

Predicting Trigger Factors of Financial Distress

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Abstract. *A phase of financial difficulty is a company's financial circumstances that can be detected prior to bankruptcy. A business is deemed bankrupt if it is unable to meet its obligations and has a declining financial performance. So from that, this research is aimed at predicting the impact of capital structure, profitability, and investment decisions on financial distress. The form of research used is associative research that is a kind of quantitative. Data analysis techniques use classical assumption tests, multiple linear regression data analysis, determination coefficients, and hypothesis testing. Data will be processed and calculated using software assistance in the form of Statistical Product and Service Solution (SPSS) version 26. The research objects used are companies in the industrial sector listed on the Indonesian Stock Exchange for the period from 2018 to 2022. Sampling using purposive sampling techniques that obtained samples of as many as 20 companies with a total of 100 data. Data collection techniques use documentary observation techniques by looking at financial statements, financial report records and company annual reports. The study found that capital structure and profitability have a positive effect on financial distress. Meanwhile, investment decisions have no bearing on financial distress.*

Keywords: *Capital Structure, Profitability, Investment Decisions, Financial Distress*

I. INTRODUCTION

The large number of companies engaged in the industrial sector has created intense competition, because this sector is one of the sectors that contribute greatly to economic growth and community welfare. It makes every company want to compete more by showing various advantages in dominating the world market as well as improving performance so that its goals can remain achieved. Every company must have a goal, both in the short and long term. Generally speaking, the companies primary objective is to maximize profit using its current resources while attempting to prevent situations that could lead to financial distress.

Financial distress is when a company's financial situation is getting worse before it goes bankrupt. [2] A company is declared bankrupt when it has difficulty fulfilling its due date obligations. (S.A.Ayu,dkk.,2017). Companies in financial distress are typically characterized by a number of conditions, such as a company's declining financial performance, delays in delivery of goods, redundancies and inability to pay liabilities. This financial distress problem has a huge impact, because it is not only the company that is affected but also other parties like investors who will take consideration in making investments against the company.

There are factors that can predict the effect of the onset of financial distress, namely: capital structure, profitability, and investment decisions. Capital structure is part of the form of funding with corporate debt, the debt is used to increase profitability and company performance. Profitability is the ratio used to determine the efficiency of management in managing a company to make a profit. (Nugroho, Baridwan, & Mardiaty, 2018). Investment decisions are the process of selecting the allocation of funds into the form of investments, it is done with the aim that investors can make a profit in the long term.

Companies with high profits are companies that are in demand by investors, because it signals that the company can survive for a long period of time. Therefore, in order to minimize the likelihood of financial distress, analysis should be carried out in such a way that the risk can be detected early and the authorities can take appropriate alternative decisions in the prevention. The aim of this study was to determine whether capital structure, financial distress, and investment decisions in financial distress are related in industrial sector companies listed on the Indonesia Stock Exchange. This was based on the background information.

Theoretical Studies and Hypothesis Development

1. Financial Distress

Financial Distress is when a companies struggles to meet it's obligations, such as the difficulty in paying off all its debts. This can happen when the total liability of the company is greater than the total assets it owns, and when the company cannot its economic goal, that is, maximize profits, so that the company can suffer financial distress to bankruptcy. [6] As current developments have developed several formulas or solution to address a wide range of bankruptcy-related problems. The Altman Z Score technique is one of the most well-liked and frequently applied methods for assessing financial distress.

2. Capital Structure

Capital structure is part of the form of funding with corporate debt. Companies with a significant level of business development will require a substantial amount of funds, thus necessitating the addition of funds from external sources in order to augment the need for funds in the business development process. Based on the explanation, the capital structure illustrates how the company determines its capital by taking into account its strengths and weaknesses, so that the best form of capital structure can be determined for the company. [4] The company will try to keep its modal structure not too high, because the high capital structure identifies that the company is vulnerable to risk, such as if the company can't pay the debt with interest, it might end up bankrupt.

Hypothesis Development

According to Sugiyono (2019: 99), "hypotheses are temporary answers to the formula of research problems and are based on empirical facts obtained through data collection". Considering the description framework of thought, the author formulates the hypothesis as follows:

- H1 : Capital Structure has a positive effect on financial distress
- H2 : Profitability has a positive effect on financial distress
- H3 : Investment decisions have a positive effect on financial distress
- H4 : Profitability has a positive effect on capital structure
- H5 : Investment decisions have a positive effect on capital structure
- H6 : Capital Structure is capable of mediating profitability against financial distress.
- H7 : Capital Structure is able to mediate investment decisions against financial distress.

II. RESEARCH METHODS

2.1. Forms of Research

The research uses quantitative research in associative form, which examines capital structure, profitability, and investment decisions against financial distress. According to Sugiyono (2019: 65). [8] As stated by Sugiyono (2019), The positivism ideology underpins the quantitative research method, which is a technique for examining a specific population or sample. gathering data with research tools. To evaluate the established hypothesis, data analysis is quantitative or statistical in nature.

2.2. Research Objects

This research uses industrial companies that were listed on the Indonesian Stock Exchange from 2018 to 2022. In this period there were 66 companies, but after purposive sampling then obtained samples that satisfy the study's criteria, representing up to 20 companies. The data used in this research is from the Indonesian Stock Exchange. Then, the variables used are: capital structure, profitability, investment decisions, and financial distress.

2.3. Data Collection Techniques

[8] The type of data used is quantitative. According to Sugiyono (2019), The positivism research method is regarded as a scientific or scientific method due to its compliance with the scientific principles of concrete or objective, measurable, rational, and systematic.

A data source is something that provides information about a research or subject from which data can be obtained. According to Silalahi (2017), " Secondary data are data that were collected from second-hand or other sources before the research was carried out". in this research, the annual reports and financial

reports of companies in the industrial sector listed on the Indonesian Stock Exchange from 2018 to 2022 serve as the study's secondary source of data.

2.4. Population and Sample

The amount of data used by the author in this research is 100 data. Data obtained from the sample of 20 companies multiplied by the number of periods of research that have been specified, that is, for five years. Purposive sampling, in which the sample was chosen based on predetermined criteria, was the method used to select it. The following table 2.4.1 contains a summary of the sample selection data:

Table 2.1
Sample Criteria
Year 2018 s.d 2022

Criteria	Total
Companies in the Industrial Sector listed on the Indonesian Stock Exchange from 2018 until 2022	66
Total companies meeting the criteria	20
Total of research data for the period 2018 to 2022	100

Source: Process Data, 2024

2.5. Research Variable

Independent Variable

1. Capital Structure (Mediation Variable)

"An independent variable is a variable that affects or causes the change or emergence of a dependent variable, which is symbolized by the symbol (X)," (Sugiyono 2019: 69). The independent variables employed in this investigation are: capital structure is the ratio of funding to corporate debt. Companies with a high level of business development will require a large amount of funds, necessitating the use of additional external funds to satisfy the growing finance needs of the development process. Company with a good degree of business growth in the long term will provide a large profit to investors (Dhani and Utama, 2017). [7] The best capital structure is that which is capable of raising the price of the shares and the company's worth. (Kusumastuti et al., 2017).

Capital structure measured with Debt to Equity Ratio (DER). This ratio is applied to assess how well a business can use its capital to pay off debts.

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

2. Profitability

The capacity of an organization to turn a profit over a specific time period is known as its profitability. Additionally, profitability shows how well management is handling the riches of the organization in the form of profits. This profitability is measured by looking at the capital capacity of the company invested in the total amount of assets to produce Return On Assets (ROA). The ability of the corporation to turn a profit using all of its assets is gauged by this ratio. An increased Return on Assets (ROA), the greater the corporate chances of profitability.

$$\text{Return On Assets (ROA)} = \frac{\text{Earning After Tax (EAT)}}{\text{Total Assets}}$$

3. Investment Decisions

An investment decision is a decision that involves investing capital in the present time in order to obtain returns or profits in the future. According to Pujiati and Widanar (2009), when a corporation invests in

relation to its operations, it decides to release funds now with the expectation of producing future fund flows larger than those released at the time of the first investment, so that a companies goals to continue to thrive and grow up becomes more clear and planned. The investment decision is measured with the Price Earnings Ratio (PER). This ratio is used to indicate a company with a high ratio of investment capacity and strong corporate growth value, in order to attract investors to the company.

$$\text{Price Earnings Ratio (PER)} = \frac{\text{Stock Price}}{\text{Profit per Share}}$$

Dependent Variable

According to Silalahi (2017), "dependent variables are the variables that are the main concern for the research of variable duck relationships". The dependent variable in this research is financial distress, which refers to the degree of decline in a company's financial state that can be observed prior to bankruptcy. Financial Distress is measured using the Altman Z Score method. This ratio is used to forecast the insolvency of industrial corporate that go public.

$$Z - \text{Score} = 1,2 X1 + 1,4 X2 + 3,3 X3 + 0,6 X4 + 1 X5$$

Description:

X1 = Working Capital / Total Assets

X2 = Retained Earning / Total Assets

X3 = Earnings Before Interest and Tax (EBIT) / Total Assets

X4 = Market Value of Securities / Total Liabilities

X5 = Sales / Total Assets

2.6. Data Analysis Techniques

Data analysis techniques are the process of processing and processing data into a valid result or information that is also easy to understand by the general public. Data analysis techniques are also useful as solutions for companies, especially in relation to this research. In this study, the author uses a multiple linear regression analysis technique that is used to test hypotheses related to predicting positive and negative relationships between variables. However, before that, the classical assumptions will be tested to determine the influence of independent variables on dependent variables.

2.7. Classic Assumption Test

1. Normality Test

[6] The purpose of the normality test, according to Ghazali (2017), is to determine if the variable being used in the regression model has a normal distribution. Normal distribution of a data is a requirement that must be met when performing parametric statistical analysis. It's because, good data it's normal distributed data. In this study, the author performed a normality test using the Kolmogorov-Smirnov Test One Sample. The test uses the criterion that if the significance value is above 0.05, then the data is said to have a normal distribution. However, if the significance value is less than 0.05, then the data are not distributed normally.

2. Multicollinearity Test

[6] According to Ghazali (2017), to determine if a regression model has identified a correlation between independent variables, the multicollinearity test is used. A right regression is a regressive model where there are no symptoms of multicollinearity. To determine whether or not multicollinearity can be determined from Tolerance values and Variance Inflation Factor (VIF) values. The test uses the criterion that if the tolerance value is less than (<) 0,10 and the VIF value is greater (>) than 10, There is then a multicollinearity problem.

3. Heteroscedastisity test

[6] According to Ghazali (2017), " The heteroskedastisity test checks if there is a difference between the results of one observation and another in a regression model". A good regression model is the absence of symptoms of heterocedastasis. In this study, the author uses the Glejser test. The test has a criterion that

if the probability value of the significance of an independent variable is below the confidence level of 0.05, then then there is a problem of heterocadasthenicity in the regression model.

4. Autocorrelation Test

[6] As stated by Ghozali (2017), "the autocorrelation test aims to test whether in a linear regression model there is a correlation between interference error in the period (t) and interference error in (t-1)". If there is correlation, it indicates an autocorrelation symptom. In this research, the authors used the Durbin-Watson (DW) test with the following provision: first, there is no autocorrelation if the DW values are between dU and (4-dU) and secondly there is a positive autocorelation when the Durbin-Watson (DW) value is smaller than the dL value.

2.8. Multiple Linear Regression Analysis

[6] According to Ghozali (2017), multiple linear regression analysis not only measures the strength of relations between two or more variables, but also reveals the direction of relationships between dependent and independent variables. Dependent variables are assumed to be random, which means they follow a probability distribution, whereas independent variables have a fixed value. This study used two regression equations:

$$Y / Z = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

$$-0,867 + 1,760X_1 + 0,01053X_2 + e = Z \quad (I)$$

$$-2,777 + 1,045X_1 + 24,684X_2 + 0,000X_3 + e = Y \quad (II)$$

Description:

Z	= Capital Structure (mediation variable)
Y	= Financial Distress
a	= Constant
b	= Regression coefficient
X ₁ ,X ₂ ,X ₃	= Capital structure, profitability, investment decision
e	= Error

2.9. Hypothesis Test

1. Determination Coefficient

[6] As stated by Ghozali (2017), "the determination coefficient (R²) essentially measures how far the model is capable of describing the variation of dependent variables." The determination factor ranges from zero to one. A low determination value suggests that independent variables' ability to represent fluctuations in dependent variables is severely constrained. A value close to one indicates that the independent variable contains all of the information needed to forecast the fluctuations of the dependent variable.

2. F Test (Anova Test)

[6] According to Ghozali (2017), statistical F Test was used to identify all of the free variables in the model regression that collectively influence the bound variable. If the significance level is smaller than (>) 0.05, the hypothesis is accepted. If the value of significance is greater than (<) 0.05, the hypothesis is rejected.

3. T Test

[6] According to Ghozali (2017), statistical t tests measure how much an explicit or independent variable influences the variation of dependent variables. The criteria for T in this test are based on the value of significance. If the value of significance is smaller than (<) of 0,05, then the hypothesis is accepted. If the significance value is greater than (>) of 0.05, then the hypothesis is rejected.

III. RESULT AND DISCUSSION

This start-up test process will test the classical assumptions first before testing the regression model. Then we'll continue with correlation analysis tests, anova tests, and T tests.

Classical Assumption Test

This classical assumption test is conducted to assess whether the data used follows normality, multicollinearity, heterocadastisity, and autocorrelation. It tries to make sure that the regression model used doesn't have bias and meets the test standards.

1. Normality Test

The normality test using the One Sample Kolmogorov Smirnov Test method yielded the following results.

Table 3.1
Normality Test Result
One Sample Kolmogorov Smirnov Test

	Unstandardized Residual
Asymp. Sig. (2-tailed)	0,200

Source: SPSS Process Data 26, 2024

Based on table 3.1, As can be seen, the examiner generated an Asymp.Sig. (2-tailed) value of 0.200. The results showed that the residual had a higher significance value than the probability level of the study, which is $0.200 > 0.05$, so it was concluded that the residue value had been normality distributed and had met the normality assumption test.

2. Multicollinearity test

Based on Table 3.1, as can be seen from the results of the multicollinearity test, all independent variables had Tolerance values greater than 0.1 and Variance Inflation Factor (VIF) values less than 10. It can then be concluded that the regression model developed does not experience multicollinearity disturbance. Then, for the CI value is in the range of 5,4608 or below 10 so it can be stated that there is no multicollinearity disturbance.

Table 3.2
Multicollinearity Test Results

Model Variables	Collinearity Diagnostics	
	Tolerance	VIF
DER	0.872	1.147
ROA	0.859	1.164
PER	0.985	1.016

Source: SPSS Process Data 26, 2024

3. Heteroscedasticity test

Based on the Table 3.3, as can be seen, the significance value for the capital structure variable (DER) of 0.331, the profitability variables (ROA) of 0.147, and the investment result variable (PER) of 0.510 exceeds the significance level of 0.05. As a result, it can be concluded that there is no heteroscedasticity on all independent variables.

Table 3.3
Heteroscedasticity Test Results

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.387	.299	4.633	.000		
	DER	-.301	.308	-.104	.976	.872	1.147
	ROA	2.217	1.515	.157	1.464	.859	1.164
	PER	-8.761E-5	.000	-.066	.985	.985	1.016

a. Dependent Variable: ABS_RES

Source: SPSS Process Data 26,2024

4. Autocorrelation Test

According to the test results Table 3.4, the Durbin-Watson value is 2,036. These values will be compared to the Durbin-Watson table values to determine whether or not there is autocorrelation, thus a multiple linear regression analysis can be performed for further testing.

Table 3.4
Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.782 ^a	.612	.600	1.7196667	2.036

a. Predictors: (Constant), PER, DER, ROA

b. Dependent Variable: Z-SCORE

Source: SPSS Process Data 26,2024

Multiple Linear Regression Analysis

In order to ascertain the linear correlation between the variable independent and dependent variable in this study, the authors employed a multiple linear regression analysis. Based on the result of the multiple linear regression analysis, the regression equation was obtained as follows:

Table 3.5
Multiple Linear Regression Analysis (I)

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	-.867	.045		.000
	ROA	1.760	.466	-.361	.000
	PER	0,01053	.000	.023	.810

a. Dependent Variable: DER

Source: SPSS Process Data 26,2024

Table 3.5 shows the equation value of the mediated variable: $Z = -0,867 + 1,760X_1 + 0,01053X_2 + e$. Where there is a positive correlation between the profitability with the capital structure and has a positive relation between the investment decision variable to the capital structural variable.

Table 3.6
Multiple Linear Regression Analysis (II)

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	-2.777	.464		.000
	DER	1.045	.477	-.149	.031
	ROA	24.684	2.345	.722	.000
	PER	.000	.000	-.086	.183

a. Dependent Variable: Z-SCORE

Source: SPSS Process Data 26,2024

Table 3.6 shows the equation of the second part: $Y = -2,777 + 1,045X_1 + 24,684X_2 + 0,000X_3 + e$. Where there is a positive correlation between the capital structure with financial distress, a positive relation between the profitability variable and financial distresses, and a positive link between the investment decision variables and the finance distress. Then, we will continue using the path analysis in Figure 3.1 to show the existence of direct and indirect influences between variables.

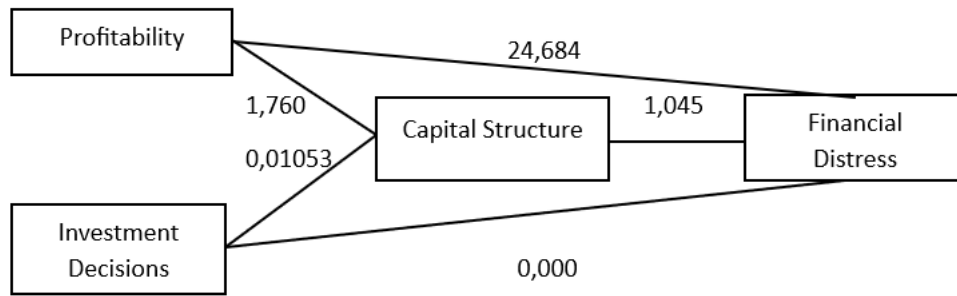


Figure 3.1
Track Analysis

Figure 3.1 shows that the marginal effect of the profitability variable on financial distress is 24,684, while the direct impact of the capital structure variable is $1,760 \times 1,045 = 1,839.2$. So, the two values of these direct influence variables have a direct relative. Next, the investment decision variable has a direct impact on financial distress of 0,000, whereas the direct impact of the capital structure variable is $0.01053 \times 1.045 = 0.0110$. So, the two values of the direct influence variable have a direct relative.

Then to decide the test results of this mediation relationship, the calculation will be done using the application sobel-test in Picture 3.2 and 3.3.

Input:		Test statistic:	Std. Error:	p-value:
a	1.760	Sobel test:	1.89504188	0.97053264
b	1.045	Aroian test:	1.84721314	0.99566204
s _a	0.466	Goodman test:	1.9467892	0.94473505
s _b	0.477	Reset all	Calculate	

Picture 3.2 Sobel Capital Structure Test Mediates Profitability Against Financial Distress

Picture 3.2 shows that there is a positive correlation between the capital structure that mediates the relationship of profitability to financial distress and has a significance value of 0.058.

Input:		Test statistic:	Std. Error:	p-value:
a	0.01053	Sobel test:	2.19077568	0.00502281
b	1.045	Aroian test:	2.19077568	0.00502281
s _a	0.000	Goodman test:	2.19077568	0.00502281
s _b	0.477	Reset all	Calculate	

Picture 3.3 Sobel Capital Structure Test Mediates Investment Decisions Against Financial Distress

Figure 3.3 shows that there is a positive correlation between the capital structure that mediates the relationship between investment decisions and financial distress and has a significance of 0.028.

Hypothesis Test

1. F Test (Anova Test)

Table 3.7
Anova Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	448.104	3	149.368	50.509	.000 ^b
	Residual	283.896	96	2.957		
	Total	732.001	99			

a. Dependent Variable: Z-SCORE

b. Predictors: (Constant), PER, DER, ROA

Source: SPSS Process Data 26,2024

From the result of the Anova Test it can be found that the value of F counts by 50,509 is greater than the F value of table 2.70 with the significance value of 0,000 is less than 0.05 so it may be concluded that the variables of capital structure, profitability, and investment decisions influence the variable of financial distress.

2. T -Test

Table 3.8
T-Test Results

Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.777	.464		5.991	.000
	DER	-1.045	.477	-.149	-2.191	.031
	ROA	24.684	2.345	.722	10.526	.000
	PER	.000	.000	-.086	-1.342	.183

a. Dependent Variable: Z-SCORE

Source: SPSS Process Data 26, 2024

Table 3.8 of T Test results shows that the T count value for the capital structure and profitability variables is greater than the table's T value ($>1,98472$), indicating that capital structure and profitability influence financial distress and accepted hypotheses. However, the variable investment decision has a T count value less than the table T value ($<1,98472$), indicating that the investment decision has no influence on financial distress and thus the hypothesis is rejected.

Discussion of Test Results

The Impact of Capital Structures on Financial Distress

According to the result of the multiple linear regression test shown in the Table 3.6, the capital structure variable (DER) has a significance of 0.031 or smaller than 0.05, indicating that capital structure has a positive impact on financial distress. The results show that the higher the capital structure, the more obligations the company has to meet. Increased debt will increase net income rates. [4] This is consistent with research conducted by Widiati (2015) stating that capital structures have a positive influence on financial distress.

The Impact of Profitability on Financial Distress

According to the results of the multiple linear regression test shown in the Table 3.6, the profitability variable (ROA) has a significance value of 0,000 or smaller than 0.05 which indicates that profitability has a positive impact on financial distress. The results support the hypothesis that the higher the profitability, the greater the amount of net profit generated. On the contrary, the lower profitability the lower the net profit generated, therefore, if the company can effectively manage its assets, financial trouble will not befall it. This is consistent with the study of Siti Agustina and Muji Mranani (2020), which found a positive relationship between profitability and financial distress.

Impact of Investment Decisions on Financial Distress

According to the result of the multiple linear regression test shown in the Table 3.6, the investment decision variable (PER) has a significance value of 0.183 or more than 0.05, indicating that investment decision has a negative impact on financial distress. The results don't support the hypothesis that the investment decision has a positive impact on financial distress. The inability of the investment decision to influence the financial distress can be attributed to the fact that a company in financial distress will opt to avoid excessive and risky investment activities.

Effects of Profitability on Capital Structure

According to the multiple linear regression test results displayed in Table 3.5, the profitability variable (ROA) has a significance value of 0,000 or smaller than 0.05 which indicates that profitability has a positive impact on the capital structure. The results support the hypothesis that the profitability ratio is utilized to quantify the rate of return on the investment made by the Company by utilizing its assets. So, the higher the profitability, the better because it shows that the corporate can make money from its assets. This is in line with the findings made by Watung, dkk. (2016) which states that profitability has positive influence on capital structure.

Impact of Investment Decisions on Capital Structure

According to the multiple linear regression test results displayed in Table 3.5, the investment decision variable (PER) has a significance value of 0.810 or more than 0.05, which indicates that investment decision has a negative impact on capital structure. The results don't support the hypothesis that has been raised.

The Impact of Profitability in Mediating Capital Structures Against Financial Distress

In light of the test results, the significance value was 0.058, which is higher than 0.05. It is then possible to conclude that the capital structure does not act as an intermediary in the relationship between profitability and financial distress. Therefore, the hypothesis put forward would be rejected.

Impact of Investment Decisions in Mediating Capital Structure on Financial Distress

In light of the test results, the significance value was 0.028, which is less than 0.05. It is then possible to conclude that the capital structure can act as an intermediary in the relationship between investment decisions and financial distress. Therefore, the hypothesis put forward is acceptable.

IV. CONCLUSION

According to the findings of the study, it is evident that the capital structure variable, as indicated by the Debt to Equity Ratio (DER), and the profitability variable, as measured by the Return On Assets (ROA), both exert a positive and statistically significant influence on financial distress. This leads to the acceptance of the hypothesis. Then, from the findings of the track analysis using the sobel test showed that the capital structure has not been able to balance the impact of profitability on financial distress. This research is done so that each company can minimize the magnitude of the possibility of financial distress, so that the risks can be detected early and the authorities can take appropriate alternative decisions in the prevention. If the risk can be properly mediated, then a forward-looking company can focus more on maximizing the existing profits. Later, for the future, other researchers are expected to undertake further testing of other factors that may trigger financial distress. As well as expanding research on companies in other sectors listed on the Indonesian Stock Exchange.

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