E-ISSN : 2986-5050, P-ISSN : 2986-5336
DOI: https://doi.org/10.38035/gijea.v1i2
Received: 14 Juli 2023, Revised: 23July 2023, Publish: 30 Agustus 2023

Determinants of Financial Distress and Its Implications on Corporate Value Case Study on Property and Real Estate Sub-Sector Stocks on the Indonesia Stock Exchange Pandemic Era

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Abstract: The purpose of this study is to determine and analyze the effect of profitability (ROA), liquidity (CR), financial leverage (DER), and SIZE on company value with financial distress as an intervening variable in property and real estate sub-sector companies in the pandemic era. The test conducted in this study is path analysis, with a sample number of companies of 51 and 3 years of research. This study's results show a significant influence between ROA, CR, DER, and SIZE on financial distress. And there is a significant direct influence between ROA, CR, and SIZE on company value. However, DER has a direct but insignificant effect on the company's value. Financial distress can mediate the relationship between Return on Assets, Current Ratio, and company size to company value but does not mediate the relationship of Debt to Equity Ratio to company value.

Keywords: Return on Assets, Current Ratio, Debt to Equity Ratio, Size, Financial Distress, and Company Value

INTRODUCTION

The beginning of 2020 was a very tough year for all countries. So many countries have been hit by the Covid-19 pandemic. This pandemic began to strike at the end of 2019 in China. Indonesia is one of the countries that also experienced the Covid-19 Pandemic, with the discovery of the first case on March 2, 2020. The transmission rate of the Covid-19 virus is very high, as well as the death rate caused by this virus. This resulted in the Indonesian government having to decide on an emergency stance. Various policies set by the Indonesian government include Work From Home (WFH) policies, Large-Scale Social Restrictions, lockdowns or rules to stay at home, and several other policies. The result of these policies is a significant decline in the economic level, especially the domestic economy.

The COVID-19 pandemic has caused stock exchanges in the world to be ravaged, including in Indonesia, which is reflected in the Composite Stock Price Index (JCI). According to data compiled from the Financial Services Authority (OJK) during 2020 (until June 12), JCI fell 22.53%. This is the most severe decline in stock price indices in ASEAN. Property and real estate decreased by 34.30%, contributing the most to the fall in the index (lokadata.id).

The property and real estate sub-sector is one of the most affected. During the Covid-19 pandemic, the policies set by the government to reduce the rate of transmission and death due to Covid-19, it caused business activities to be very sluggish, and it can be said that some business people suffered severe losses. The high operating costs for the property business need to catch up with the number of receipts due to declining sales. On the other hand, the destruction of demand amid a wave of layoffs and weakening revenues is also an influencing factor. People tend to choose to stifle demand by keeping their savings as opposed to investing.

According to data from Indonesia Property Watch (IPW), there was a decline in sales in the first quarter of 2020 for properties priced below Rp300,000,000, - which became a favorite for end users and contributed significantly to the national property sales rate. Similar to the middle segment, for the housing segment with a nominal value above Rp 1 billion, there was also a decrease in sales. For second house prices above Rp 1 billion, - there was a decrease of up to 30% due to minimal demand. This is because investors are very careful in placing their funds amid the uncertain economic situation during the Covid-19 pandemic (lokadata.id).

Property and real estate sub-sector companies are overshadowed by bad conditions during the Covid-19 pandemic. Market cap data proves this. From the beginning of 2020 to June 2020, the total market capitalization value (market cap) of 10 property issuers on the Indonesia Stock Exchange decreased by 34.21% (Bloomberg).

The condition of the property and real estate sub-sector that has experienced the impact of the Covid-19 pandemic can also be seen from the significant fluctuations in the value of Earning After Tax.

Table 1.1
EAT of Property and Real Estate Sub-Sector Companies

No.	Code	Company Name	Year	EAT
1	APLN	Agung Podomoro Land Tbk	2019	120,811,697,000
			2020	180,144,688,000
			2021	(485,227,632,000)
2	ASRI	Alam Sutera Realty Tbk	2019	1,012,947,312,000
			2020	(1,036,617,865,000)
			2021	142,928,791,000
3	BSDE	Bumi Serpong Damai Tbk	2019	3,130,075,103,452
			2020	486,257,814,158
			2021	1,538,840,956,173
4	CTRA	Ciputra Development Tbk	2019	1,283,281,000,000
			2020	1,370,686,000,000
			2021	2,087,716,000,000
5	LPKR	Lippo Karawaci Tbk	2019	(2,061,418,000,000)
			2020	(9,637,220,000,000)
			2021	(1,623,183,000,000)

The pattern of people who choose to be more vigilant and postpone investment during the Covid-19 pandemic has resulted in companies engaged in the property and real estate sub-sector being in an emergency condition. It must be on standby for business continuity.

Meanwhile, investors prefer to save their funds rather than invest their funds, so the injection of funds from investors for companies also decreases. This will be one of the causes of financial distress. Moreover, stocks are investment instruments that are high risk and high return. So, in this case, the precautionary principle is very guarded by investors.

Some previous studies that also discussed financial distress and its impact on company value include research conducted by (Lukman Chalid, Ummu Kalsum, 2022) which found that profitability and liquidity have a significant negative effect on financial distress and earning management, while financial leverage has a negative effect on company value, but has a positive effect on financial distress and earning management. Then, financial distress and earning management as intervening variables can mediate the relationship between profitability, financial leverage, and liquidity to company value.

Similar research was also conducted by (Suwardika & Mustanda, 2017), which found that leverage, company growth, and profitability significantly affect company value, where variables that have a positive relationship are leverage and profitability, while company growth variables have a negative relationship. However, in this case, the company's size to company value does not have a significant effect. Based on the gap research, this study aims to examine the determinants of financial distress and its implications on company value, especially in the property and real estate sub-sector in the pandemic era.

LITERATURE REVIEW

Agency Theory

Agency theory, according to (Jensen & Meckling, 1976), is between the owner and management having their respective interests. The main principle of this theory states the existence of a working relationship between the principal, the shareholder, and the agent, whichthe manager. According to agency theory, each party seeks to magnify its benefits due to the existence of various interests. The principal wants the maximum and fastest return on investment, while the agent wants the interests of his performance to be accommodated as much as possible.

Agency theory assumes that all individuals act in their interests. The principal is assumed to be interested only in financial results in the form of increased dividend distribution. The agent is assumed to receive satisfaction in the form of high financial compensation on the terms that accompany the relationship. Thus, the difference in interest between the principal and agent lies in maximizing shareholder benefits (principal utility), with the constraint being the incentive the agent will receive as the company manager.

Signaling Theory

Spence first introduced the signal theory in his research entitled Job Market Signalling. According to KBBI, signals are a sign of a signal; likewise, (Brigham et al., 2018) state that signals are a form of action companies take to provide clues to investors about how management views its business prospects.

The signal theory emphasizes the importance of information released by a company to the investment decisions of external parties. The signal theory is based on asymmetric information between well-informed managers and poor-informed stockholders. The company's management has better information, and it is necessary to conclude it to investors to increase the value of the company's shares. Information asymmetry can occur when shareholders give company management responsibility to manage the company, but the company's management needs to provide full information to shareholders. This information asymmetry can be reduced through information signals. That is, if company management conveys information related to company performance to the market, the market will respond to the information and reflect it in the company's value.

Capital Structure Theory

There are three approaches to capital structure theory: the Modigliani and Miller (MM) approach, Trade-Off Theory, and the pecking order theory. Modigliani Miller's (MM) theory was popularized by Franco Modigliani and Merton Miller in 1958, which states that there is no relationship between the value of a firm and the cost of capital with its capital structure. The existence of arbitration proceedings supports this statement. However, a further MM theory assumes a corporate income tax. With this tax, MM concluded that using debt would increase the company's value because debt interest costs are costs that reduce tax payments (Harmono, 2018).

Company Value

Company value is a collective assessment of investors' performance of a company, both current and projected future performance (Brealey et al., 2007). Meanwhile, according to (Husnan, 2015), the company's value is the price prospective buyers are willing to pay if the company is sold.

According to (Jensen & Meckling, 1976) and Myers and Mjluf (1984), the value of a company is the total value of long-term debt with the value of its capital (equity). Uniquely, this concept eventually gave birth to capital structure theory, namely trade-off theory and pecking order theory. The next result was the popularity of agency theory by (Jensen & Meckling, 1976).

Financial Distress

Financial distress is a condition of financial decline experienced by a company for several consecutive years that can result in bankruptcy (Hanifah & Purwanto, 2013); likewise, Rani (2017) stated that financial distress is one of the symptoms of bankruptcy experienced by a company characterized by financial difficulties which can be seen by liquidity difficulties and solvency (leverage) in company finances.

METHODS

This study uses secondary data from the financial reports of companies belonging to the property and real estate sub-sector from 2019 to 2021. The data used in this study is panel data, where panel data is a combination of data from time series data. And cross-sectional data. This study uses a non-probability sampling technique, which is purposive sampling. This study examines the data to see whether or not there is an effect of profitability, liquidity, leverage or capital structure and firm size on firm value with financial distress as an intervening variable. Thus, the authors use the method of path analysis (path analysis) to solve the research problem formulation.

RESULT AND DISCUSSION

Sub Structural I

1. Model Test

Hasil Uji Chow

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	7.081811	(50,98)	0.0000
Cross-section Chi-square	233.923997	50	0.0000

Sumber : *Data diolah dengan Eviews.*

Hasil Uji Hausman

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	256.275594	4	0.0000

Sumber : *Data diolah dengan Eviews.*

It can be seen that the probability value is 0.0000 <0.05. So it means the fixed effect model (FEM) is better than the random effect model (REM). So, the best model for sub-structural I is the Fixed Effect Model (FEM).

In sub-structural I, the selected model is the Fixed Effect Model (FEM), an Ordinary Least Square. Therefore, the classical assumption test must be carried out. According to (Basuki & Yuliadi, 2014), the classic assumption tests that must be carried out are the multicollinearity and heteroscedasticity tests.

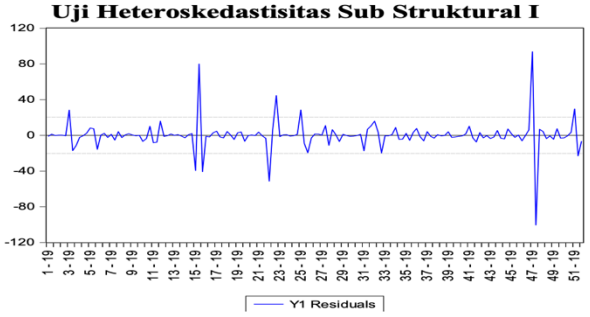
2. Classical Assumption Test

Tabel 4.9
Uji Multikolinearitas Sub Struktural I

	X1	X2	X3	X4
X1	1.000000	0.082094	0.098647	0.266773
X2	0.082094	1.000000	0.004321	-0.118711
X3	0.098647	0.004321	1.000000	0.095819
X4	0.266773	-0.118711	0.095819	1.000000

Sumber : *Data diolah dengan eviews.*

Grafik 4.1
Uji Heteroskedastisitas Sub Struktural I



3. Hypothesis Test

Tabel 4.10
Hasil Uji Parsial Sub Struktural I

Dependent Variable: Y1
Method: Panel Least Squares
Date: 01/19/23 Time: 22:33
Sample: 2019 2021
Periods included: 3
Cross-sections included: 51
Total panel (balanced) observations: 153

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	669.2427	82.04937	8.156586	0.0000
X1	24.20906	4.189194	5.778931	0.0000
X2	-1.446217	0.333985	-4.330182	0.0000
X3	0.086174	0.041888	2.057229	0.0423
X4	-21.45562	2.662928	-8.057154	0.0000

Sumber : *Data diolah dengan Eviews.*

Tabel 4.11
Hasil Uji Simultan Sub Struktural I

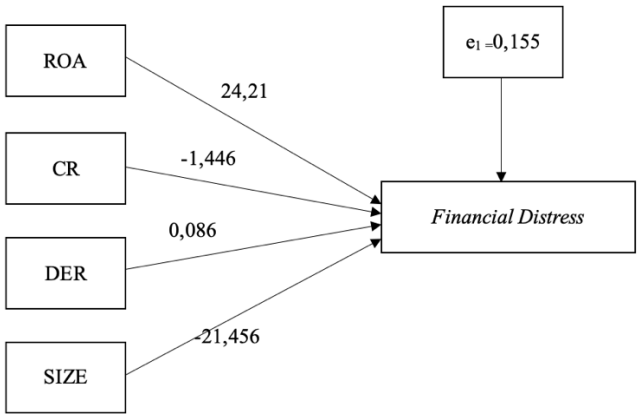
Root MSE	12.11824	R-squared	0.900316
Mean dependent var	32.06859	Adjusted R-squared	0.845387
S.D. dependent var	58.04378	S.E. of regression	15.14161
Sum squared resid	22468.31	F-statistic	16.39078
Durbin-Watson stat	2.507902	Prob(F-statistic)	0.000000

Sumber : *Data diolah dengan Eviews.*

Tabel 4.12
Hasil Uji Koefisien Determinasi Sub Struktural I

Root MSE	12.11824	R-squared	0.900316
Mean dependent var	32.06859	Adjusted R-squared	0.845387
S.D. dependent var	58.04378	S.E. of regression	15.14161
Sum squared resid	22468.31	F-statistic	16.39078
Durbin-Watson stat	2.507902	Prob(F-statistic)	0.000000

Sumber : *Data diolah dengan Eviews.*



Sub Structural II
1. Model Test

Tabel 4.13
Hasil Uji Chow Sub Struktural II

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.816436	(50,97)	0.0000
Cross-section Chi-square	190.914547	50	0.0000

Sumber : *Data diolah dengan Eviews.*

Hasil Uji Hausman Sub Struktural II

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	20.603368	5	0.0010

Sumber : *Data diolah dengan Eviews.*

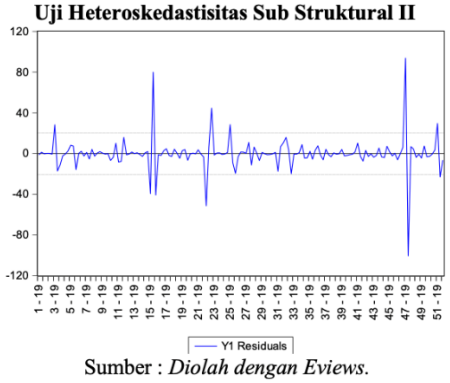
2. Classical Assumption Test

Tabel 4.15
Uji Multikolinearitas Sub Struktural II

	X1	X2	X3	X4	Y1
X1	1.000000	0.082094	0.098647	0.266773	0.023513
X2	0.082094	1.000000	0.004321	-0.118711	0.503523
X3	0.098647	0.004321	1.000000	0.095819	0.011506
X4	0.266773	-0.118711	0.095819	1.000000	-0.196959
Y1	0.023513	0.503523	0.011506	-0.196959	1.000000

Sumber : *Data diolah dengan Eviews.*

Grafik 4.2
Uji Heteroskedastisitas Sub Struktural II



Sumber : *Diolah dengan Eviews.*

3. Hypothesis Test

Tabel 4.16
Hasil Uji Parsial Sub Struktural II

Dependent Variable: Y2
Method: Panel Least Squares
Date: 01/19/23 Time: 22:44
Sample: 2019 2021
Periods included: 3
Cross-sections included: 51
Total panel (balanced) observations: 153

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	42.86564	9.043847	4.739758	0.0000
X1	0.752120	0.319913	2.351011	0.0207
X2	0.018017	0.006844	2.632513	0.0099
X3	-0.001871	0.006175	-0.303024	0.7625
X4	-1.380218	0.297549	-4.638628	0.0000
Y1	0.023505	0.003433	6.847582	0.0000

Sumber : *Data diolah dengan Eviews.*

Tabel 4.17
Hasil Uji Simultan Sub Struktural II

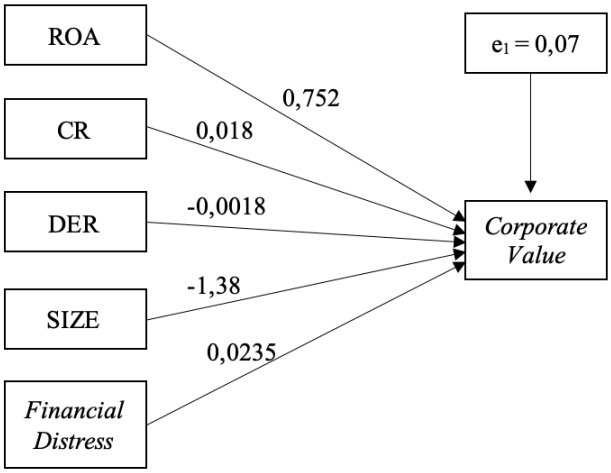
Root MSE	0.729445	R-squared	0.950724
Mean dependent var	5.794714	Adjusted R-squared	0.922784
S.D. dependent var	6.415307	S.E. of regression	0.916120
Sum squared resid	81.40981	F-statistic	34.02723
Durbin-Watson stat	2.575134	Prob(F-statistic)	0.000000

Sumber : *Data diolah dengan Eviews.*

Tabel 4.18
Hasil Uji Koefisien Determinasi Sub Struktural II

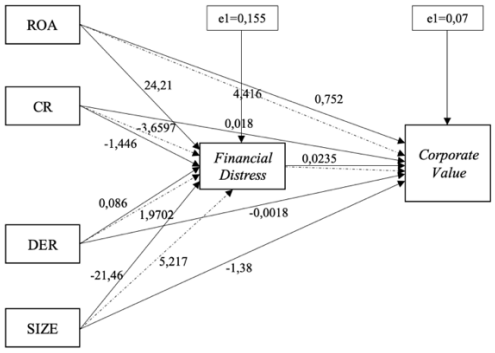
Root MSE	0.729445	R-squared	0.950724
Mean dependent var	5.794714	Adjusted R-squared	0.922784
S.D. dependent var	6.415307	S.E. of regression	0.916120
Sum squared resid	81.40981	F-statistic	34.02723
Durbin-Watson stat	2.575134	Prob(F-statistic)	0.000000

Sumber : *Data diolah dengan Eviews.*



SOBEL TEST

1. Indirect Effect of Profitability (Return on Assets) on Company Value through Financial Distress. The calculation results of the X1 sobel test against Y2 through Y1 obtained a calculated t value of 4.41616. The calculated t value is greater than t table 1.9762, so it can be concluded that there is an indirect influence between profitability variables (Return on Assets) on company value through the Financial Distress variable.
2. Indirect Effect of Liquidity (Current Ratio) on Company Value through Financial Distress. The results of the calculation of the Sobel test conducted on variables X2 against Y2 through Y1 obtained a calculated t-value of 3.6597. This value is greater than the table t value of 1.9762. Because t counts 3.6597 > t table 1.9762, it can be concluded that there is an indirect influence between liquidity variables (Current Ratio) on company value through financial distress.
3. Indirect Effect of Leverage (Debt to Equity Ratio) on Company Value through Financial Distress. The calculation results with a Sobel test for variables X3 against Y2 through Y1, obtained a calculated t value of 1.97023. This value is smaller than the table t value of 1.97623. So there is no indirect influence between the Debt to Equity Ratio on the company's value through financial distress.
4. Indirect Effect Between Company Size (SIZE) on Company Value through Financial Distress. The calculation results with a Sobel test for variables X4 against Y2 through Y1, obtained a calculated t value of 5.217. This value is greater than the table t value of 1.97623. This proves that there is an indirect influence between company size (SIZE) on company value through financial distress.



DISCUSSION

1. The direct effect of profitability on Financial Distress.

   For partial or individual test results for variable X1 (Return on Assets), the significance value is 0.0000, and the beta coefficient value is 24.20. This means a significant

positive effect exists between Return on Assets (ROA) on Financial Distress. An increase in the profitability ratio indicates good company performance so that the company avoids financial distress. Because the financial distress calculation method in this study uses the Altman Z Score method, when the Z Score is higher, the company is getting healthier (avoiding financial distress), proving that the resulting relationship is significantly positive. This is in line with research conducted by (Silanno, Glousa Lera & Loupatty, 2021), which states that the variable Return on Assets can predict financial distress. The test results are also in accordance with the signal theory, where companies that can generate positive profits will provide good news about the company's condition, which can attract potential new investors to invest in the company.

2. The direct effect of liquidity on financial distress.

   The partial or individual test results for variable X2 (Current Ratio) have a significance value of 0.0000, with a regression coefficient of -1.446. Ho is rejected because the significance value is 0.0000 <0.05, and Ha is accepted. This means that the Current Ratio (CR) has a significant negative effect on Financial Distress. The greater the company can fund and pay off its short-term obligations properly, the smaller the potential for it to experience financial distress. However, in this study, using the Altman Z Score, the higher the Z Score indicates a healthier company. The results of this study are different from the theory because there is a possibility that the company is only able to pay off its short-term obligations but cannot pay off its long-term obligations. On the other hand, many current assets only sometimes operate optimally in generating profit. This is supported by research conducted by (Ch Pandegirot & Van Rate, 2019) which states that the Current Ratio significantly negatively affects financial distress.

3. The direct effect of leverage on financial distress.

   Partial or individual test results for variable X3 (Debt to Equity Ratio), the significance value is 0.0423, and the regression coefficient value is 0.08617. Ho is rejected because the significance value is <0.05, and Ha is accepted. This means that the Debt to Equity Ratio (DER) has a significant positive effect on Financial Distress. Debt to Equity Ratio (DER) is a ratio that shows the extent to which own capital guarantees all debt. The higher the Debt to Equity Ratio, the greater the proportion of debt to equity of the company. In this case, the company uses more debt than its own capital in financing all company activities. This positive relationship indicates that the higher the Debt to Equity Ratio, the farther the company is from potential bankruptcy. This can be caused because the higher the company's debt, external parties trust the company. And also the greater the company's potential to develop because of its funds. This aligns with research conducted by (Asfali, 2019), which states a significant positive effect between the Debt to Equity Ratio on Financial Distress.

4. The direct effect of company size on financial distress

   For partial or individual test results for variable X4 (SIZE), the significance value is 0.0000. Because the significance value is 0.0000 <0.05, then Ho is rejected, and Ha is accepted. This means that there is a significant influence between company size (SIZE) on Financial Distress. Company size (firm size) describes how many total assets a company owns. The greater the total assets owned by the company, it is hoped that the company will be able to pay off obligations in the future to avoid financial problems (Hendra et al., 2018). Because it uses the Altman Z Score method, the higher the Z Score, the company is getting healthier. In this relationship, the higher the size of the company, the greater the probability that the company will go bankrupt. This could be because the company does not maximize the use of its assets to increase company profits, which causes the company to experience bankruptcy. This is in line with research conducted by (Setyowati & Sari Nanda, 2019), which states that company size significantly negatively affects financial distress.

5. The direct effect of profitability on firm value

   Partial or individual test results for variable X1 (Return on Assets), the significance value is 0.0207 and the regression coefficient value is 0.75. Because the significance value is 0.0207 <0.05, H0 is rejected, and Ha is accepted. This means that there is a significant influence between Return on Assets (ROA) on corporate value. The greater the value of Return on Assets (ROA), the greater the level of profit achieved by the company and the better the position of the company in terms of asset use. Increasing the company's attractiveness makes the company increasingly attractive to investors, so the demand for the company's shares will increase and impact the stock price (company value). This aligns with research conducted by (Nuradawiyah & Susilawati, 2020), which states a significant positive effect of Return on Assets (ROA) on company value.
6. The direct effect of liquidity on firm value

   For partial or individual test results for variable X2 (Current Ratio), the significance value is 0.099, and the regression coefficient value is 0.018. Because the significance value is 0.0099 <0.05, then H0 is rejected, and Ha is accepted. This means that the Current Ratio (CR) has a significant positive effect on corporate value. The higher the value of this ratio, the more efficient the company is in utilizing its assets, and the more it shows its ability to pay its short-term obligations. The results of this study are related to research conducted by (Hasania et al., 2016), which states that the current ratio has a significant positive effect on firm value. This indicates that if the company's ability to meet its short-term obligations increases, its value should also be high (increasing).
7. The direct effect of leverage on firm value

   Partial or individual test results for variable X3 (Debt to Equity Ratio), the significance value is 0.7625 and the regression coefficient value is -0.0018. Because the significance value is > 0.05, H0 is accepted, and Ha is rejected. That is, there is a negative effect between the Debt to Equity Ratio (DER) on corporate value (Corporate Value) but the effect is not significant. This means that if the Debt to Equity Ratio increases, the company's value only slightly decreases; conversely, if the Debt to Equity Ratio decreases, the company's value will increase slightly. This research is in accordance with research conducted by (Kholis et al., 2018), which states that the Debt to Equity Ratio (DER) has a negative effect on company value but is not significant.
8. The direct effect of firm size on firm value

   For partial or individual test results for variable X4 (SIZE), the significance value is 0.000 with a regression coefficient of -1.3802. Because the significance value is 0.0000 <0.05, H0 is rejected, and Ha is accepted. This means that company size (SIZE) has a significant negative effect on firm value (Corporate Value). This research is in accordance with (Oktaviani et al., 2019), which states that a large company size will make it easier for companies to obtain debt from external parties. However, the perception of investors is that they want to avoid taking risks when companies have excessive debt, especially during the pandemic.

   On the other hand, because this research examines the pandemic era, many assets have reduced their function of use. However, these assets still have costs that must be incurred by the company, such as vehicle tax costs, buildings, rent, etc. While the company's ability to generate low profits. So this causes the value of the company to decrease.
9. The direct effect of financial distress on firm value

   The partial or individual test results for variable Y1 (Financial Distress) have a significance value of 0.000 and a regression coefficient value of 0.0235. Because the significance value is 0.0000 <0.05, H0 is rejected, and Ha is accepted. That is, there is a significant influence between financial distress on corporate value (Corporate Value). This research is in accordance with Herlangga, M.A., and Yunita I (2020), which states that financial distress through calculations with the Altman Z Score has a significant positive

effect on company value with Tobin's Q measurement scale. This is because the higher the Z Score, the farther the possibility of the company experiencing bankruptcy, so the company's value is getting better.

10. The indirect effect of profitability on firm value through financial distress

    The results of this study indicate that financial distress can mediate the relationship between profitability (Return on Assets) and firm value. This shows that if a company experiences financial difficulties, the profit earned cannot be used to maximize the return that shareholders will obtain because the profit takes precedence to finance the company's operations. Meanwhile, on the other hand, investors have an investment goal to get a high return. So this indicates that even though the company makes a profit, if the company is in a position of financial difficulty and the profit is used to cover the company's operations, then the company's value tends to decrease because investors need high investment returns. The results of this study are in accordance with research conducted by(Lukman Chalid, Ummu Kalsum, 2022), which states that financial distress is able to mediate profitability on firm value.

11. The indirect effect of liquidity on firm value through financial distress

    The results of this study indicate that financial distress can mediate the relationship between liquidity (current ratio) and firm value. The results of this study are in accordance with research conducted by (Lukman Chalid, Ummu Kalsum, 2022). This shows that if a company experiences financial distress or is in a state of financial distress, then the company's cash flow tends to be used for operational expenses, not for investment expansion or even dividend payments. Meanwhile, every investor wants a high return on investment. This indicates that companies that tend to allocate their current assets to cover financial difficulties are seen as companies that cannot provide maximum returns for investors, which will reduce the company's value.

12. The indirect effect of leverage on firm value through financial distress

    The results of this study indicate that financial distress cannot mediate the relationship between the Debt to Equity Ratio and firm value. This could be because the Debt to Equity Ratio has no partial effect on firm value. This research is different from research conducted by (Lukman Chalid, Ummu Kalsum, 2022), which says that companies with high levels of debt tend to be prone to experiencing financial difficulties, resulting in a decrease in company value.

13. The indirect effect of firm size on firm value through financial distress

    The results of this study indicate that based on the results of the calculation of the Sobel test for the variable X4 to Y2 through Y1, the calculated t value is 5.217. This value is greater than the t-table value of 1.97623. This proves that there is an indirect effect between firm size (SIZE) on firm value through financial distress. This shows that if a company has large total assets, it is less likely to experience financial distress, or it can be categorized as a healthy company. And if the company is experiencing financial difficulties, the company can sell its assets to get through these financial difficulties. So, indirectly, if the company's size is large, financial distress is less likely to occur, so the company's value is higher. But there are also those who argue the opposite, that if the company has a large size (has a large total asset), it is easier for the company to obtain external funds so that the company's debt is higher. This resulted in companies having to increase their performance extra to pay debts and interest. And suppose the company makes a mistake in making a decision. In that case, this will result in the company experiencing financial difficulties and impact the decline in the value of the company.

CONCLUSION

1. Based on the research results, the profitability variable, which in this case uses the Return on Assets ratio, has a significant positive effect on financial distress. Because the financial distress calculation method in this study uses the Altman Z Score method, the higher the Z Score means the company is getting healthier (avoiding financial distress), so this proves that the resulting relationship is significantly positive. The conditions of this study indicate that the company's management's ability to earn profits prevents the company from potential financial difficulties. This is related to signal theory, where companies that can generate positive profits will provide good news about the condition of their companies, and this good news can attract potential new investors to invest in the company.
2. The variable liquidity based on the results of this study has a significant negative effect on financial distress. This indicates that many current assets could be more active or more optimal in generating profits. Or the company could be smooth in paying its short-term debt, but not necessarily its long-term debt, considering that it is still in a pandemic. Companies also may need help to use their current debt efficiently, which certainly results in problems with working capital management. This proves the theory of capital structure related to the composition of the company's capital.
3. The leverage variable based on the results of this study has a significant positive effect on financial distress. This positive relationship indicates that the higher the Debt to Equity Ratio value, the farther the company is from potential bankruptcy. This can be caused because the higher the company's debt, external parties trust the company. And also the greater the company's potential to develop because of its funds. This proves the existence of the theory of capital structure.
4. The variable firm size has a significant negative effect on financial distress. In this relationship, the higher the size of the company, the greater the probability that the company will go bankrupt. This could be because the company does not maximize the use of its assets to increase company profits, which causes the company to experience bankruptcy. This is related to agency theory. Where there is a difference in goals between the principal and the agent, in this case, management may need to be more optimal in maximizing the use of assets, so agency costs are needed to monitor management performance.
5. The variable profitability (Return on Assets) has a significant positive effect on firm value. The greater the value of Return on Assets (ROA), the greater the profit the company achieves. In this case, the company can manage assets well to generate profits, and an increase in profits will increase the company's value. This proves the signal theory that an increase in company profits is a good news investors receive and attracts investors to invest back in the company.
6. The variable liquidity (current ratio) has a significant positive effect on firm value. When a company can pay or fulfill its short obligations, investors believe its liquidity is good. Good company performance and investor perceptions will increase company value. This supports the signal theory.
7. The leverage variable (debt to equity ratio) has a negative but insignificant effect on firm value. This condition indicates that the debt-to-equity ratio has not had a completely negative effect on firm value. Because based on signal theory, a high DER can be interpreted in the eyes of investors as good news or bad news. For some investors, the high DER value indicates that external companies increasingly trust the company. However, for some other investors, having a high DER level is very risky, especially during a pandemic. There is a fear that the company will not be able to pay its obligations.
8. The firm size variable has a significant negative effect on firm value. This shows that the size of the company seen from the company's total assets that are too large is considered a negative signal for investors and potential investors because a company size that is too large

is considered to cause a lack of efficiency in overseeing operational activities and strategies by management so that it can reduce the value of the company.

9. The financial distress variable has a significant positive effect on firm value. This is because the higher the Z Score, the farther the company is likely to go bankrupt, so the better the company's value. This relates to signal theory, where it is a positive signal received by investors.
10. The financial distress variable can mediate the relationship between profitability (Return on Assets) and company value. This indicates that even though the company makes a profit, if the company is in a position of financial difficulty and the profit is used to cover the company's operations, then the company's value tends to decrease because investors need a high return on investment. This relates to agency theory, where the goals and strategies of the principal and management are different.
11. The financial distress variable can mediate the relationship between liquidity (current ratio) to firm value. This shows that if a company is experiencing a state of financial stress, then the company's cash flow tends to be used for operational expenses, not for investment expansion or even dividend payments. Meanwhile, every investor wants a high return on investment. This indicates that companies that tend to allocate their current assets to cover financial difficulties are seen as companies that cannot provide maximum returns for investors, which will reduce the value of the company. This proves the signal theory.
12. The financial distress variable does not mediate the relationship between the debt-to-equity ratio and firm value. This could be because the Debt to Equity Ratio has no partial effect on firm value.
13. The financial distress variable is able to mediate the relationship between firm size and firm value. In this case, if the company has a large size (has large total assets), the company cannot maximize the use of its assets to increase company profits, so this causes the company to experience bankruptcy and ultimately reducing the company's value. This is related to agency theory. Where there is a difference in goals between the principal and the agent, in this case, management may need to be more optimal in maximizing the use of assets, so agency costs are needed to monitor management performance.

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