The Effect Of Liquidity, Leverage, And Size Of The Audit Committee On Financial Distress (Empire Study On Property And Real Estate Manufacturing Companiese Listed On The Indonesia Stock Exchange For During The 2018-2020 Period)

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ABSTRACT

The research purposed to assesed wheter Liquidity, Leverage, and Size of the Audit Committee partially or simultaneously affect Financial Distress. The object used is a property and real estate sub-sector manufacturing company listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period.

The quantitative research used with the descriptive statistical test, classical assumption test, coefficient of determination test, multiple linear regression analysis, and hypothesis testing and the population used are property and real estate companies. All tests will be processed using SPSS software version 25. The sampling technique was purposive sampling, there are 38 companies from 79 property and real estate manufacturing companies. So, there are 114 data samples that will be used.

The result showed that liquidity, leverage, and size of the audit committee influence financial distress either partially or simultaneously. Liquidity positively affect the financial distress. Meanwhile, leverage and size of the audit committee negatively affect the financial distress.

Key words: Liquidity, Leverage, Size of the Audit Committee

BACKGROUND

The ever-changing economic conditions have affected the activities and performance of large and small businesses. Competition between companies is becoming increasingly fierce, which increases the costs of companies. If a company is not competitive, then it suffers losses and ultimately causes the company's bankruptcy "financial distress".

Financial difficulties indicate a situation when a company or a person is unable to earn adequate income or profit. Financial difficulties are caused by many factors. Financial distress can occur because the company is not able to manage the stability of the company's financial performance where the company fails in the activities carried out and results in decreased income. Broadly speaking, bankruptcy can be caused by high company expenses compared to income, too many illiquid assets, wrong financial planning, drastically decreased income due to the Covid-19 pandemic.

(Kasmir, 2018, p. 7)stated that financial statements describe the current financial picture or over a certain period. Annual financial statements are usually prepared by period. For example, every three or six months for internal purposes. According to [2, p. 22], Financial statements inform the state of a company, which also reflects the achievements of a company [3].

THEORETICAL REVIEW

Financial Distress

According to [4, p. 4], Financial distress describes the condition of a company that is facing financial problems. In short, the company is in an uncertain position due to the company's imminent bankruptcy or business failure. The measurement is using the Altman Z-score equation, namely:

$$Z = 0{,}71X1 + 0{,}847X2 + 3{,}107X3 + 0{,}420X4 + 0{,}998X5$$

Liquidity

Liquidity describes the company's capability to make payments before the expiration of short-term obligations or current liabilities using current assets. The high liquidity ratio reflects the company's good financial condition. The less likely the company is to go bankrupt [5]. The formula for calculating liquidity is:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Leverage

According to [6], leverage reflects the company's capability in settling its financial obligations when liquidation occurs (including long-term & short-term liabilities). "Solvable" indicates the adequacy of the company's assets to be used in the settlement of its obligations. On the other hand, if the amount of assets is insufficient or less than the amount of debt, it means that the company is in an "insolvable" condition. The formula for calculating leverage is:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Audit committee size

According to [7], To be able to form an effective audit committee, the company must form an audit committee in accordance with the provisions of the Circular Letter of Bapepam Number SE-03/PM/2000 and the Decree of the Board of Directors of the JSE Number Kep-351/BEJ/06/2000, namely the audit committee membership of at least 3 (three) members, one of whom is an independent commissioner of a listed company who is also the chairman of the committee, while the other party is an independent external party and at least one of them has the ability in financial accounting. The formula for calculating audit committee size is:

$$Audit\ Committee\ Size = \frac{Total\ Audit\ Committee}{Total\ Board\ of\ Commissioners}$$

Research Hypothesis

H1: Liquidity positively and significantly affects the financial distress.

H2: Leverage negatively affects the financial distress.

H3: The size of the audit committee negatively affects the financial distress.

H4: Liquidity, Leverage, Size of the Audit Committee affects the financial distress.

Types of Research

The research is quantitative research. According to [8], Quantitative research is a positivist philosophy-based research method that is quantitative or statistical for the purpose of researching specific populations or samples, collecting data using research tools, and testing pre-established hypotheses. Used for data analysis.

Object of Research

The objects of research are liquidity, leverage, and the audit committee as independent variables and financial distress as the dependent variable.

Data types and Sources

The data used is secondary data. According to Hasan (2002:82) in [9], secondary data is known as available data, namely data obtained by someone who conducts research from various existing sources such as documentary data or financial reports.

Population and Research Sample

The population is a property and real estate sub-sector manufacturing company listed on the Indonesia Stock Exchange for the period 2018 – 2020. The sample are 38 companies.

DATA ANALYSIS TECHNIQUE

Descriptive Statistic

Descriptive records are used to explain the variables used within side the look at and describe the quantity of data, minimal value, most value, average (mean), and fashionable deviation of every variable used

Classic Assumption Test

Classical assumption test consists of normality test, multicollinearity test, autocorrelation test, heteroscedasticity test.

Hypothesis Testing

Hypothesis testing consists of the coefficient of determination test, multiple linear regression analysis, partial regression test (T Statistic Test), and F Statistic Test.

Formula for multiple linear regression analysis is:

$$Y = a + b1X1 + b2X2 + b3X3 + e$$

Description:

Y	= Coefficient of Corporate Image
a	= Constant
b1	= Liquidity Coefficient
b2	= Leverage Coefficient
b3	= Audit Committee Size Coefficient
X1	= Liquidity Variable
X2	= Variable Leverage
X3	= Audit Committee Size Variable
e	= Standard Error

RESULT AND DISCUSSION

Descriptive Statistics Result

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Likuiditas	114	.18	24.88	3.0774	3.29480
Leverage	114	.04	6.73	.7676	.89267
Komite Audit	114	.24	1.50	.8348	.33413
Financial Distress	114	-.16	9.59	2.0114	1.81552
Valid N (listwise)	114				

Source: SPSS 25 Data Processing Result

Classic Assumption Result

Normality Test Result

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			68
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.40566992
Most Extreme Differences	Absolute		.089
	Positive		.060
	Negative		-.089
Test Statistic			.089
Asymp. Sig. (2-tailed)			.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: SPSS 25 Data Processing Result

The normality test show that the Asymp value. Sig. (2-tailed) of 0.200 which means it is greater than (alpha) 0.05. Means that the research data are normally distributed. Then in this study will use the data after the outlier test which has a total of 68 data.

Multicollinearity Test Result

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	2.297	.204		11.261	.000		
	Likuiditas	.119	.050	.175	2.401	.019	.857	1.166
	Leverage	-.952	.095	-.725	-10.032	.000	.872	1.146
	Ukuran Komite Audit	-.494	.149	-.227	-3.321	.001	.980	1.020

a. Dependent Variable: Financial Distress

Source: SPSS 25 Data Processing Result

The VIF value of all independent variables is below 10.00 and the tolerance value of the independent variable is above 0.1. Thus, it shows that there is no multicollinearity in the independent variable data in this study and there is no significant correlation between each independent variable.

Heteroscedasticity Test Result

Scatterplot
Dependent Variable: Financial Distress
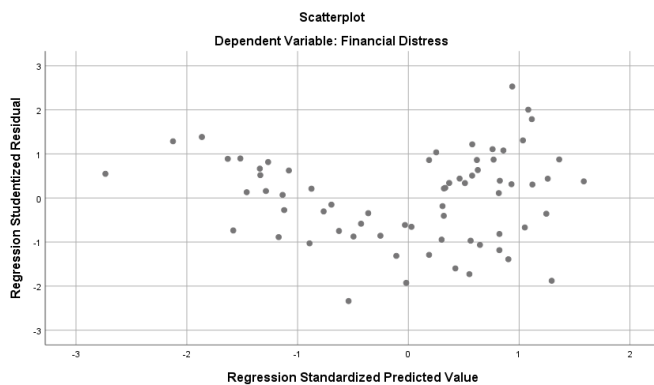
Source: SPSS 25 Data Processing Result

There may be no sure sample in accordance with what's stated to be now no longer a symptom and heteroscedasticity problem, particularly if the statistics factors unfold across the pinnacle and backside of the range 0, and the unfold of statistics factors does now no longer shape a wavy sample that widens after which narrows and widens again, therefore there is no heteroscedasticity disorder.

Autocorrelation Test Result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.841[a]	.708	.694	.41507	1.795

a. Predictors: (Constant), Ukuran Komite Audit, Leverage, Liabilitas

b. Dependent Variable: Financial Distress

Source: SPSS 25 Data Processing Result

By looking at the Durbin Watson criteria, the values obtained are du ≤ dw ≤ 4 – du = no positive / negative autocorrelation or 1,7001 ≤ 1,7950 ≤ 2,2999 which means that with all 68 data used, there are no autocorrelation symptoms.

Hypothesis Test Result
Coefficient of Determination Test Result

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.841[a]	.708	.694	.41507

a. Predictors: (Constant), Ukuran Komite Audit, Leverage, Liabilitas

b. Dependent Variable: Financial Distress

Source: SPSS 25 Data Processing Result

The value of Adjusted R^2 of 0.694. This means that 69.4% shows that the financial distress variable interpret by the variables of liability, leverage, and the size of the audit committee. And the remaining 30.6% is interpret by the other such as profitability ratios, audit opinions, company size, etc.

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.297	.204		11.261	.000
	Likuiditas	.119	.050	.175	2.401	.019
	Leverage	-.952	.095	-.725	-10.032	.000
	Ukuran Komite Audit	-.494	.149	-.227	-3.321	.001

a. Dependent Variable: Financial Distress

Multiple Linear Regression Analysis Result

Source: SPSS 25 Data Processing Result

The equation of a multiple linear line is as follows:

$$Y = \alpha + b1x1 + b2x2 + b3x3 + e$$

The above regression equation can be explained as follows:

a. The constant value (α) of 2.297 means if the liquidity (X1), leverage (X2), and the audit committee (X3) are equal to zero, then the value of the

dependent variable financial distress is 2.297.

b. The liability sig. value (X1) is 0.119, indicating that there is a positive influence between the liquidity (X1) on financial distress (Y) of 0.119. That is, if the liquidity of the independent variable increases by one unit, the financial distress (Y) increases by 0.119 units, if the other independent variables are constant.

c. The sig. leverage (X2) is -0.952, indicating that there is a negative influence between the leverage (X2) on financial distress (Y) of -0.952. That is, if the leverage of the independent variable increases by one unit, the financial distress (Y) decreases by 0.952 units, if the other independent variables are constant.

d. The sig. audit committee value (X3) is -0.494, indicating that there is a negative influence between the audit committee variable (X3) on financial distress (Y) of -0.494. This means that if the Audit Committee's independent increases by one unit, the Financial Distress (Y) variable decreases by 0.494 units if the other independent variables have constant values.

Partial Regression Test (T Statistical Result)

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.297	.204		11.261	.000
	Likuiditas	.119	.050	.175	2.401	.019
	Leverage	-.952	.095	-.725	-10.032	.000
	Ukuran Komite Audit	-.494	.149	-.227	-3.321	.001

a. Dependent Variable: Financial Distress

Source: SPSS 25 Data Processing Result

Value of Sig. <0.05, indicating that there is no impact of variable x on variable Y. All variables have a significant value below 0.05 or 5%, means that there is an impact of variable x on the dependen variable.

The liquidity sig. value is 0.019 < 0.05. So, the liquidity has a significant positively affect financial distress. The H1 is accepted that liquidity has a significant and positively affect financial distress.

The leverage sig. value is 0.00 < 0.05. So, the leverage negatively and significantly affects the financial distress. The H2 is accepted that leverage has a negatively affect the financial distresss.

The audit committee size sig. value is 0.001 < 0.05. So, the size of the audit committee negatively ang significantly affect the financial distress. So, the H3 is accepted that the size of the audit committee negatively affects the financial distress.

Simultaneous Test (F Statistical Result)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.737	3	8.912	51.731	.000[b]
	Residual	11.026	64	.172		
	Total	37.763	67			

a. Dependent Variable: Financial Distress
b. Predictors: (Constant), Ukuran Komite Audit, Leverage, Liabilitas

Source: SPSS 25 Data Processing Result

The research results have a significant value of 0.00 < 0.05. So, the variables of liquidity, leverage, and the size of the audit committee together have an influence financial distress.

Significant value 0.00 < 0.05. It means that the variables of liquidity, leverage, and the size of the audit committee together influence financial distress. So, the conclusion of the F test is that the simultaneous liquidity, leverage, size of the audit committee influences financial distress. Therefore, the hypothesis proposed in this study, H4 is accepted.

DISCUSSION
Effect of Liquidity on Financial Distress

From the t test, the significance value of liquidity is smaller than 0.05, which means that liquidity influences financial distress. Therefore (H1) that liquidity affects financial distress is accepted. It is consistent with Rochman study (Marota, et al 2018), [10],

[11], [12], which show measured by the current ratio has a positive and significant influence financial distress. Liquidity describes the company's ability to pay short-term obligations using current assets. It is said that the higher the level of liquidity of a company, the less likely it is that the company will experience financial distress.

On the other hand, not in line with [13], [14], (Alfinda Rohmadini, et al 2018), indicated that there is no significant influence the liquidity measured by the current ratio.

Effect of Leverage on Financial Distress

From the t test, the sig. value of leverage is smaller than 0.05 and the significance value of t-count is -10.032 > -1.999, which means that leverage has a significant negative influence financial distress. Therefore (H2) that leverage negatively affect the financial distress is accepted. It is in line with the results by Ni Made Inten and I Made Dana (2019), Peng Wi and Vera Lyonita (2020), Siti Badriyah et al (2021), Alfindah Rohmadini et al (2018), which show that leverage negatively and significantly affect the financial distress. So, if the leverage value of a company is high, then the level of possibility of the company experiencing financial distress will also be higher.

On the other hand, not in line with [13], [14], [11], which shows that leverage proxied by DER indicated that theres is no significant influence financial distress.

Effect of Audit Committee Size on Financial Distress

From the t-test, the sig. value of the audit committee size is smaller than 0.05 and the significance value of t-count is -3.321 > t-table -1.999, which means that the size of the audit committee negatively affects the financial distress. Therefore, the hypothesis (H3) proposed in this Property and Real Estate research that the size of the audit committee negatively affect the financial distress is accepted. It is in line with [15], that the size of the audit committee can support the performance of the audit committee. Due to the large number of audit committees, their abilities and work experience can face the problems experienced by the company, including the possibility of financial distress.

On the other hand, not in line with [7], this indicated that the existence of an audit committee in a joint-stock company is solely to enforce government regulations, and the existence of an audit committee is considered ineffective in performing its duties. This is indicated by the appointment of an audit committee in a public company based on proximity to the company's board of commissioners.

CONCLUSION

Liquidity proxied by the current ratio positively and significanly affect the financial distress This is evidenced by the t-count 2.401 > t-table 1.999 and the significance of the liquidity variable is 0.019, which is smaller than the significant level = 0.05.

Leverage as proxied by DER negatively affect the financial distress. This is evidenced by the t-count -10.032 > t-table -1.999 and the significance of the leverage variable is 0.00 which is smaller than the significant level = 0.05.

The audit committee, which is proxied by the number of audit committee members, has a significant negative influence financial distress. This is evidenced by the t-count -3.321 > t-table 1.999 and the significance of the audit committee size is 0.001 which is smaller than the significant level = 0.05."

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