. So the fifth hypothesis **is rejected**.

The institutional ownership variable (X6) has a coefficient of 1.773 and a significance value of 0.278. This indicates that the institutional ownership variable has no effect on financial distress because the significance value is greater than 0.05. So the sixth hypothesis **is rejected**.

The independent board of commissioners variable (X7) has a coefficient of -1.209 and a significance value of 0.673. The results of this study indicate that the independent board of commissioners variable has no effect on financial distress because the significance value is greater than 0.05. So that the seventh hypothesis **is rejected**.

The audit committee variable (X8) has a coefficient of -1.923 and a significance value of 0.133. This indicates that the audit committee variable has no effect on financial distress because the significance value is greater than 0.05. So the eighth hypothesis **is rejected**.

Discussion

Effect of Profitability on Financial Distress

The results of the first hypothesis test show that the profitability variable has a significant effect with a negative direction on financial distress, which means that an increase in the profitability ratio as measured by Return on Assets (ROA) will reduce the possibility of the company facing the risk of financial distress. These results are in line with pecking order theory, which states that if the company is able to generate maximum profit, it will increase internal funding, so that the company no longer needs to look for other alternatives in the form of debt which is considered less profitable. In addition, these results also support signal theory. The more profitable a company will produce a positive signal for the company because investors assess that the company has a more secure sustainability and good prospects in the future, so that ultimately has an effect on increasing market value.

The findings in this study are in line with previous research conducted by Prasetya & Hindasah (2024), Stepani & Nugroho (2023), and Saleem et al. (2020) which reveal that the profitability ratio as measured by ROA has a negative effect on financial distress. However, the results of this study contradict the study conducted by Salim & Yanti (2023) which produces findings that profitability has a positive effect on financial distress and research Bachtiar & Handayani (2022) which shows that profitability has no effect on financial distress.

Effect of Liquidity on Financial Distress

The results of the second hypothesis test show that the liquidity variable has a significant effect with a positive direction on financial distress, meaning that the higher the liquidity ratio proxied by the Current Ratio (CR) will increase the risk of the company experiencing financial distress. These results reject the second hypothesis which states that liquidity has a negative influence on financial distress. This is because the high current ratio value indicates that the company only focuses on the short term and seems not aggressive in optimizing its current assets. The amount of current assets in the form of idle cash will reduce the opportunity to create new added value and can be seen as a failure in determining the company's financial strategy. The existence of excess idle cash shows the inefficiency of asset use, which should be utilized to expand and diversify businesses that have the potential to create other more promising benefits.

The high current assets in the form of a lot of inventory in the company indicate a slow and ineffective sales ability, which has the potential for financial distress in the future. When sales fall, it is likely that the profit earned will also be small, which will reduce the amount of dividends distributed. This will generate negative signals and worsen the company's image according to the perspective of investors or capital owners due to their dissatisfaction with the expected return on investment in the company.

The results of this study are in line with previous research conducted by Wijaya & Suhendah (2023), Setyawati et al. (2023) and Maximillian & Septina (2022) which state that liquidity proxied by Current Ratio (CR) has a positive influence on financial distress. However, the results of this study contradict research Stepani & Nugroho (2023) which found that liquidity has a negative effect on financial distress and research Diana & Yudiantoro (2023) which shows that liquidity has no effect on financial distress.

The Effect of Leverage on Financial Distress

The results of the third hypothesis test show that the leverage variable has no effect on financial distress, meaning that the size of the leverage ratio proxied by the Debt to Equity Ratio (DER) has no impact on financial distress conditions. This is because the size of the leverage is not the main factor, but the effectiveness in managing debt that determines its influence. Debt is basically risky, but the use of high debt is still allowed with the consideration that the benefits generated are greater than the costs incurred (trade-off). When a company is able to generate high sales, profits, and cash flow in each period consistently, then the use of debt becomes one of the attractive funding options to use. On the other hand, companies with low leverage may experience financial distress if the company has poor management and business strategy, and is unable to adapt to various challenges that must be faced such as macroeconomic conditions and competitors in the same industry.

The results of this study support previous research conducted by Stepani & Nugroho (2023), Oktaria et al. (2021) , and Dirman (2020) which states that leverage as measured using Debt to Equity Ratio (DER) has no effect on financial distress. However, the results of this study are not in line with research Wijaya & Suhendah (2023) which found that leverage has a negative effect on financial distress and research Isayas (2021) shows that leverage has a positive effect on financial distress.

Effect of Company Size on Financial Distress

The results of the fourth hypothesis test show that the company size variable has no effect on financial distress, meaning that the size of the company proxied by the natural logarithm of total assets (Ln total assets) has no impact on financial distress conditions. This is because every company, both small and large companies have different challenges in maintaining financial stability. The lack of assets owned by small companies can lead to limited business diversification and market segmentation. Furthermore, small companies that are unable to compete in terms of selling price and product quality with large companies may risk weakening customer loyalty and leading to financial difficulties. On the other hand, large companies sometimes have internal problems such as organizational complexity and slow bureaucracy. The many layers of management and divisions in large companies will require more complicated coordination than small companies, which can potentially lead to new problems such as obstructed decision-making processes and performance inefficiencies. Therefore, neither large nor small companies can be a guarantee regarding financial distress issues.

The results of this study are in accordance with previous research conducted by Choirunnisa & Nursiam (2023), Utami & Taqwa (2023), and Muzharoatiningsih & Hartono (2022) which state that company size as measured by the natural logarithm of total assets has no effect on financial distress. However, the results of this study are not in line with research by Wangsih et al. (2021) which found that company size has a negative effect on financial distress and research by Salim & Dillak (2021) which shows that company size has a positive effect on financial distress.

The Effect of Managerial Ownership on Financial Distress

The results of the fifth hypothesis test show that the managerial ownership variable has no effect on financial distress, meaning that the size of the company's managerial ownership has no impact on financial distress conditions. This is because the amount of managerial ownership is more likely to be used to attract investors only. Companies with small managerial ownership can lead to conflicts of interest and lack of motivation to work. However, on the other hand, the greater managerial ownership can also lead to weak transparency to external shareholders, so that it affects ineffective supervisory actions and the opportunity for opportunistic behavior due to information asymmetry. When managers have negative ambitions, they have the potential to ignore morality

(ethics), integrity, and act fraud that harms the company.

The results of this study are in accordance with previous research conducted by Ramadhanti & Subagyo (2022), Arrum & Wahyono (2021), and Indarti et al. (2021) which states that managerial ownership has no effect on financial distress. However, the results of this study are not in line with research by Nuraini et al.(2022) which found that managerial ownership has a negative effect on financial distress and research by Utami & Taqwa (2023) which shows that managerial ownership has a positive effect on financial distress.

The Effect of Institutional Ownership on Financial Distress

The results of the sixth hypothesis test show that the institutional ownership variable has no effect on financial distress, meaning that the size of the company's institutional ownership has no impact on financial distress conditions. This is because the management of company performance and business operational decisions still rely on management (Aryanti et al., 2022). Institutional shareholders usually only follow market trends by looking at the ups and downs of stock prices rather than ensuring that management must perform well. Institutional investors often diversify their portfolios, so they are less intensive in monitoring company performance in depth.

The results of this study are in accordance with previous research conducted by Mahera & Hartono (2022), Feanie & Dillak (2021), and Ekayanthi et al. (2021) which states that institutional ownership has no effect on financial distress. However, the results of this study are not in line with research by Ramadhanti & Subagyo (2022) which found that institutional ownership has a negative effect on financial distress and research by Theresa & Pradana (2022) which shows that institutional ownership has a positive effect on financial distress.

The Effect of Independent Board of Commissioners on Financial Distress

The seventh hypothesis test results show that the independent board of commissioners variable has no effect on financial distress, meaning that the size of the proportion of the independent board of commissioners has no impact on financial distress conditions. This is because the existence of an independent board of commissioners is usually only considered as a formality to fulfill legal compliance with regulations that require the proportion of the board of commissioners to be at least 30 percent of the total members of the company's board of commissioners. Therefore, the independent board of commissioners may doubt its function to monitor and assess company performance effectively, objectively and accountably. The large proportion of independent commissioners does not guarantee that the company will avoid financial distress problems, because the quality of the independent board of commissioners is more important than the quantity (Nuraini et al., 2022).

The results of this study are in accordance with previous research conducted by Achyani & Kusumawati (2023), Ramadhanti & Subagyo (2022), and Nuraini et al. (2022) which states that the independent board of commissioners has no influence on financial distress. However, the results of this study are not in line with the research of Handoko & Handoyo (2021) which found that the independent board of commissioners has a negative influence on financial distress and research Maronrong et al. (2022) which shows that the independent board of commissioners has a positive influence on financial distress.

Effect of Audit Committee on Financial Distress

The results of the eighth hypothesis test show that the audit committee variable has no effect on financial distress, meaning that the size of the audit committee has no impact on financial distress

conditions. This is because the factors that determine the company's success in mitigating financial distress are determined based on the experience, integrity, reputation, and strong commitment of the audit committee, not the quantity of audit committee members in a company. However, the selection of audit committee members in go-public companies is often determined not based on competence and capability, but rather the proximity factor or relationship with the board of commissioners (Effendi, 2007). This can interfere with the independence of the audit committee in assessing objectively and will reduce the effectiveness of its supervisory function, as well as the potential for opportunistic actions from the various parties involved.

The results of this study are in accordance with previous research conducted by Achyani & Kusumawati (2023), Gaos & Mudjiyanti (2021) , and Lestari & Wahyudin (2021) which states that the audit committee has no influence on financial distress. However, the results of this study do not support research Putra & Wirawati (2024) which found that the audit committee has a negative effect on financial distress and research Ramadhanti & Subagyo (2022) which shows that the audit committee has a positive effect on financial distress.

CONCLUSION

The results showed that the profitability variable has a significant negative effect on financial distress, meaning that the greater the profitability value, the smaller the risk of the company experiencing financial distress. Furthermore, the liquidity variable has a significant positive effect on financial distress, meaning that the greater the liquidity value, the greater the risk of the company experiencing financial distress. Meanwhile, the variables of leverage, company size, and managerial ownership, institutional ownership, independent board of commissioners, and audit committee have no effect on financial distress.

The implications of this study are expected to contribute to expanding the literature on the effect of financial performance, company size, and good corporate governance (GCG) on financial distress. These findings strengthen the results of previous research and open up opportunities for further research that can explore other variables or different industrial contexts. Company management can utilize the findings in this study to evaluate financial performance and corporate governance strategies to mitigate the risk of financial distress. Profitability needs to be improved by optimizing the use of assets to generate maximum profit. Companies are advised to utilize current assets, especially idle cash, for profitable investment or expansion. High liquidity due to the company's large inventory indicates the need for improvement in marketing and sales strategies. The company should adapt to market demand and ensure effective inventory turnover.

Creditors can utilize the results of this study to monitor the financial health of debtors. The findings can help creditors set more appropriate lending policies and mitigate credit risk by considering debtors' financial performance indicators, especially profitability and liquidity. Investors can use the results of this study to assess companies based on relevant financial performance indicators. High profitability is the main consideration in choosing companies with good prospects, while excessive liquidity can be a signal that the company only focuses on the short term and does not optimally utilize its assets.

The limitation of this study is the sample coverage which only focuses on the raw goods sector. Future research is recommended to use a wider sample coverage to obtain more comprehensive results. The observation period in this study is limited to four years, from 2020 to 2023. This period may not be long enough to capture fluctuations in company performance in a wider economic cycle. Future research is recommended to extend the observation period to obtain a larger sample size and understand long-term trends. The results showed that the independent variables in this study explained 82.7 percent of the variance in financial distress, while 17.3 percent was explained by other

factors not examined. Future research is expected to add other variables, especially external factors that are rarely studied, such as: (a) Macroeconomic Factors: Rupiah exchange rate (exchange rate), inflation rate, interest rate, and money supply; (b) Industry Factors: Intensity of competition within the sector, regulatory changes, or dependence on imported raw materials; and (c) Non-Financial Factors: Environmental, Social, and Governance (ESG) or organizational culture.

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