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INVESTIGATING THE EFFECT OF LIQUIDITY, LEVERAGE, SALES GROWTH AND GOOD CORPORATE GOVERNANCE ON FINANCIAL DISTRESS

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Abstract

Large companies may experience financial distress because of their inability to compete. Therefore, investors should be more vigilant in investing their funds. Some ways that can be done is through cash flow analysis, analysis of corporate strategy, and analysis of financial statements. This study aims to determine the effect of liquidity, leverage, sales growth, and good corporate governance on financial distress. The study used 55 samples of telecommunication and non-construction companies listed in Indonesia Stock Exchange period 2013-2017. The technique sampling in this study is the purposive sampling method. The data analysis method is PLS (Partial Least Square). The results of this study indicate that liquidity, leverage, sales growth, and good corporate governance do not affect financial distress. These unexpected results may due to the limitation of this study. Therefore, for future research in financial distress, it is suggested to take into account the sample size and other variables that expected to affect financial distress.

Keywords: *Financial Distress, Liquidity, Leverage, Sales Growth, and Good Corporate Governance.*

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INTRODUCTION

In the current era of globalization, competition between companies is increasingly high. High competition results in companies incurring high costs; this condition will affect the company's performance. Excellent company performance can improve the welfare of shareholders (Fachrudin, 2011). If the company's inability to compete is allowed to continue to cause bankruptcy. Al-Khatib and Al-Horani (2012) state that bankruptcy causes losses for shareholders, employees, and the national economy.

Financial distress is a condition in which a company experiences financial difficulties (Kistini & Nahumury, 2014). Andre and Taqwa (2014) describe financial distress from two extreme points, namely liquidity difficulties to insolvency. Kistini and Nahumury (2014) explain

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that financial difficulties begin when a company cannot pay all or part of the debt that is due when it is billed. Given the consequences that occur when a company goes bankrupt, an analysis is needed in order to know the condition of financial distress so that management can make financial decisions appropriately. The possibility of financial distress can be predicted through cash flow analysis, company strategy analysis, and company financial statement analysis.

Quoted from one of the news at tempo.com (2014), PT Bakrie Telecom Tbk (BTEL), a telecommunications company, is currently experiencing financial distress because it has been losing for two years in a row and has reduced the number of employees by around 28% of the total number of company employees. BTEL suffered losses from 2011-2013. In 2011 BTEL lost Rp. 782.7 billion, then the losses increased even more, in 2012 to 3.13 trillion, and 2013 to 2.64 trillion. Besides, in 2013, BTEL also recorded negative equity, and net losses again swelled in 2014 of 2.87 trillion. This condition is caused by the decrease in interest in Code Division Multiple Access (CDMA) based telecommunications users.

The cause of financial distress comes from the internal and external factors of the company. Internal company factors include liquidity, leverage, and sales growth. Company external factors that can affect financial distress are Good Corporate Governance (GCG) (Cinantya and Merkusiwati, 2015).

Jensen and Meckling (1976) state that an agency relationship is a contract between a manager (agent) and a shareholder (principal). According to Jensen and Meckling (1976) explain that the agency relationship is the separation between ownership and management by the manager. Managers who have been authorized by shareholders can create a potential conflict between personal interests to maximize shareholder welfare. Differences in interests between private parties and external parties can lead to misuse of financial statements. Christiawan and Tarigan (2007) suggested that managers make business decisions aimed at maximizing company resources. On the other hand, shareholders as principals are not able to oversee every decision that was taken and activities carried out by managers as agents. If the agent makes a mistake in making decisions, it can result in considerable losses to the company that can trigger financial distress.

Liquidity is defined as how much the company's ability to pay short-term obligations that must be paid immediately (Putri and Merkusiwati, 2014). The liquidity ratio is related to the length of time inventory to become cash. Cash is the most liquid current asset and can be used quickly to meet the company's short-term obligations. The potential for companies to experience financial distress will be smaller if the company can fund and pay off its short-term obligations properly (Almalia and Kristijadi, 2003). The results showed that liquidity affected financial distress (Cinantya and Merkusiwati, 2015). Liquidity, as measured by the current ratio, does not affect the company's financial distress (Widarjo and Setiawan, 2009), (Putri and Merkusiwati, 2014) and (Andre, and Taqwa, 2014).

H_1: Liquidity affects financial distress.

Companies need capital in running their business. The capital is obtained from the sale of shares, or make loans to third parties in the form of debt. Leverage arises from the activity of using company funds from third parties in the form of debt (Cinantya and Merkusiwati, 2015). If the total assets of the company are higher than the liabilities, the company can be said to be able to pay liabilities with the assets owned so that financial distress does not occur. However, if the company's total liabilities are higher than the total assets owned by the company, then it can be possible for the company to experience financial distress (Putri and Merkusiwati, 2014). The results showed that leverage does not affect financial distress (Cinantya and Merkusiwati, 2015)

and (Putri and Merkusiwati, 2014). The results of the study (Andre and Taqwa, 2014) revealed that leverage has a significant effect on financial distress.

H_2: Leverage affects financial distress.

Sales growth is a reflection of the success of past investments. Sales growth can be used to predict future growth. Barton et al. (1989) in Deitiana (2011) stated that the growth rate influences the company's ability to maintain profits and fund opportunities in the future. High sales growth will also reflect high income, so profits increase, and dividend payments also tend to increase. The higher profits indicate that the condition of the company is not in financial distress. Research shows that sales growth affects financial distress (Widhiari and Merkusiwati, 2015). Sales growth does not have a significant influence on the company's financial distress (Wahyu, 2009).

H_3: Sales growth affects financial distress.

Some researchers that examine the influence of GCG on financial distress are Widyasaputri (2012), Fathoni et al. (2014), Fathonah (2016), and Africa (2019). Widyasaputri (2012) states that Corporate Governance is one of the keys to increasing economic efficiency, including the relationship between company management, the board of commissioners, and shareholders and other stakeholders that must go hand in hand with one another. GCG aims to provide progress towards company performance, such as the pattern of corporate behavior as measured through performance, growth, financing structure, and treatment of shareholders (Fathonah, 2016). According to Fathoni et al., (2014), financial distress is more predictable if accounting information is complemented by Corporate Governance. This is due to the existence of GCG, which is useful for managing relationships and preventing significant errors in the company's strategy to ensure that errors can be corrected and resolved quickly so that company goals can be achieved (Africa, 2019).

H_4: Good corporate governance affects financial distress.

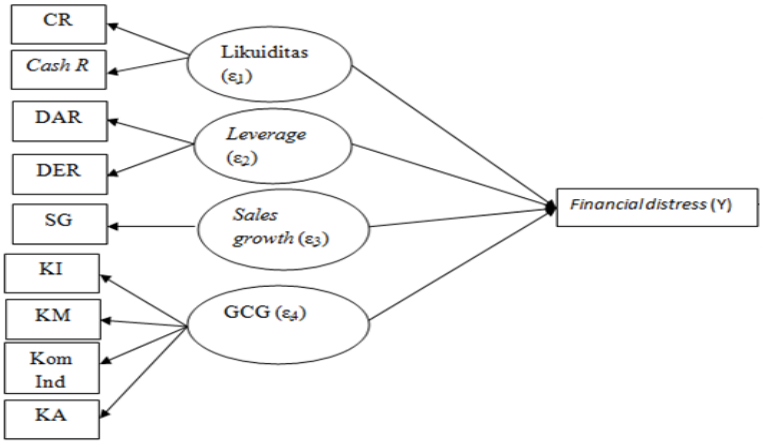

Figure 1. Research Model
Source: processed by researchers

RESEARCH METHODS

Research design

This research is included in quantitative research. Based on the type of data, this study uses data collected from secondary sources. Secondary data in this study were obtained from the Indonesia Stock Exchange.

Variable Operational Definition and Measurement

The variables used in this study consist of the dependent (Y) and independent variables (X):

1. Endogenous variables: (Y) Financial Distress.
2. Exogenous variables: (ε1) Liquidity is measured using two indicators, namely the Current Ratio and Cash Ratio. (ε2) Leverage is measured using two indicators, namely DER and DAR. (ε3) Sales Growth, (ε4) Good Corporate Governance (GCG) is measured using indicators as follows institutional ownership, managerial ownership, independent board of commissioners, and audit committee.

Financial Distress

Financial distress is a stage of decline in financial conditions that occurred before the occurrence of bankruptcy or liquidation. Financial distress is defined as a company that has negative earnings per share. In this study, endogenous variables are presented in the form of dummy variables with binomial size, which is the value of one (1) if the company has negative earning per share (EPS) and zero (0) if the company has positive earning per share (EPS).

$$EPS = \frac{\text{Net Income} - \text{Preferred Dividend}}{Weighted\ Average\ Shares\ Outstanding} \quad \ldots\ldots (1)$$

Liquidity

Liquidity is the company's ability to fund company operations and pay off short-term obligations. Liquidity measurement is measured using two proxies, namely:

1. Current ratio

   The current ratio is comparing current assets with current liabilities to determine the company's ability to pay off short-term debt. The current ratio is measured using a formula:

$$Current\ Ratio = \frac{\text{Current Assets}}{Current\ Liabilities} \quad \ldots\ldots (2)$$

2. Cash ratio

   Cash ratio shows the company's ability to meet its short-term obligations through cash, cash equivalents such as current accounts or deposits in banks that can be taken at any time. Cash ratio can be calculated using the following formula:

$$Cash\ Ratio = \frac{\text{Cash} + \text{Cash Equivalents}}{Current\ Liabilities} \quad \ldots\ldots (3)$$

Leverage

Leverage is a ratio that measures the extent to which companies use funding through debt (financial leverage). Leverage in this study was measured using:

1. Debt to Total Asset Ratio (DAR)
   DAR is a measure to measure the company's ability to pay liabilities, both short-term and long-term, using total assets. DAR can be calculated using the formula:

$$DAR = \frac{\text{Total Debts}}{Total\ Assets} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

2. Debt to Total Equity Ratio (DER)
   DER is a measure to measure a company's ability to pay both short-term and long-term liabilities with equity. DER can be calculated using the formula:

$$DAR = \frac{\text{Total Liabilities}}{Total\ Equities} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (5)$$

Sales Growth

Sales growth is a reflection of the success of past investments. In service companies, the value of sales is obtained through revenue for services that have been performed. Measurement of sales growth is as follows:

$$Sales\ Growth = \frac{sales_t - sales_{t-1}}{sales_{t-1}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6)$$

Legend:
$Sales_t$ = sales in t
$Sales_{t-1}$= sales in the previous period

Good Corporate Governance (GCG)

Proxies used in this study are institutional ownership, managerial ownership, independent commissioners, and the audit committee.

1. Institutional Ownership (KI)
   Institutional ownership is the shares of companies owned by other institutions or institutions. The measurement of institutional ownership is as follows :

$$KI = \frac{number\ of\ shares\ owned\ by\ the\ institution}{number\ of\ shares\ outstanding} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (7)$$

2. Managerial Ownership (KM)
   Managerial ownership is the number of shares owned by the management of the total number of shares of the company is managed. Managerial ownership measurement is as follows:

$$KM = \frac{number\ of\ shares\ owned\ by\ management}{number\ of\ shares\ outstanding} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (8)$$

3. Independent Commissioner (Kom Ind)
   Independent commissioners are members of the board of commissioners who are not affiliated with management and are free from business relationships or otherwise that can affect the ability to act independently or act solely in the interests of the company. Independent commissioners measurement is as follows:

$$Kom\ Ind = \frac{number\ of\ independent\ commissioners}{number\ of\ commissioners} \quad \ldots\ldots\ldots\ldots (9)$$

4. Audit Committee (KA)
   The audit committee is an internal auditor formed by the board of commissioners, which is responsible for conducting oversight and evaluation of the planning and implementation of the company's internal controls. The audit committee measurement is as follows:

$$KA = \sum audit\ committee \quad \ldots\ldots\ldots\ldots (10)$$

Samples and Sampling Technique

The population in this study are all companies listed on the Indonesia Stock Exchange (IDX) in 2013-2017. The sample is the telecommunications and non-building construction companies in 2012-2016 that were used for the 2013-2017 research period. The sampling technique is done by purposive sampling, which is a random selection that involves specific considerations and adjusted to the objectives or research problems. The criteria used in sampling in this study includes:

1. Non-construction telecommunications and construction companies that publish financial reports and annual reports during the study period as well.
2. Using the rupiah currency.

Data Analysis Technique

Analysis of the data used in this study is a quantitative analysis expressed by the numbers and calculations using statistical methods assisted by the PLS (Partial Least Squares) program, which is determining the measurement model or outer model, determining the resampling method, and the structural model (structural model) or inner model.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

The descriptive analysis explains the data at a minimum, maximum, mean, and standard deviation values. The results of descriptive analysis if in table 1 shows that:

Financial Distress

The mean EPS is 97.3718. Deviation standard value of 223.0900. This indicates that the distribution of financial distress data is not useful or is heterogeneous. Of the total sample of 55, there were 19 or 34.5% of the sample that experienced financial distress. The remaining 36 samples or 65.5% of the total sample did not experience financial distress. This indicates that during the 2013-2017 research year, more telecommunications and non-construction companies did not experience financial distress.

Liquidity

The minimum Current Ratio (CR) for the period 2013-2017 of 0.0251 was owned by PT Bakrie Telecom Tbk in 2015, meaning that current assets owned by the company could only cover a small portion of short-term liabilities (by 2.5%). The maximum CR value of 104,1300 is owned by the company PT Protech Mitra Perkasa Tbk in 2017. The high CR indicates that the company's current assets can pay off all of its short-term liabilities. The average value of CR is 3.0171, with a standard

deviation value of 13.9219, meaning that the current ratio variable has poor data distribution, or the data is heterogeneous.

The minimum cash ratio value during the 2013-2017 period of 0.0027 was owned by PT Bakrie Telecom Tbk in 2015, meaning that the cash owned by the company was unable to pay off most of its short-term liabilities. The maximum value of cash ratio owned by the company PT Protech Mitra Perkasa Tbk in 2017 is 82.8991. This shows the company's ability to meet all short-term debt by only calculating cash, cash equivalents, and short-term investments. The average cash ratio is 1.8697, and the standard deviation is 11.1402. The standard deviation value is higher than the average value. This indicates that the cash ratio variable has a poor spread of data or heterogeneous data.

Table 1. Statistic Descriptive

Variabel	Indicator	MIN	MAX	Mean	Std. Deviation
Financial Distress	EPS	-5,119,700	6,691,900	973,718	2,230,900
Liquidity	CR	0,251	1,041,300	30,171	139,219
	Cash R	0,0027	828,991	18,697	111,402
Leverage	DAR	0,0113	15,111	0,6364	0,2587
	DER	-167,877	135,432	15,860	44,166
Sales Growth	SG	-0,9645	86,332	0,3045	12,045
GCG	KI	0,3053	10,000	0,645	0,1796
	KM	0,0000	0,1281	0,0032	0,0173
	Kom Ind	0,2857	0,7500	0,4356	0,1198
	KA	20,000	60,000	3,418	0,9367

Source: Data processed

Leverage

The minimum DAR value of 0.0113 owned by PT Protech Mitra Perkasa Tbk in 2017 means that the amount of liabilities is smaller than the assets owned by the company. In other words, the company can pay off its liabilities. The maximum value of DAR owned by the company PT Bakrie Telecom Tbk in 2015 is 1.5111, meaning that the amount of liabilities is greater than the assets owned by the company, so the company is unable to pay off its liabilities, this is because the company has an equity deficiency. The average DAR value is 0.6364, and the standard deviation value is 0.2587. The standard deviation value is smaller than the average value, indicating the distribution of data (data spread) DAR variables are good or homogeneous data.

The minimum DER value is -16.7877 owned by PT Truba Alam Manunggal Engineering Tbk in 2014. This shows that the company's liabilities are lower than the total equity; in other words, the company can pay off its liabilities. The maximum value of DER owned by PT Tower Bersama Infrastructure Tbk in 2016 is 13.5432, which means the number of liabilities is higher than the total equity, so the company cannot afford to pay its liabilities. The average value of DER is 1.5860, and the standard deviation is 4.4166. The standard deviation value is higher than the average value. This indicates that the DER variable data distribution is not right, or the data is heterogeneous.

Sales Growth

The minimum value of sales growth of -0.9645 owned by PT Truba Alam Manunggal Engineering Tbk in 2017. This shows that the company's revenue is low. In other words, the company's sales in the year were the lowest during the study period, compared to other sample companies. The maximum value of sales growth owned by the company PT Inti Bangunan Sejahtera Tbk in 2013 amounted to 8.6332, meaning that the company's revenue was high, in other words, sales in that year were the highest compared to company sales in the other samples. The average value of sales growth is 0.3045, with a standard deviation of 1.2045. The standard deviation value is higher than the average value, illustrating that the distribution of sales growth variable data is not proper, or the data is heterogeneous.

Good Corporate Governance

The minimum KI value of 0.30530 was found in PT Bakrie Telecom Tbk in 2013. This shows that the company's shares owned by other institutions for the shares were 30.53%. The maximum KI value owned by the company PT Smartfren Telecom Tbk in 2017 is 0.9999, meaning that there are 99.99% of the company's shares owned by the institutional.

A minimum KM value of 0 is found in PT Bakrie Telecom Tbk in 2013-2017, PT Inovasi Infracom Tbk in 2013-2014, PT Smartfren Telecom Tbk, PT Inti Bangunan Sejahtera Tbk, PT Truba Alam Manunggal Engineering Tbk, and PT Sarana Menara Nusantara Tbk in 2013-2017, PT Indosat Tbk 2016 and 2017, PT Tower Bersama Infrastructure Tbk in 2013-2016. This shows that the shares of these companies are not owned by management. There were no managerial parties in that year. The maximum value of KM owned by the company PT Tower Bersama Infrastructure Tbk in 2017 is 0.0128, meaning that there are company shares owned by management by 1.28%.

The minimum independent commissioner value of 0.2857 was found at PT Xl Axiata Tbk in 2016. The minimum number of independent commissioners means that there is a lack of supervision of the organizational structure in every policy that will be taken by directors. The maximum value of independent commissioners owned by the company PT Smartfren Telecom Tbk in 2017 is 0.75, which means that it shows the number of independent commissioners in the organizational structure so that in sorting and supervising every policy that will be taken by directors more optimally.

A minimum audit committee value of 2 was found at PT Truba Alam Manunggal Engineering Tbk in 2013-2017. This shows the low number of audit committees that help and strengthen the function of the board of commissioners. This means that the audit committee is less optimal in assisting the board of commissioners to carry out the oversight functions of the financial reporting process, risk management, audit implementation, and implementation of corporate governance in companies. The maximum value of the audit committee owned by the company PT Telekomunikasi Indonesia Tbk in 2013 and 2017 is 6, indicating that many audit committees help and strengthen the function of the board of commissioners.

PLS Statistical Analysis

The analysis technique used is PLS (Partial Least Square). This is because there are research variables whose measurements use more than one indicator. Exogenous variables consist of liquidity, leverage, sales growth, and GCG, while the endogenous variables used are financial distress.

Table 2. Construct Validity and Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	AverageVariance Extracted (AVE)
Financial Distress	1	1	1	1
GCG	-0.046	-0.32	0.148	0.213
Leverage	-0.194	-0.194	0.626	0.456
Liquidity	0.4	-7.315	0.608	0.523
Sales Growth	1	1	1	1

Source: Data processed

Outer Model

Average Variance Extracted (AVE), loading factor (rho_A) financial distress variables of 1,000 and 1,000, sales growth of 1,000 and 1,000 so that it can be said that the indicators used latent variables financial distress and sales growth are valid because they have a value greater than 0.5 for AVE and more significant than 0.6 for loading factor (rho_A). The GCG variable has a Variance Extracted (AVE) and loading factor (rho_A) value of 0.213 and -0.320. The leverage variable has the value of Variance Extracted (AVE) and loading factor (rho_A) of 0.456 and -0.194. While the liquidity variable has the AVE value and loading factor (rho_A) of 0.523 and -7.315. This shows that the indicators used by the latent variables of GCG, leverage, and liquidity are invalid because they have a loading factor (rho_A) value smaller than 0.6.

Furthermore, the value of Cronbach's alpha and composite reliability for financial distress variables is 1,000, and sales growth is 1,000, so it can be said that the indicators used are latent financial distress and reliable sales growth variables because they have Cronbach's alpha values and composite reliability values greater than 0.6. The GCG variable has a Cronbach's alpha value and composite reliability of -0.046 and 0.148. The leverage variable has a Cronbach's alpha value and composite reliability of -0.194 and 0.626. While the liquidity variable has a Cronbach's alpha value and composite reliability of 0.400 and 0.608, this shows that the indicators used by the GCG, leverage, and liquidity variables are not reliable because they have a value of less than 0.6. Invalid and reliable GCG, leverage, and liquidity indicators must be excluded from the model.

The cash ratio shows the outer loading value of 0.217. Institutional ownership has an outer loading value of -0,450. Independent commissioners have an outer loading value of 0.088. The audit committee has an outer loading value of 0.419. The four indicators show an outer loading value of less than 0.6. This means that the indicator is invalid and reliable, so it must be removed from the model.

Inner Model

The R-Square Testing indicates R-Square value of 0.084, which means that the variable liquidity, leverage, sales growth, and GCG can explain financial distress of 8.4% while other variables outside the research variable explain 91.6%.

Hypothesis Testing

Inner models or path coefficients indicate the significance level of hypothesis testing. The path coefficient value indicated by the t-statistic value must be> 1.96 or P Values <5%. The results of the t statistical test in table 3 show that:

a. First Hypothesis Testing

P values in the first hypothesis are 0.147. P values are greater than Z values α = 0.05 (5%) = 1.96. Based on this, it can be stated that liquidity does not affect financial distress. This result states that the first hypothesis is rejected.

Table 3. Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV)	P Values
GCG - *Financial Distress*	0,220	0,197	0,139	1,586	0,111
Leverage - *Financial Distress*	-0,111	-0,109	0,153	0,723	0,470
Liquidity - *Financial Distress*	0,144	0,159	0,099	1,454	0,147
Sales Growth - *Financial Distress*	0,042	0,097	0,111	0,380	0,704

Source: Data processed

b. Second Hypothesis Testing
The P values in the first hypothesis are 0.470. P values are greater than Z values α = 0.05 (5%) = 1.96. Based on this, it can be stated that leverage does not affect financial distress. This result states that the second hypothesis is rejected.

c. Third Hypothesis Testing
P values in the first hypothesis are 0.704. P values are greater than Z values α = 0.05 (5%) = 1.96. Based on this, it can be stated that sales growth does not affect financial distress. This result states that the third hypothesis is rejected.

Discussion

Effect of liquidity on financial distress

Liquidity reflects a company's ability to meet short-term obligations that must be paid off immediately. Hypothesis test results prove that liquidity does not affect financial distress. This means that high and low liquidity does not affect the occurrence or non-occurrence of financial distress.

Three research samples have liquidity above the average. Twenty-three other samples are below the average but above 1, meaning that telecommunications and non-construction companies listed on the Stock Exchange during the research year have good average liquidity. While the other 29 samples show that the liquidity ratio is below the average and 1, meaning that the telecommunications and non-construction companies listed on the Indonesia Stock Exchange during the study year have inferior average liquidity. However, these poor and declining liquidity does not cause financial distress. This is because the company's cash and cash equivalents are much higher compared to other elements of current assets. Current assets such as accounts receivable and inventories require more time to convert into cash, which can cause financial distress. However, because the proportion of cash and cash equivalents is higher than the inventory and accounts receivable, the ups and downs of the company's liquidity will not cause financial distress.

The results of this study are in line with research by Ayu et al. (2017), Andre and Taqwa (2014), Thim et al. (2011), and Widarjo and Setiawan (2009). All three state that liquidity has no significant effect on financial distress. However, the results of this study are not in line with the research of Ochieng (2018), Antikasari and Djuminah (2017), Cinantya and Merkusiwati (2015), and Widhiari and Merkusiwati (2015). All four stated that liquidity had a significant effect on financial distress.

Effect of leverage on financial distress

Leverage is a ratio used to measure how much the company's assets are financed by debt (Kasmir, 2008: 113). High leverage indicates the amount of loan capital used to finance companies. In theory, the higher the leverage, the more indication of experiencing financial distress. Conversely, if the leverage is lower, then the indication of financial distress will also decrease. This study shows the results that leverage does not affect financial distress, meaning that the level of leverage does not affect whether financial distress occurs or not. When leverage is above 60%, it is quite risky. If the company cannot make a good profit from funding with debt, then the company can be indicated financial distress because high debt is burdened by high interest in addition to the obligation to pay the loan principal. However, there were 30 telecommunications and non-construction companies that had more than 60% debt during the study period but did not experience financial distress. This happens because telecommunications and non-construction companies can manage their debt funds optimally so that the income earned can pay off obligations even with a high burden. The average company is categorized as "solvable" because it can pay off all obligations that have matured for a short amount of time and not even long term. This means that the amount of debt does not exceed the total assets, so the number of assets owned can guarantee (cover) the debt they have. So, it can be concluded that high and low leverage cannot be used to predict the occurrence of financial distress.

The results of this study are not in line with the research of Antikasari and Djuminah (2017), Ochieng (2018), Wang and Shiu (2014), and Andre and Taqwa (2014), which stated that leverage has a significant effect on financial distress. A high debt level increases the chance of financial distress. However, the results of this study reinforce research from Africa (2019), Ayu et al. (2017), Cinantya and Merkusiwati (2015), Widhiari, and Merkusiwati (2015), and Widarjo and Setiawan (2009). They state that the leverage ratio does not affect financial distress.

Effect sales growth on financial distress

Sales growth reflects the successful application of company investment in the prior period and can be used as a predictor for future company growth. High sales growth indicates high company earnings, so that company profits also increase. If profits increase, the possibility of financial distress will decrease, and vice versa. This research cannot prove this.

Hypothesis test results of this study indicate that sales growth does not affect financial distress, meaning that the rise or fall of sales growth does not affect the financial distress. Table 4.2 Results of the descriptive analysis that indicate the distribution of sales data that is not good so that sales growth does not affect the occurrence of financial distress.

Sixteen companies have above-average growth in sales, while 39 others are below average. Theoretically, low sales growth tends to experience financial distress. Telecommunications and non-construction construction companies, although sales growth is low most of them do not experience financial distress. However, there is one company that has sales growth above the average that experienced financial distress, namely PT Smartfren Telecom Tbk, so it can be

concluded that sales growth cannot predict financial distress. This condition occurs because the income earned by the company is still able to cover expenses, meaning that there is still profit so that it does not experience financial distress. So it can be concluded that sales growth does not affect financial distress.

The results of this study reject the study of Widhiari and Merkusiwati (2015), which states that the ratio of sales growth has a negative and significant effect on financial distress. Nevertheless, the results of this study strengthen the research of Widarjo and Setiawan (2009), which states that the ratio of sales growth does not affect financial distress.

Effect good corporate governance on financial distress

When an excellent corporate GCG, the possibility of corporate strategy mistakes are smaller. The company's performance will increase, as evidenced by higher profits, so the possibility of financial distress will decrease.

This research cannot prove this. This study result state that GCG does not affect financial distress. This result is supported by indications of poor distribution of managerial ownership data — PT Xl Axiata Tbk with KM above average but experiencing financial distress. In contrast, most research samples with KM below the average did not experience financial distress. This shows that GCG (KM) cannot influence financial distress. This is because telecommunications and non-construction construction companies during the study period had small managerial ownership, even most companies did not have KM (32 samples). This indicates the lack of supervision of management in decision making. On the other hand, the existence of managerial ownership is only used as a symbol that is used to attract the attention of investors so that the presence or absence of managerial ownership does not affect the occurrence of financial distress (Cinantya and Merkusiwati, 2015).

The results of this study are not in line with research by Fathonah (2016), which revealed that managerial ownership has a positive effect on financial distress. Africa (2019) indicated that GCG can be used to predict financial distress in foreign exchange banks and non-foreign exchange Banks. However, in telecommunication and non-construction companies, GCG does not affect financial distress. The result of this study supports the study of Cinantya and Merkusiwati (2015), which revealed that managerial ownership, as one of GCG practices, does not affect financial distress.

CONCLUSIONS

Based on the test results and the discussion explained, it can be concluded that liquidity, leverage, sales growth, and GCG do not affect financial distress in the telecommunication and non-construction companies. Eventhough this study has been done thoroughly, there are still some limitation in this study. Firstly, the population is too small and secondly, exogenous variables are less able to predict financial distress. This shows that there are still other factors that can affect endogenous variables in the study. Due to the limitations of the research, for subsequent studies, it is suggested to choose other research objects, such as the manufacturing, banking, or other sector. For future researches, they must add other variables that may influence financial distress, such as company size, or any fundamental or non-fundamental variables.

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