

# THE ROLE OF CORPORATE GOVERNANCE AND FINANCIAL INDICATORS IN PREDICTING THE FINANCIAL DISTRESS

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## ABSTRACT

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The purpose of this study is to analyze the role of good corporate governance and financial indicators in predicting the financial distress in real estate and property sector companies for the 2018-2020 period. This study used secondary data by obtaining data from the official website of the Indonesia Stock Exchange and related companies. Quantitative approach is used for this research. Furthermore, sample determination is carried out based on the purposive sampling method. The data analysis method used is logistic regression analysis. The results of this study found that, partially, the board of directors can predict the occurrence of financial distress, while independent commissioners, leverage and liquidity cannot predict the occurrence of financial distress in real estate and property companies. Furthermore, simultaneously, corporate governance and financial indicators can predict the financial distress.

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## 1. INTRODUCTION

The purpose of a company is to improve the welfare of the shareholders. Good performance of company will increase the welfare of the shareholders (Fachrudin, 2011). Kristiani et al. (2014) explained that profit is a performance benchmark of an efficient managed company. It provided benefits for shareholder and other stakeholders. Rudangga and Sudiarta (2016) stated that companies need to focus on gaining profit so that the shareholders welfare may be improved. Furthermore, Profit can be used as a tool to measure the performance of company management in a certain period. The performance of a company is then used to be a consideration for those who need financial information so that they can predict the company's prospects in the future (Boediono, 2005).

In the era of globalization, companies must be able to compete with various advantages to dominate the market because with the presence of free trade, companies can compete locally and abroad (Ayu et al., 2017). However, there are several obstacles that can have an impact on the company's performance such as: macroeconomic conditions, industrial and financial regulations, the behavior of debtors and creditors that affect the movement of the business world, hence, can eventually affect the company (Permata & Juliarto, 2021). A country is said to have good economic conditions if the economic movement increase positively. On the contrary, if there is a downturn in the country's economy, then the business performance will deteriorate. This condition is seen in many companies that experience financial distress and even bankruptcy (Candradewi & Rahyuda, 2021). Dwijayanti (2010) stated that financial distress itself can be experienced by all companies if the country's economy is experiencing a declining or even crisis. Widyasaputri (2012) added that company management can make decisions to close business activities within the company, both production and other operational activities, if the company has experienced financial distress. This is done as a form to avoid bankruptcy or liquidation. If the company is unable to fulfill its obligations, the company's business condition will deteriorate in each period (Nofitasari & Nurulrahmatia, 2021).

Financial distress can be influenced by various factors both internally and externally. Internal factors that can influence the company to experience financial distress are cash flow difficulties, the amount of debt, and losses experienced by the company in operational activities for several years. Meanwhile,

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external factors that can influence companies to experience financial distress are rising interest rates, inflation, and natural disasters (Ayu et al., 2017). Global economic stability also play an important role in affecting the companies' financial health locally (Fathonah, 2016).

With the ups and downs of economic growth, it can be predicted to have an impact on the real estate and property sector sectors. Santoso et al. (2018) stated that the advantage of this sector is that this industry can attract the attention of potential investors in investing, because it guarantees the value of profits to them. With an increase in economic growth, this industry will be affected positively, by the increase in the supply of properties. In addition, since the demand of property keep on rising, this business is promisingly to bring profit to the companies in this sector. However, regardless of that, the negative impact is when the economic growth declines, then this sector can experience a drastic decline. Therefore, this sector has a high investment risk (Cinantya & Merkusiwati, 2015).

There are companies in the real estate and property sector that experience financial difficulties and lead to financial distress. For Instance, one of the real estate and property companies experienced a delisting in Indonesia Stock Exchange (IDX) because of financial distress, namely PT Cowell Development Tbk. (COWL). IDX issued an announcement letter of delisting as a listed issuer. This is due to high liquidity pressure with a bankruptcy decision by the Central Jakarta Commercial Court for a bankruptcy application against PT Cowell Development Tbk's debts and has been granted by the court. In addition, there are also real estate companies and other properties that are subject to delisting as announced by the Indonesia Stock Exchange, namely PT Danayasa Arthatama Tbk (SCBD) where this delisting refers to the suspension of the company's shares in all markets and the request for voluntary delisting of the company's shares. The delisting of the company's securities from the stock exchange was effectively approved on April 20, 2020. Therefore, with the delisting case and ending up faced with financial distress conditions, this causes operational losses and for investors who invest in the company.

With such an event, the company must be more vigilant about the occurrence of delisting which may be caused by financial difficulties. Geng et al. (2014) argue that this can be overcome if the prediction of financial difficulties is found quickly so that company management can initiate corrective measures to avoid unwanted things from happening. Investors can understand the company's profitability situation and adjust investment strategies in anticipation of losses. One way to help companies avoid financial distress problems is by implementing good corporate governance.

The implementation of good corporate governance is a form of enforcing of the business ethics and work ethics. Companies that implement good corporate governance will experience improvement and can increase company value (Widyasaputri, 2012). By implementing good corporate governance, companies must comply with the principles described by the National Committee for Governance Policy (KNKG) such as: transparency, accountability, responsibility, independence, fairness and equality (Nurkholis & Damayanti, 2020). In applying these principles, the structure of good corporate governance has an important role in implementing this mechanism.

To implement good corporate governance, the existing structure in the company plays an important role in the success of the company. In a company, the board structure has an important role in determining the company's strategy. Indonesia uses a two-tier system, namely the board of directors and the board of commissioners. The board of directors is the party that performs the operational functions of the company while the board of commissioners which includes independent commissioners is the party that performs the function of monitoring management performance (Wardhani, 2007).

Several previous studies have analyzed the structure of good corporate governance in predicting the occurrence of financial distress. In the results of research conducted by Lelu and Thamrin (2021) found that the formation of an independent commissioner can predict the occurrence of financial distress. In contrast to research by Liahmad et al. (2021) which found that independent commissioners were unable to predict the occurrence of financial distress. Furthermore, research conducted by Helena and Saifi (2018) found that the board of directors positively affects the occurrence of financial distress in the company so that the existence of board of directors influences considerations in decision making that can allow the company to experience financial distress. In contrast to the results of research from Yosua and Pamungkas (2019) explained that board of directors affects negatively the financial distress.

In addition to the application of good corporate governance, financial indicators can be one way to predict financial distress conditions. Financial indicators can be obtained from financial statements that

contain information about the company related to financial performance. By looking at the financial statements, stakeholders can make decisions for the sustainability of the company (Surayal & Natsir, 2020). According to Wulandari (2020), with the company's good performance in financial management, the possibility of financial distress becomes smaller. The company can control its financial condition by using financial statement analysis techniques. The analysis is useful for predicting the continuity of a company. The analysis technique that can be used is the financial ratio model (Jumlina, 2018).

The financial ratios used to measure company performance are profitability ratio, activity ratio, growth ratio, liquidity ratio and leverage ratio (Endri et al., 2020). Profitability is the ability of a company to make a profit. Investors can use this ratio in estimating the amount of value of the shares to be owned (Ananto et al., 2017). Activity ratio is the company's ability to use its resources so that it can assess the effectiveness of using assets in generating sales (Aisyah et al., 2017). Growth ratio is the ability of a company to stay in an economic position amid economic growth and its fellow business sectors (Liana & Sutrisno, 2014). According to Marfianto and Nuryasman (2019), the leverage ratio has a definition of the company's ability to use their debt efficiently in managing investment activities in the long term, while the liquidity ratio is a ratio that measures the company's ability to settle current liabilities that must be repaid (Saraswati et al., 2020).

In this study, the selection of leverage and liquidity variables was caused because both variables were related to debt where real estate and property companies had high risks due to sources of funding through bank loans and the problem of assets that were not sold (Varirera & Adi, 2021; Dwiantari & Artini, 2021). Therefore, it is difficult for companies to make a profit in continuing their operations, consequently, the company's debt will increase, and the risk of default is higher, therefore the company might experience financial distress (Aryadi, 2018).

Several previous studies have examined the financial indicators in predicting financial distress. In the results of research from Damayanti et al. (2017) found that with higher leverage, the possibility of facing financial distress is higher and vice versa. This is different from research conducted by Hastuti et al. (2014) that leverage cannot predict the occurrence of financial distress in the company. Furthermore, in the research of Cinantya and Merkusiwati (2015) found that the company's liquidity ratio can predict the occurrence of financial distress so that the greater the liquidity ratio allows the company to be able to repay its debts so that it can overcome the occurrence of financial distress. However, in the results of research from Ayu et al. (2017) who found that liquidity is unable to predict the occurrence of financial distress.

In the period 2018-2020, growth in the real estate and property sector was still unstable. As at the beginning of 2018, Bank Indonesia recorded a delay in growth, but at the end of 2018 it rose to 8.51%. This continues until 2019 which continues to lead to a positive increase. In the end, with the spread of Covid-19, Coldwell Banker Commercial Indonesia explained that market performance was declining due to the impact of the spread of Covid-19 in major cities such as Jakarta, Surabaya, Bandung, and Bali. Therefore, many prospective buyers choose to postpone making a purchase. This has made the demand for building rentals, purchases or rentals of houses and apartments decrease as well as the temporary closure of shopping centers due to the government's appeal to suppress the spread of Covid-19 which was enforced until 2020.

Based on the problem of financial distress that occurs in several real estate and property sector companies as previously described and there are still differences from previous studies that have not been consistent in providing good results from the perspective of good corporate governance and financial indicators, this research was conducted.

Agency theory is a theory that explains the relationship between agent and principal where one or more people delegate authority to perform a service on behalf of the principal. Agents who have access to more information about the company are asked to be transparent about the management of the company (Hidayat & Meiranto, 2014). According to Jensen and Meckling (1976) agency theory is an agreement between the principal and the agent. The principal as a shareholder gives the agent the task of executing and making decisions. Furthermore, agents are required to take account for the mandate given. However, this creates a problem that is called as agency problem. Furthermore, agency theory explained that agency problem may occur because there is conflict of interest by the agent and eventually may impact the companies' financial conditions. Therefore, one of the solutions to this problem is to implement a control mechanism (Bodroastuti, 2009).

Geng et al. (2014) explained that financial distress is a situation where a company faces financial difficulties. Financial distress is caused by a set of errors in judgment and weak financial management that are interrelated to be attributed directly or indirectly to management (Brigham & Daves, 2007). A company that experiences a financial crisis can make stakeholders such as creditors and shareholders lose confidence in the company. This can result in stakeholders going backwards to cooperate with the company and if the company fails to find a way out, then the company is already on the verge of bankruptcy (Altman, 1968).

Platt and Platt (2002) define financial distress as the final stage of a company's decline before a larger event such as bankruptcy or liquidation occurs. Bankruptcy is a condition of a company that is unable to make a profit and tends to continue to experience a deficit while liquidation is the process by which a company is closed. Failure can occur if the cash flow of an enterprise is smaller than the expected cash flow. In fact, failure can also mean that the level of investment income is smaller than the costs incurred.

Factors that can cause a company to face failure are management negligence, economic factors, and natural disasters that result in the failure of the company's operations so that it experiences financial difficulties (Jannah, 2015). In addition, Mulansari and Setiyorini (2019) argue that other factors that cause financial difficulties such as a manager who is not right in making decisions and the existence of insufficient supervision of financial conditions causes the use of company funds not in accordance with what is intended.

In terms of measurement for companies that experience financial distress, one of the measurements that can be used is the interest coverage ratio. According to Hyunmi (2017), interest coverage ratio is a ratio to measure financial health by showing whether interest expense can be covered by operating profit. This ratio serves in measuring a company's ability to meet interest payments to avoid bankruptcy. Companies that are in a state of financial distress have an interest coverage ratio of less than one. If the company's interest coverage ratio is below one, then the company is not able to settle their liability and if the borrower in this case the company cannot pay it off, then the creditor can force the company to go bankrupt. However, companies can also turn into voluntary bankruptcy either through negotiations with creditors or applying in court.

According to the Komite Nasional Kebijakan Governance (2006), good corporate governance is one of the foundations of the economic system related to trust in companies that carry out as well as in supporting factors in business in a country. The implementation of good corporate governance creates healthy competition and positive and conducive business conditions. Based on agency theory, with the implementation of good corporate governance, it can suppress the occurrence of agency problems or avoid conflicts between agents and principals that can trigger financial distress (Hanafi & Breliastiti, 2016). This is supported by research by Leal and da Silva (2005) that found that the implementation of good corporate governance can improve company performance so that it can protect companies from financial distress.

An independent commissioner is part of the board of commissioners who must come from outside the scope of the company including no direct or indirect business relationships, family and others. Independent commissioners can provide independent supervision of the financial reporting process and encourage a more neutral work atmosphere and environment and implement fairness (Gunawijaya, 2015; Lesmana & Damayanti, 2021). Independent commissioners are needed as part of a corporate structure that oversees and regulates the movement of the board of directors in every decision-making, with respect to opportunistic actions. From the results of research by Lelu and Thamrin (2021) found that the formation of an independent commissioner can predict the occurrence of *financial distress*, this is in line with research conducted by Pramudena (2017).

### **H1: Independent commissioners can predict the financial distress.**

According to the Komite Nasional Kebijakan Governance (2006), the board of directors is one of the corporate structures responsible for the management of the company. Each member of the board of directors carries out their obligations and decision-making in accordance with their respective duties and authorities. The board of directors is one of the internal parts of the company that determines the rules and strategies that will be taken by the company to regulate the running of the company and decision making on behalf of the principal (Helena & Saifi, 2018). The importance of information about the board of directors is useful for predicting the management of the company by applying the rules set by the board of directors

to improve the company's performance (Bahtera, 2017). Yosua and Pamungkas (2019) explained that the larger the board of directors is expected to have a good impact in making decisions. In research conducted by Widhiastuti and Rahayu (2022) stated that the board of directors can predict the possibility of *financial distress*, this is supported by research from Yosua and Pamungkas (2019).

**H2: The board of directors can predict the financial distress.**

*Leverage* is the extent to which a company uses borrowed funds in improving a company's operations (Famieza & Hashim, 2016). In other words, this leverage ratio measures a company's ability to meet long-term or short-term obligations (Rahmawati et al., 2020). Leverage can be measured by using Debt to Asset Ratio. According to Andhani (2019), the debt to assets ratio is a measurement to analyzed the extent of the company's condition funded with debt and the company's ability to meet their overall obligations by using the overall assets it owns. Companies with a larger amount of debt than their total assets can cause the equity value to become negative so that the higher the leverage from the increase in the debt to assets ratio, the more likely the financial distress will occur (Ufo, 2015). In the research of Dewi and Hadri (2017) found that leverage indicators proxied with debt to assets ratio can predict financial distress. A different result was obtained by Hastuti et al. (2014) that leverage cannot predict the occurrence of financial distress in the company.

**H3: Leverage can predict the financial distress.**

Liquidity is related to company's ability to pay off maturing financial obligations. It becomes a measuring tool for comparing company's current assets to its current liabilities (Aisyah et al., 2017). To determine the company's ability to pay its short-term obligations, it can use liquidity ratio analysis (Rahmawati et al., 2020). In this case, the measurement of liquidity ratio can be done by using the current ratio. According to Stephanie et al. (2020), the current *ratio* is a liquidity measurement tool in analysing at the company's ability to pay off current liabilities. Companies with small current assets compared to their current liabilities, will suffer financial difficulty and eventually financial distress if they're unable to find a way out. The results of previous research from Septiani and Dana (2019) found that liquidity as measured by *current ratio* can predict the occurrence of *financial distress*, where this result is in line with Ginting's research (2017).

**H4: Liquidity can predict the financial distress.**

## 2. METHOD

### 2.1 kind and Data Source

The population in this study is real estate and property companies listed on the Indonesia Stock Exchange. Sample determination using the purposive sampling method is used. Purposive sampling is the sample determination based on certain criteria (Sugiyono, 2015). The criteria used in this study are Real estate and property companies that are listed on the Indonesia Stock Exchange from 2018 - 2020, companies that have published financial statements during the period of 2018-2020. The number of real estate and property sector companies listed on the Indonesia Stock Exchange is 66 companies, which sum up the to 198 number of observations.

Data collection in this study used documentation methods. This study uses secondary data where data in the form of financial statements and annual reports of real estate and property companies that have been published on the Indonesia Stock Exchange for the period 2018 – 2020 are analyzed. Data are obtained analyzing the financial statements downloaded from IDX site and related companies web sites.

### 2.2 Analysis Method

A quantitative approach with a causal descriptive method was used in this study. Quantitative research is a method that analyze at observable and measurable phenomena to examine certain populations or samples by using statistical data aimed at testing hypotheses that have been made in research (Sugiyono, 2015). Causal descriptive is a method to accurately measure the phenomenon in a study to determine the relationship between independent variables and dependent variables (Kurniawan & Puspitaningtyas, 2016). Therefore, this method is used to explain to what extent independent variables,

namely good corporate governance, and financial indicators, can predict dependent variables, namely financial distress.

Financial distress is measured by using the interest coverage ratio. If the company with an interest coverage ratio value is less than 1, then the company is experiencing financial distress. However, if the company with an interest coverage ratio value is more than or equal to 1, the company is said to be experiencing no financial distress (Wardhani, 2007). Variable measurement using this ratio refers to research that has been conducted by Wardhani (2007) which use interest coverage ratio in measuring financial distress variables. If the company is experiencing financial distress a code of 1 will be given, and if the company is not experiencing financial distress a code of 0 will be given.

Independent commissioner measurement refers to the studies conducted by Helena and Saifi (2018). It is calculated as follows: Independent Commissioner =  $\Sigma$  Independent Commissioner. Leverage is measured by using debt to assets ratio by analyzing at the comparison between company debt both long-term and short-term and total company assets. The measurement of variables using this ratio refers to research that has been carried out by Famieza and Hashim (2016). Liquidity is measured by using the current ratio by analyzing at the comparison between current assets and current liabilities.

The logistic regression analysis method is used for this study. It is a hypothesis testing method to determine the ability of independent commissioners, board of directors, leverage, and liquidity in predicting the occurrence of financial distress. The equation of the logistic regression model according to Ghozali (2020) can be expressed as follows:

$$\ln \frac{P}{1-p} = b_0 + b_1X_1 + b_2X_2 + \dots + b_kX_k$$

$$P = \frac{1}{1 + b - (b_0 + b_1X_1 + b_2X_2)}$$

The logistic regression model in this study can be expressed as follows:

$$\ln \frac{FD}{1-FD} = b_0 + b_1IC + b_2BoD + b_3LVR + b_4LIQ + e$$

- P = Probability of the variable FD
- FD = Companies that experience financial distress are coded 1 (ICR<1) Companies that do not experience *financial distress* are coded 0 (ICR≥1)
- b0 = constant
- b1, b2, b3, b4 = regression coefficient
- IC = independent commissioner
- BoD = board of directors
- LVR = *leverage*
- LIQ = liquidity
- e = *error term*

$$\text{Logit } p = \ln \frac{P}{1-p} \text{ for } 0 < p < 1$$

### 3. RESULT AND DISCUSSION

Table 1. Descriptive Statistics

Variable	T- 1	N	Mean	Std. Dev.	Min	Max.
IC	2017	22	2	0.671	1	3
	2018	22	2	0.716	1	3
	2019	22	2	0.597	1	3
BoD	2017	22	5	2.308	2	12
	2018	22	5	2.223	2	11
	2019	22	5	2.170	2	10
LVR	2017	22	0.418	0.164	0.146	0.707
	2018	22	0.415	0.165	0.061	0.717
	2019	22	0.413	0.165	0.063	0.739
LIQ	2017	22	2.613	1.946	0.536	7.194
	2018	22	2.953	2.135	0.393	7.759
	2019	22	3.117	2.483	0.178	11.398

Table 1 shows that on average the companies have 2 independent commissioners and the standard deviation values for 2017-2019 (t-1 are used to predict the occurrence of financial distress at the following year. For example, number of independent commissioners in year t-1 is used to predict the financial distress on year t) are respectively 0.671, 0.716 and 0.597. In 2017-2019, the maximum score was 3 and the minimum score was 1. In the period 2017-2019, the average of the board of directors was 5 and the standard deviation values from 2017-2019 were respectively 2.308, 2.223 and 2.170. The minimum values in 2017-2019 are 2 and the maximum values are 12, 11 and 10 respectively.

Table 1 also shows the leverage variable on 2017-2019 with an average yield of 0.418, 0.415, 0.413 so that every Rp 1 of the company's assets is used to finance Rp 0.418, Rp 0.415 and Rp. 0.413 the amount of debt in each year in 2017-2019. The standard deviation values from 2017-2019 are 0.164, 0.165 and 0.165. The maximum value of each year is 0.707, 0.717, 0.739 and the minimum values are 0.146, 0.061, 0.063. For liquidity variables in 2017-2019, the average value is 2.613, 2.953, 3.117 so that from every Rp 1 current debt the company will be guaranteed by Rp 2.613, Rp 2.953, and Rp 3.117 current assets of the company on 2017-2019. The standard deviation values are 1,946, 2,135, 2,483, respectively.

The model's assessment of the feasibility of the entire model or overall model fit was performed using a test against a value of -2 Log likelihood.

Table 2. Likelihood Test Results

Likelihood Test		
-2 Log likelihood	Block number 0	90.949
	Block number 1	72.402

It was found that the -2log likelihood for block number 0 is greater than the block number 1. There is a decrease in values. Therefore, by overall assessment of the fit model, it can be stated that the regression model is getting better and there is a possible relationship between dependent variables and independent variables.

Table 3. Results of Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	18.548	4	.001
	Block	18.548	4	.001
	Mode	18.548	4	.001

Regression coefficient testing of the four predictors was performed using omnibus tests of model coefficients. The omnibus test results in Table 3 show the chi-square value of the table of 18,548 and the significance value of  $0.001 < 0.05$  then  $H_a$  is accepted. That is, the addition of independent variables influences the model and shows that the model is fit so that simultaneously independent commissioners, board of directors, leverage, and liquidity can predict the occurrence of financial distress in the company.

Table 4. Hypothesis Test Results

		B	Wald	Df	Sig.
Ste	IC	-.272	.258	1	.611
	BoD	-.613	9.705	1	.002
	LVR	3.611	3.330	1	.068
	LIQ	.203	2.505	1	.113
	Constant	1.147	1.148	1	.284

Table 4 shows that the independent commissioner variable cannot predict the occurrence of financial distress with a Wald value of 0.258 < a Chi-square table of 3.841 and a significance value of 0.611 > 0.05. Therefore, results of hypothesis testing found that hypothesis 1 was rejected. The test results in this study are in line with previous research conducted by Widhiadnyana and Ratnadi (2019) which found that independent commissioners could not predict the occurrence of financial distress. Therefore, the possibility of financial distress is not determined through the number of independent commissioner. In addition, the independent commissioners might only be enforced to complement the regulations imposed so that the existence of independent commissioners in the company might not carry out supervisory functions properly and effectively. The same opinion was presented by Wardhani (2007) and Helena and Saifi (2018).

The results in table 4 show that the board of directors can predict the occurrence of financial distress with a Wald value of 9,075 > Chi-square ta bell of 3,841 and a significance value of  $0.002 < 0.05$ . So, from these results it was found that hypothesis 2 was supported. The results of this study are supported by previous research by Sa'diah and Utomo (2021) which found that the board of directors can predict the occurrence of financial distress. This means that the larger the number of directors, it can reduce the possibility of financial distress. The board of directors is responsible for managing company activities and regulating company resources so that effective and efficient decision making is needed. Therefore, with the larger the number of boards of directors worked for the company, the more ideas, or opinions will be gathered, the better the management of the company to prevent financial distress from happening. This opinion is also supported by Yosua and Pamungkas (2019) and Widhiastuti and Rahayu (2022).

Furthermore, the results in Table 4 show that the leverage variable cannot predict the occurrence of financial distress with a Wald value of 3,330 < a Chi-square table of 3,841 and a significance value of  $0.068 > 0.05$ . From the results of testing the hypothesis, it was found that hypothesis 3 was rejected. The results of this study are in line with research conducted by Kholisoh and Dwiarti (2020) which found that leverage cannot predict the occurrence of financial distress. Even though the company has a high amount of debt, it can still be covered with a high number of assets so that the company has no problems in resolving

these obligations with the assets owned. This result is in line with the explanations of Lusiana and Indriyenni (2018) and Saputri and Asrori (2019).

From Table 4, the results show that liquidity variables cannot predict the occurrence of financial distress with a Wald value of 2,505 < a Chi-square table of 3,841 and a significance value of 0.113 > 0.05. Therefore, the test results found that hypothesis 4 was rejected. The results are in line with the previous research by Lusiana and Indriyenni (2018) who found that there was no significant effect of liquidity on financial distress. In addition, companies with low and high liquidity ratios can experience financial distress, so liquidity is not necessarily the reason for financial distress. This is similar to the opinions of Ma'arif and Rahayu (2019), Pawitri and Arini et al. (2021).

Table 5. Coefficient of Determination Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	72.402a	0.245	0.328

Table 5 shows the coefficient of determination analysis. This coefficient can be seen through the result of Nagelkerke R Square which is 0.328. This means that 32.8% of the financial distress variable can be predicted from the variables of independent commissioners, board of directors, leverage, and liquidity, while the remaining 67.2% can be explained by other variables.

#### 4. CONCLUSION

There are several conclusions that can be drawn from the results of the study. First, the size of an independent commissioner does not guarantee to avoid financial distress problems in real estate and property sector companies. Second, the number of boards of directors in the company can reduce the possibility of financial problems in the real estate and property sector companies. Third, other results show that leverage and liquidity partially is not able to predict financial distress. This means that with good or bad situation of leverage and liquidity conditions cannot predict financial distress in the context of this study. The implications of this research are as follows. Companies in the real estate and property sector need to evaluate the role of good corporate governance structures, especially for independent commissioners in their functions to monitor company strategy since independent commissioner is not able to predict the financial distress in the context of this study. The presence of independent commissioner in a company must foster the awareness of good performance by management, and eventually will not bring the company into financial distress. In addition, the company need to pay attention to the number of board of directors in a company. The result suggests that the larger the board of director, the less likely financial distress will occur. In other words, both independent commissioner and company management can work together in accordance with their job in managing the company. In addition, the results of this study can be considered by potential investors to remain cautious before deciding to invest in a company to avoid losses on investment.

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