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Impact of Ownership Structures on Financial Performance and Distress in Businesses

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Abstract

Business and company performance have been significantly impacted by the ever-changing economic conditions. In an environment characterized by volatility, uncertainty, and rapid shifts in market dynamics, effective management becomes crucial. The research aimed to identify which aspects of management have the most significant impact on the financial success of a business. The study specifically focused on three key factors: management ownership, institutional ownership, and financial performance. Management ownership refers to the extent to which company executives and managers hold shares in the business, which can influence their decision-making and commitment to the company's success. Higher levels of management ownership may align the interests of the managers with those of the shareholders, potentially leading to improved financial performance. Institutional ownership, on the other hand, reflects the proportion of a company's shares that are owned by institutional investors, such as pension funds, mutual funds, and other large entities. This type of ownership can bring not only capital but also governance and oversight that may positively affect a company's operational efficiency and strategic direction. Managerial ownership plays a pivotal role, as it indicates the degree to which company executives and managers hold shares in the business. A higher level of managerial ownership can align the interests of management with those of shareholders, potentially leading to better decision-making and a reduced risk of financial difficulties. When managers have a personal stake in the organization, they are more likely to be invested in its success. Institutional ownership is another important factor, representing the proportion of shares owned by large entities such as pension funds and mutual funds. A greater level of institutional ownership often brings improved corporate governance, as these investors tend to advocate for accountability and performance, thereby helping to reduce the likelihood of financial distress. These findings underscore the importance of these financial indicators and ownership structures in evaluating a company's exposure to financial distress.

Keywords: Management Ownership, Institutional Ownership, Financial Performance, Financial Distress

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1. INTRODUCTION

The constantly evolving economic landscape significantly impacts a company's activities and overall performance. When management fails to effectively oversee business operations, it can result in diminished performance and increased risk of financial difficulties (Alabullah et al., 2022). The issue of financial distress has garnered attention not only concerning a company's financial health but also within the broader field of finance, as it serves as a crucial indicator for investors assessing a company's performance. Stakeholders and employees are often hesitant to engage with companies that exhibit financial instability (Kazemian et al., 2017; Salleh & Sapengin, 2023). To assess a company's financial viability, predictions of financial distress can be instrumental in financial planning, enabling corrective measures to be implemented to avert potential bankruptcy. This predictive capability is vital for both investors and stock exchange regulators. Recognizing the early signs of financial trouble allows companies to take proactive steps before reaching the point of bankruptcy. Thus, having reliable tools to forecast financial distress is essential for addressing potential financial challenges (Bilal & Tanveer, 2023; Belás et al., 2015). These tools provide a framework for identifying warning signs and facilitate timely intervention, ultimately supporting a company's efforts to maintain stability and foster sustainable growth. In addition to the fluctuating economic environment, other predictors of financial difficulties include inadequate corporate governance practices. Poor implementation of corporate governance can negatively impact business performance, exacerbate the company's financial challenges, and ultimately lead to financial distress (Sivakumar & Kumar, 2019; Sengupta & Faccio, 2011; Huseyin, 2023). Corporate governance is essential for business success, encompassing the dynamics between various management teams and their relationships with stakeholders.

The ownership structure of a company significantly influences the effectiveness of corporate governance. Understanding how ownership structure impacts business operations is crucial, as it can ultimately affect a company's ability to achieve its objectives. The distinction between management ownership and institutional ownership encompasses various types of company ownership, which can play a pivotal role in shaping governance practices (Bertuah, 2015; Fadzil, 2021). Furthermore, financial ratios, commonly presented in financial statements, serve as critical indicators for predicting potential financial problems. These statements provide insights into a company's financial position over specific periods, and analyzing them requires the use of measurement tools such as financial ratios (Utami et al., 2019; Turan, 2023).

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Financial indicators are instrumental in evaluating a company's performance and overall financial health (Mirakhor, 2021; Kim et al., 2013). Alongside corporate governance factors, key elements such as liquidity, profitability, and debt ratios frequently emerge as significant contributors to financial crises (Wang & Ahmad, 2018; Bhattacharjee & Han, 2014). The topic of financial difficulties has attracted considerable attention from researchers aiming to forecast business profitability. There are two primary motivations for conducting surveys to predict financial distress. First, they serve to test the relationship between financial metrics and measurement errors. Second, these studies help develop predictive models for identifying potential financial problems (Ullah & Sohail, 2020; Khan, 2022; Brahmana, 2007). An accurate model for forecasting financial distress can profoundly influence various business stakeholders during the decision-making process, enabling proactive measures against circumstances that could lead to bankruptcy. These models act as early warning systems regarding the financial condition of companies facing distress (Das, 2024; Margolios & Calderon, 2021; Xie et al., 2011). By integrating insights from corporate governance, ownership structures, financial ratios, and predictive modeling, businesses can better navigate the complexities of financial management and enhance their resilience against potential economic downturns.

Previous research on measuring financial difficulties has produced varied results, highlighting the complexity of accurately predicting such challenges. For instance, Elloumi and Gueyié (2001) employed benchmarks in their analysis, specifically identifying companies with negative Earnings Before Interest and Taxes (EBIT) as indicators of financial distress. Their study suggests that a sustained period of negative EBIT is a strong signal that a company has not been performing well and has failed to achieve growth. This persistent underperformance significantly increases the likelihood that the company will encounter financial difficulties. The approach taken by Elloumi and Gueyié underscores the importance of utilizing financial metrics as benchmarks for assessing a company's viability. Negative EBIT over several years can be seen as a warning sign that the company is struggling to generate sufficient operational income, raising concerns about its overall financial health. This method illustrates one way to quantify financial distress and provides a framework for identifying companies that may be at risk. The variability in findings among different researchers may stem from the diverse methodologies and financial indicators used to define and measure financial distress. While some studies may focus on specific financial ratios or performance benchmarks like EBIT, others may incorporate a broader range of financial indicators, including liquidity ratios, debt levels, and cash flow analysis (Hubbard, 2020). This diversity reflects the multifaceted nature of financial health and emphasizes the need for a comprehensive approach when evaluating a company's risk of financial difficulties. The insights from previous research, including the work of Elloumi and Gueyié, contribute to a deeper understanding of financial distress indicators. These findings can inform better predictive models and risk assessment strategies for stakeholders aiming to mitigate potential financial challenges in businesses.

2. LITERATURE REVIEW

Financial distress refers to a situation where a company encounters significant financial difficulties that jeopardize its operational viability. As noted by Bhattacharjee and Han (2014), Ahmad et al. (2014), Rashidah et al. (2016), and Utami and Dewi (2019), this condition can manifest when a company's liabilities equal its assets, indicating a precarious financial position (Ross et al., 2013). To anticipate and assess financial distress, several predictive models have been developed over the years, each contributing unique methodologies and insights. Notable models include those proposed by Beaver (1966), Altman (1968), Springate (1978), Ohlson (1980), and Zmijewski (1984). Each of these models utilizes different financial ratios and criteria to evaluate a company's likelihood of experiencing financial difficulties. The Z-Score model, developed by Edward Altman, is particularly well-known for its effectiveness in predicting bankruptcy. However, it is important to recognize that the Z-Score model is not a static tool; it evolves following the specific context of the organization and the circumstances under which it is applied. As financial environments change and new data becomes available, the parameters and coefficients used in the model may need to be adjusted to maintain its predictive accuracy. This adaptability highlights the importance of context in financial analysis and underscores the necessity for companies to continually reassess their financial health using the most relevant and current models available. By leveraging these predictive tools, stakeholders can gain valuable insights into potential financial challenges, allowing them to take proactive measures to mitigate risks and ensure the sustainability of the business (Hubbard, 2020). According to the Indonesian Institute for Corporate Governance (IICG), the implementation of Good Corporate Governance (GCG) is believed to enhance investor confidence and lead to more efficient operational performance for companies that adopt these practices. The principles of GCG help establish transparent and accountable management structures, which are crucial for attracting and retaining investors.

Management ownership, particularly among the directors of a company, plays a significant role in aligning the interests of management with those of shareholders. When management holds a substantial ownership stake, it promotes better coordination of profits between the principal (shareholders) and the agent (management). This alignment incentivizes management to act in the best interests of the shareholders, as their financial outcomes become more closely tied to the performance of the company. As noted by Kwiatek (2018), the responsibility of management increases with higher ownership stakes. When directors and commissioners have a vested interest in the company's success, they are more likely to make decisions that prioritize the long-term value of the company. This sense of ownership enhances their supervisory role, motivating them to perform diligently and strive for optimal outcomes. Furthermore, the presence of management ownership can bolster the supervisory function of the board, as it creates an inherent incentive for directors to act in ways that maximize the company's value. This dynamic fosters a culture of accountability and encourages management to pursue strategies that enhance corporate performance. Overall, management ownership is a critical factor in promoting

effective corporate governance and achieving sustainable business success.
Institutional investors consist of shares owned by entities such as insurance companies, banks, investment trusts, and other financial institutions. These investors play a significant role in the financial markets, often influencing corporate governance and investment strategies due to their substantial holdings. Financial performance is assessed based on the completion of work undertaken by a company over a specific period, as detailed in its Annual Financial Report (Munawir, 2010). Various metrics derived from financial reports serve as the basis for evaluating a company's financial health (Sintha, 2018). Several key metrics are commonly used to predict financial distress. The liquidity ratio, for instance, indicates a company's ability to meet its short-term obligations. This ratio assesses whether a company has sufficient funds to pay its current liabilities, reflecting its capacity to generate cash and manage cash flows effectively (Kasmir, 2016). The solvency or leverage ratio measures the extent to which a company's assets or costs are financed through debt. This ratio provides insights into a company's financial stability by comparing its total debt to its equity, helping to determine its ability to meet long-term obligations (Periansya, 2015). This metric is useful for comparing a company's financial performance over time or against industry peers.
Profitability ratios evaluate a company's ability to generate profits over a specific timeframe. These ratios are crucial for assessing the efficiency of a company's operations and its overall financial viability. Additionally, the activity ratio measures how effectively a company manages its assets to generate revenue (Kasmir, 2016). The cash flow ratio is another vital indicator, reflecting the total net income and net cash flows from operating activities. Improved cash flow is essential for businesses as it enables them to repay debts, invest in fixed assets, and pursue growth opportunities. These metrics collectively provide a comprehensive view of a company's financial performance and can signal potential financial distress, allowing stakeholders to take informed actions to mitigate risks. The implementation of Good Corporate Governance (GCG) is a crucial aspect of an organization's internal environment. GCG plays a vital role in fostering a healthy corporate state and enhancing overall performance (Kusumayani et al., 2019). By establishing clear guidelines for decision-making, accountability, and transparency, GCG helps create a framework that encourages ethical conduct and responsible management practices.
A strong governance structure not only enhances the integrity of the organization but also builds trust among stakeholders, including investors, employees, and customers. This trust is essential for maintaining a positive corporate reputation, which can lead to increased investor confidence and improved financial performance (Fatmawati & Fauzan, 2021). Furthermore, effective GCG practices help mitigate risks and ensure compliance with regulatory requirements, ultimately contributing to the organization's long-term sustainability. As companies strive for operational excellence, the principles of GCG provide a roadmap for aligning business strategies with ethical standards and stakeholder interests. This alignment is essential for driving performance improvements and achieving strategic objectives. By prioritizing GCG, organizations can foster a culture of accountability and responsiveness, positioning themselves for success in an increasingly competitive and complex business landscape. Management ownership plays a critical role in influencing financial distress, where shares owned by directors and agents are referred to as internal ownership. This type of ownership helps align the interests of various internal departments and investors by promoting a shared commitment to the company's goals. Research indicates that internal ownership has a significant impact on the likelihood of financial difficulties; specifically, the higher the level of internal ownership, the lower the probability of experiencing financial distress (Manzaneque et al., 2016; Septivani & Agoes, 2014). This relationship underscores the importance of management's stake in the company, as it can motivate executives to make decisions that enhance the company's financial health.
In contrast, institutional ownership refers to shares held by entities such as governments, legal organizations, trusts, funds, or foreign entities that oversee the operations of a company. Studies have shown that institutional ownership does not significantly influence financial distress (Manzaneque et al., 2016; Sayari & Mugan, 2017). While institutional investors can provide capital and potentially influence corporate governance, their impact on the financial stability of the company appears to be less direct compared to that of internal ownership. Ultimately, companies that effectively navigate financial difficulties tend to demonstrate strong financial performance, as indicated by various financial metrics (Kristanti et al., 2016). These companies leverage their internal ownership structures to enhance decision-making and strategic alignment, contributing to overall resilience in challenging economic environments. Therefore, fostering robust internal ownership and focusing on financial performance are essential strategies for companies aiming to mitigate the risks associated with financial distress. The relationship between the Working Capital to Total Assets (WCTA) ratio and financial distress is an important consideration in financial analysis. The WCTA ratio serves as an indicator of a company's net working capital relative to its total assets. Research conducted by Moch et al. (2019), Supriyanto and Darmawan (2018), Desiyanti et al. (2019), and Almansour (2015) has shown that working capital positively influences financial stability and reduces the likelihood of financial distress.
A positive relationship exists between working capital and total assets, suggesting that a higher working capital ratio indicates a lower risk of financial difficulties. This is primarily because working capital comprises short-term assets and liabilities. When a company's current assets exceed its current liabilities, it demonstrates strong liquidity and financial health. If the value of working capital is greater than the total debt obligations, the company is likely to be shielded from financial distress. Essentially, effective management of working capital ensures that a company can meet its short-term obligations while maintaining operational efficiency. By ensuring that short-term assets are sufficient to cover short-term liabilities, a company can navigate economic fluctuations more effectively and sustain its financial viability. Consequently, maintaining a robust working capital position is critical for companies aiming to avoid financial challenges and enhance overall performance. Research has indicated that current asset ratios play a crucial role in predicting

economic distress. Studies by Desiyaanti et al. (2019) and Khaliq et al. (2014) demonstrate that the current ratio, which assesses a company's ability to meet short-term obligations using its current assets, has a significant impact on financial stability. A higher current ratio indicates a lower likelihood of financial problems, as it suggests that the company possesses adequate short-term assets to cover its liabilities.

Furthermore, the debt ratio is another critical metric in evaluating financial distress. According to research by Islami and Rio (2019), the debt ratio—often referred to as liabilities to total assets—is classified as a solvency ratio. This ratio measures the extent to which a company's total assets are financed by its total liabilities. A higher debt ratio suggests greater reliance on debt, which can elevate the financial risk of the company. Conversely, a lower debt ratio typically signifies lower leverage, reducing the company's financial risk associated with loan repayment. From the perspective of shareholders, higher debt ratios may lead to increased interest payments, which can ultimately result in diminished dividend payouts. This situation can create tension between maintaining sufficient capital for growth and returning value to shareholders. As such, the debt ratio serves as a vital indicator for forecasting financial difficulties. By monitoring these ratios, stakeholders can gain insights into a company's financial health and make informed decisions to mitigate risks associated with potential economic distress. The relationship between the market value of stocks and the book value of total liabilities is a critical indicator of a company's utilization and financial health. Previous research by Baimwera and Muriuki (2014) indicated that this ratio could have a positive impact on financial distress. However, when the ratio reflects a positive value, it can signal potential financial difficulties, leading to scenarios where a company faces bankruptcy. This paradox suggests that while a higher book value of capital may imply greater utilization of debt, it can also increase financial vulnerability if not managed effectively.

In essence, a greater reliance on debt as indicated by a high book value of liabilities relative to market value may elevate bankruptcy risk. Companies that over-leverage themselves could find it challenging to meet their financial obligations, particularly during economic downturns, resulting in heightened financial distress. Return on equity (ROE) is another crucial metric in assessing financial stability. Larger companies tend to have shorter payback periods on investments, which benefits investors and shareholders by providing quicker returns. Higher profitability enhances a company's ability to manage its financial obligations, thereby reducing the likelihood of encountering financial pressures. As noted by Desiyaanti et al. (2019), a strong return on equity significantly influences economic distress; the higher the ROE, the more capable a company is of maintaining adequate working capital and fulfilling its obligations as they come due. Consequently, both the relationship between market value and book liabilities, as well as return on equity, are essential considerations for understanding and predicting financial distress. Companies must balance their debt levels and focus on enhancing their profitability to ensure long-term sustainability and avoid potential financial crises.

The relationship between the Retained Earnings to Total Assets (RETA) ratio and financial distress is an important aspect of financial analysis. The RETA ratio serves as an indicator of a company's ability to generate cumulative returns from its assets. When this ratio is low, it suggests that the company’s assets are not being utilized effectively, which can lead to challenges in raising additional capital and investing in growth opportunities. Almansour (2015) found that a low RETA can have a positive correlation with financial crises, indicating that insufficient retained earnings relative to total assets may signal underlying financial problems. Additionally, the Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) ratio is another key metric used to assess financial health. This ratio evaluates how effectively a company’s assets are utilized to generate profits. According to Baimwera and Muriuki (2014), a higher EBITDA ratio indicates that a company is effectively leveraging its assets to produce income. Conversely, when costs are elevated, and the EBITDA ratio is low, it suggests that the company may be struggling to manage its resources effectively, potentially leading to financial difficulties. Both the RETA and EBITDA ratios provide crucial insights into a company's financial performance and health. A low RETA can indicate ineffective asset utilization and a higher risk of financial distress, while a low EBITDA ratio can signal that a company is not generating sufficient returns relative to its asset base. Monitoring these ratios allows stakeholders to identify potential financial challenges early and take appropriate measures to mitigate risks, thereby enhancing the company's overall stability and operational efficiency. Return on Assets (ROA) is a critical financial metric that provides insights into how effectively management utilizes resources to generate revenue. As noted in a study by Arshida (2012), ROA is calculated by dividing a company’s annual earnings by its total assets. A higher ROA indicates that the company is efficiently converting its investments into profit, suggesting strong operational performance. Conversely, a declining ROA may signal potential financial distress, as it reflects management's inability to effectively leverage assets to generate adequate returns. The Sales to Total Assets (SATA) ratio, also referred to as the total asset turnover ratio, further emphasizes the relationship between asset management and financial stability. This metric measures an administrator's effectiveness in utilizing assets to drive sales. Increased sales can lead to higher profits, thereby reducing the likelihood of financial difficulties. Research conducted by Ray (2011) indicates that higher SATA ratios have a negative correlation with financial distress, meaning that efficient asset utilization to generate sales can mitigate the risk of encountering financial problems.

Cash Flow from Operating Activities to Total Assets (CFOTA) is another important indicator of financial health. This ratio reflects a company's ability to generate cash flows from its assets, as highlighted by Arshida (2012). In a study conducted in Sri Lanka, researchers analyzed various financial parameters to predict business failures, finding a clear negative association between low cash flow and financial distress. Companies that struggle to generate sufficient cash flow from their operations are likely to face difficulties in meeting their obligations, which can exacerbate financial challenges. ROA, SATA, and CFOTA are essential metrics for assessing a company's financial health and its potential for distress. A strong ROA indicates effective resource utilization, while a high SATA ratio suggests efficient asset management leading to increased sales. Meanwhile, a healthy CFOTA ratio underscores the importance of generating

cash flow to sustain operations and avoid financial crises. Monitoring these indicators allows stakeholders to identify vulnerabilities and take proactive measures to enhance financial stability.

3. METHODOLOGY

This study aims to present the analysis of numerical data collected through a survey focused on specific financial variables. The dependent variable in this research is financial distress, while Good Corporate Governance (GCG) and financial performance serve as independent variables. The population for this survey comprises manufacturing companies listed on the Indonesia Stock Exchange. The sampling method employed is targeted sampling, where participants are selected based on predefined criteria set by the researcher. The criteria for inclusion in this study are as follows: the companies must be manufacturing entities listed on the Indonesia Stock Exchange, must submit complete financial reports, and should not have any variables that do not meet the specified criteria. Additionally, companies that do not report in Indonesian Rupiah are excluded from the study. Data collection resulted in a sample of 62 manufacturing companies that satisfied the established criteria. For the analysis of the collected data, descriptive statistics and logistic regression analysis were utilized. The analytical tests were conducted using EViews, a software tool commonly used for econometric analysis. This approach enables a comprehensive examination of the relationship between the specified variables, providing insights into the factors influencing financial distress among the sampled manufacturing companies.

4. RESULTS AND DISCUSSION

Table 1 provides the outcome of a feasibility test, specifically assessing the model's fit through the -2 Log Likelihood statistic. In this case, the -2 Log Likelihood value is 53.07957, with 12 degrees of freedom (Df) and an associated probability of 0.000. The -2 Log Likelihood value indicates the goodness of fit for the model, where lower values generally suggest a better fit to the data. With a probability of 0.000, the test result is statistically significant at any conventional level (e.g., $p < 0.05$ or $p < 0.01$), indicating that the model is a good fit for the observed data and that there is a meaningful relationship captured by the model. The low p-value suggests the likelihood that these results are due to chance is extremely low, affirming the model's feasibility and reliability in predicting outcomes based on the data.

Table 1: Feasibility Test

-2Log likelihood	Df	Probabilities
53.07957	12	0,000

Table 2 provides the results of two goodness-of-fit tests, the Hosmer and Lemeshow (H-L) test, and the Andrews test, used to assess the fit of the model. The Hosmer and Lemeshow test has a statistic value of 1.5394 with a corresponding probability (Chi-Square with 10 degrees of freedom) of 0.9988. This high p-value, close to 1, suggests that there is no significant difference between the observed and expected outcomes, indicating a good fit for the model. In this case, the model is well-calibrated, and the observed data aligns closely with the predicted probabilities. The Andrews statistic is 71.5280 with a probability (Chi-Square with 12 degrees of freedom) of 0.0000. The very low p-value, essentially zero, suggests that the model may not fit the data well according to this test. This outcome indicates that there could be some discrepancies between the model and the data structure when assessed with the Andrews test.

Together, these test results provide mixed insights into model fit. While the Hosmer and Lemeshow test indicates a good fit, the Andrews statistic suggests potential areas where the model may not fully capture the data's nuances. This contrast could imply that the model fits well for certain aspects of the data but may need refinement to better align with all underlying data patterns.

Table 2: Hosmer and Lemeshow Test Results

H-L Statistic	1.5394	Prob. Chi-Sq(10)	0.9988
Andrews Statistic	71.5280	Prob. Chi-Sq(12)	0.0000

Table 3 displays the results of a classification matrix, comparing the predicted and actual outcomes of a model for a dependent variable across two scenarios: the estimated equation and the constant probability. This matrix provides insights into the accuracy of the model and its predictive capability. In the estimated equation scenario, for cases where the dependent variable (Dep) is 0, the model correctly classifies 111.59 out of 114, yielding a high accuracy rate of 97.88 percent. For cases where Dep is 1, it correctly predicts 7.59 out of 10, with an accuracy of 75.85 percent. The overall accuracy across all classifications in this scenario is 96.11 percent, with an error rate of 3.89 percent. In the constant probability scenario, where a simple probability approach is used without model estimation, the model correctly identifies 104.81 cases where Dep is 0 out of 114, with an accuracy of 91.94 percent. For cases where Dep is 1, it only accurately predicts 0.81 out of 10, with a significantly lower accuracy of 8.06 percent. The overall accuracy in this scenario is 85.17 percent, with a higher error rate of 14.83 percent.

The total gain and percent gain values indicate the improvement in accuracy provided by the model. For instance, a total gain of 10.93 indicates that the model improves correct classifications over the constant probability method by nearly 11 cases. The percent gain, calculated as 73.73 percent across both Dep=0 and Dep=1 categories, signifies that the model enhances accuracy by nearly 74 percent compared to a non-estimated baseline. Overall, the classification matrix demonstrates that the estimated equation scenario substantially outperforms the constant probability method, particularly

in cases where the dependent variable is 1, indicating the model's effectiveness in capturing the correct classifications in this dataset.

Table 4 provides results from a logistic regression analysis, showing the estimated coefficients, standard errors, z-statistics, and probabilities for each predictor variable. The significance of each variable is indicated by its z-statistic and associated probability. The variable KI has a coefficient of -0.000632 with a z-statistic of -2.997853 and a probability of 0.0027, indicating a statistically significant negative effect. KM has a coefficient of 0.003579, a z-statistic of 2.443543, and a probability of 0.0145, reflecting a significant positive effect. The coefficient for WCTA is 1.629485 with a probability of 0.6926, which is not statistically significant. CR has a coefficient of -2.512699, a z-statistic of -0.937546, and a probability of 0.3485, indicating it is not significant. DR, with a coefficient of -26.32420, a z-statistic of -2.872294, and a probability of 0.0041, shows a significant negative effect. MVTL has a coefficient of 0.001499 and is not statistically significant, with a probability of 0.6850. ROE shows a significant negative effect with a coefficient of -6.878581, a z-statistic of -3.128731, and a probability of 0.0018. Similarly, RETA has a significant negative effect with a coefficient of -13.56442, a z-statistic of -2.035296, and a probability of 0.0418. EBITTA has a largely negative effect, with a coefficient of -151.3487, a z-statistic of -2.308943, and a probability of 0.0209, indicating significance.

Table 3: Matrix Classification

Estimated Equation				Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
E(# of Dep=0)	111.59	2.41	114.00	104.81	9.19	114.00
E(# of Dep=1)	2.41	7.59	10.00	9.19	0.81	10.00
Total	114.00	10.00	124.00	114.00	10.00	124.00
Correct	111.59	7.59	119.17	104.81	0.81	105.61
% Correct	97.88	75.85	96.11	91.94	8.06	85.17
% Incorrect	2.12	24.15	3.89	8.06	91.94	14.83
Total Gain*	5.95	67.79	10.93			
Percent Gain**	73.73	73.73	73.73			

ROA exhibits a significant positive effect with a coefficient of 125.2030, a z-statistic of 2.831029, and a probability of 0.0046. SATA, with a coefficient of 3.962387 and a probability of 0.1314, is not statistically significant. CFTA also shows no significant effect, with a coefficient of -1.361751 and a probability of 0.5237. The constant term C has a positive coefficient of 8.982988, a z-statistic of 2.119432, and a probability of 0.0341, indicating a significant effect.

In sum, significant variables include KI, KM, DR, ROE, RETA, EBITTA, ROA, and the constant term C. These variables have statistically significant impacts on the dependent variable, while others, such as WCTA, CR, MVTL, SATA, and CFTA, do not show significant effects.

Table 4: Regression Logistic

Variable	Coefficient	Std. Error	z-Statistic	Prob.
KI	-0.000632	0.000211	-2.997853*	0.0027
KM	0.003579	0.001465	2.443543*	0.0145
WCTA	1.629485	4.121217	0.395389	0.6926
CR	-2.512699	2.680082	-0.937546	0.3485
DR	-26.32420	9.164869	-2.872294*	0.0041
MVTL	0.001499	0.003694	0.405676	0.6850
ROE	-6.878581	2.198521	-3.128731*	0.0018
RETA	-13.56442	6.664590	-2.035296*	0.0418
EBITTA	-151.3487	65.54891	-2.308943*	0.0209
ROA	125.2030	44.22526	2.831029*	0.0046
SATA	3.962387	2.626669	1.508522	0.1314
CFTA	-1.361751	2.135715	-0.637609	0.5237
C	8.982988	4.238395	2.119432	0.0341

5. CONCLUSIONS

Based on the results of the study, it can be concluded that robust corporate governance, as indicated by factors such as institutional ownership and management accountability, plays a statistically significant role in influencing financial distress. These findings suggest that effective governance structures can help mitigate the risks associated with financial difficulties by ensuring that management acts in the best interests of shareholders and maintains accountability for the company's performance. Additionally, the analysis highlights the significant impact of several financial metrics on the likelihood of experiencing financial distress. Specifically, debt ratios, return on equity (ROE), retained earnings relative to total assets, earnings before interest and taxes (EBIT) as a proportion of total assets, and return on total assets (ROA) are all critical indicators that can affect a company's financial stability. Higher debt ratios may indicate increased financial risk, while a strong ROE suggests that the company is generating substantial returns relative to shareholders' equity.

Similarly, a healthy level of retained earnings can indicate a company's ability to reinvest in its operations and weather financial challenges. The pre-interest income and return on total assets further provide insights into how effectively a company is managing its resources to generate profits. Overall, these findings underscore the importance of both governance practices and financial metrics in assessing and predicting financial distress within companies. By focusing on enhancing corporate governance and maintaining strong financial performance, organizations can better navigate potential economic challenges and reduce the likelihood of experiencing financial difficulties. The study reveals that certain variables, including the working capital to total assets ratio, current ratio, sales to total assets ratio, market value to total liabilities (MVTL) ratio, and cash flows from operating activities to total assets, do not have a statistically significant effect on a company's financial position. This finding suggests that these indicators may not provide reliable insights into financial stability or distress within the context of the manufacturing companies analyzed.

Despite these non-significant variables, the study highlights the importance of good corporate governance and specific financial indicators that demonstrate a significant impact on a company's financial health. The implications of these findings are valuable for corporate stakeholders, as they can inform decision-making processes and strategic planning. Understanding which aspects of governance and financial performance significantly influence a company's financial position allows stakeholders to prioritize initiatives that enhance governance structures and improve critical financial metrics. By focusing on these impactful areas, organizations can better position themselves for financial stability and growth, ultimately leading to improved resilience against potential financial distress. In conclusion, while some traditional financial ratios may not significantly affect financial performance, the emphasis on robust corporate governance and key financial indicators remains crucial for effective management and strategic decision-making within the corporate landscape.

The practical implications of the findings from this study indicate that the level of shareholding can significantly influence the potential for financial distress within manufacturing companies. Therefore, manufacturers must remain vigilant regarding the levels of institutional and management ownership within their organizations. Effective oversight of corporate governance is essential to ensure that shareholders are properly supervising company operations, which can help mitigate risks associated with financial distress. Furthermore, managers should pay close attention to critical financial indicators, particularly the leverage ratio. An increase in the leverage ratio, when managed judiciously, can enhance a company's ability to capitalize on borrowed funds to maximize profits. However, manufacturers need to exercise caution when increasing leverage, as excessive debt can lead to heightened financial risk and potential distress. Additionally, the relationship between returns on assets (ROA) and returns on equity (ROE) emphasizes the need for manufacturers to focus on improving these metrics. By effectively managing assets and equity, companies can enhance their profitability and overall financial health. This proactive approach not only aids in reducing the likelihood of financial difficulties but also positions the company for sustainable growth in the long term. Overall, the study highlights the importance of shareholding structures, corporate governance, and key financial indicators in managing financial distress. Manufacturers should prioritize these aspects to strengthen their financial position, ensuring that they are well-equipped to navigate economic challenges and achieve their business objectives.

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