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What Determine the Financial Distress of Indonesian Companies During the COVID-19 Pandemic?

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Abstract

This study is aimed to examine the influence of foreign ownership, CEO profile (tenure, age, and educational background) and leverage on financial distress. Stratified random sampling technique was adopted to select samples of Indonesian multi-sector companies listed on Indonesia Stock Exchange (IDX) in 2020. Data were collected from the companies' annual reports of 243 sample companies. Using multiple linear regression analysis, this study found that foreign ownership, CEO profile, and leverage have influence on the companies' financial distress during the pandemic period. Except leverage, all determinants have positive influence of financial distress.

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1. Introduction

In the early 2020s, a new disease known as the Coronavirus Disease 2019 emerged (COVID-19 pandemic). This pandemic has spread to nearly every country in the world, and we cannot predict this pandemic because it has never occurred before (Rahmah & Novianty, 2021). This unstable condition of the Indonesian economy is a burden for all business owners, as the ups and downs of the Indonesian economy can have a negative impact on the majority of economic sectors (Safitri & Yuliana, 2021). All sectors of the Indonesian economy are predicted to decrease (Supriyati & Hapsari, 2021).

Financial distress happens when a company's finances experience a decline, crisis, or are unhealthy prior to its bankruptcy or liquidation (Platt & Platt, 2002). People use financial knowledge to recognize financial troubles early on. It enables the damage, and even the parties in the worst conditions, to be considered repairable. (Dirman, 2020). Companies experiencing financial distress cannot pay their financial obligations to creditors. In addition, financial distress situations arise due to uncontrolled growth, expansion with low working capital, poor cash flow forecasting techniques and the inability to predict and calculate cash flows (Younas et al., 2021). According to Prasetyanto et al., (2021), financial distress also causes various problems such as low company sales, high expenses, unrealistic budgeting and pricing, companies not having sufficient cash flow to run business operations smoothly, insufficient account balances and poor debt management. The conditions mentioned above associate a company experiencing financial distress which in the end, if the company is not able to get out of the conditions described above, the company will experience bankruptcy (Triwahyuningtias & Muharam, 2012).

The following are phenomena or examples of companies suffering financial distress that can lead to the most severe conditions, specifically bankruptcy. The first is from PT Citra Maharlika Nusantara Corp. (Cipaganti). On April 27, 2017, the company was declared bankrupt since the majority of creditors rejected the peace deal. The firm's total debt is around IDR245 billion (Dirman, 2020).

The last case of bankruptcy that has recently happened was from PT Ramayana Lestari Sentosa Tbk (RALS). According to CNBC News Indonesia,

13 Ramayana locations were temporarily closed because to a drop in sales and can no longer meet their operating expenses caused by the Covivirus-19 epidemic. Only in 2020, at least since 2001, did RALS incur a net loss of Rp on a yearly basis. 138.87 billion (Yanwardhana, 2021).

The case regarding the company as described above shows the worst impact of the occurrence of financial distress. So, it is necessary to detect when the company is experiencing financial distress before the company when it is finally declared bankrupt. Triwahyuningtias & Muharam (2013) stated that an early warning system to anticipate financial distress needs to be developed because this model can be used to identify the occurrence of financial difficulties from the start, even to improve the company's condition.

Unlike previous studies that conducted by Susanti et al., (2020), Mittal & Lavina (2018) and Septiani et al., (2021), this study focused on multi-sector companies because we want to differentiate previous research which only on certain sectors. By analyzing multi-sectors companies in Indonesia, this research is expected to provide a broader picture of foreign ownership, CEO profile and leverage and their impact on the possibility of financial distress. Multi-sector companies in this study mean that this study used all sector industries listed companies in Indonesia named JASICA (Jakarta Stock Exchange Industrial Classification) without finance sector because finance have little bit difference in their financial report, for example like the concept of the net working capital, it does not apply to banks since financial institutions do not have typical current assets and liabilities. Total all sector companies with no finance sector listed on IDX are 622 companies.

This research will examine five variables: Foreign Ownership, CEO Profile (which consist CEO Tenure, CEO Age, and CEO Educational Background), and Leverage. The contradiction of prior research findings regarding these five variables convinced the author that it was necessary to re-examine the elements influencing financial distress in multi-sector companies during the pandemic. The main theory that will be used is the agency theory. As Platt and Platt (2012) point out, agency theory is the prevailing theoretical approach when analyzing the relationship between corporate governance and corporate capital structure. This theory highlights the role of directors as advisors and supervisors to managers, in charge of aligning objectives between owners and shareholders and resolving conflicts with creditors (García & Herrero, 2021).

Many researchers (for example from Swain (2009), Al-Tamimi (2012), Shahwan (2015), Manzaneque et al. (2016)) noted that good corporate governance improves firms financial performance and reduce the likelihood of financial distress (Udin et al., 2017). He et al., (2016) argued that state ownership and foreign ownership play a vital role to improve firms financial performance in case of Chinese multinational corporations (MNCs). Foreign ownership is a process in which citizens of one nation (home country) acquire an asset to exercise control over other companies' production, distribution, and activities in other countries (Moosa & Cardak, 2006). Foreign ownership demands transparency for every activity carried out by the company (Idarti & Hasanah, 2018). A more transparent monitoring process will prevent financial distress (Khan & Javid, 2016). Foreign ownership is an essential resource for a business since it enables the monitoring and enhancing of the firm's performance (Alkurdi & Mardini, 2020). It is expected that in Indonesian all companies industry's executives, managers, investors and strategic management educators may consider findings of this study to develop corporate governance strategies to deal with the degree of financial distress (Udin et al., 2017).

Research on the influence of ownership structure on financial distress has been done before and showed different results. Annither et al., (2020) found that foreign ownership and government have a negative effect on financial distress. Otherwise, Khorraz & Dewayanto (2020) found that the structure of foreign ownership and the government has a positive effect on financial distress. This suggests that these characteristics can also thus have an impact on the firm's probability of distress and need to be explored (Zahra et al., 2018).

Since CEO attributes, besides age and tenure, have not been really explored in the multi-sector context, we try to re-examine it and also extend our analyzes to examine if CEO's educational background affects financial distress. So, in this study, CEO Profile that will be discussed are CEO Tenure, CEO Age, and CEO Educational Background. To that end, our study integrates agency theory to investigate whether foreign ownership, CEO profile, and leverage affect the fi-

nancial distress on multi-sector companies during the pandemic era.

Besides financial distress can also be predicted through financial leverage. Leverage ratio is a ratio used to measure the extent to which a company's assets are financed from debt. Leverage indicates an influence on investment rates and investment opportunities in companies where the level of debt of a company will indirectly affect the interests and trust of investors in investing (Rohmadini et al., 2018). High and low corporate debt will affect the size of the risk of financial distress that will be borne by the company. Rohmadini et al., (2018), and Curry & Banjarnahor (2018) in their research found that leverage has a negative effect on financial distress, while research results from Bernardin & Tifani (2019) in their research found that there was no effect of leverage on financial distress. (Dirman, 2020).

According to Rizki (2019), financial distress can start from the company's inability to pay off its dependents. The relationship between leverage and financial distress is that a high level of leverage allows companies to be unable to pay off these debts when they fall due (Agustini & Wirawati, 2019, Septiani et al., 2021). Based on research conducted by Yusbardini & Rashid (2019), Hidayat & Meiranto (2014), Rahmadini et al (2018) proves that the leverage variable has an influence on financial distress.

This study aims to examine the effect of foreign ownership, CEO profile, and leverage on financial distress in multi-sector companies listed on IDX during the pandemic era. This research is based on agency theory. Jensen & Meckling (1976) show that agency conflicts arise because of the separation of duties and differences in interests between company ownership and company control. Syifa et al., (2017) state that when the company experiences financial distress, this situation can trigger conflict between shareholders and managers (agency conflicts). Therefore, with the agency theory, the ownership structure can add to the supervisory mechanism within the company, which is expected to reduce agency conflict and financial distress.

Theoretically, the benefit of this research is to add empirical evidence of the effect of foreign ownership, CEO profile, and leverage on financial distress in multi-sector companies listed on IDX during the pandemic era. The practical benefit of this research is that it allows investors to invest in companies whose ownership structure can reduce financial distress.

Based on the inconsistency of the previous studies results, the author believe that it is needed to re-test the factors that can influence the financial distress. The factors chosen in this study are foreign ownership, CEO Profile, and leverage. Another reason for choosing multi-sector companies is because there's not much research that studies under multi-sector companies in Indonesia, other researchers just focus on several sector (like just one or until three sector), so it many limitations that already explained from previous studies that the previous authors hope that the future research can explain the financial distress from more abroad sector.

Based on the background description of previous problems, the authors wanted to conduct an event study to look at how the market, CEO's company and company performance reacted to the multi-sector companies during the COVID-19 pandemic, particularly on foreign ownership, CEO profile and leverage.

2. Hyphotesis Development

Agency Theory

Agency theory is a theory that explains the separation of interests between managers in a company (agents or management) and company owners (principals or shareholders) (Bodroastusi, 2009). According to Alkurdi & Mardini (2020), agency theory is to explain the relationship in the form of a contract between one or more people (principal) and another person (agent) to perform some services for them by delegating rights in decision-making to other people or agents. There is a separation of ownership and control of the company, and agency conflicts can arise because there is a separation between company control and ownership (Bauer et al., 2018).

The principal or shareholder gives instructions to the agent or the management in order to achieve the glory of the company, and they must manage the company according to what they want. But on the other hand, the management as an agent often takes several actions that are not in accordance with the instructions ordered by the principal. Hanifah (2013), the occurrence of a main agency

problems can be caused by the existence of related parties, namely the principal (who gives the contract or shareholder) and) has conflicting interests. Agency conflicts that arise between various parties who have various interests can make it difficult and hinder companies in achieving positive performance in order to generate value for the company itself and also for shareholders (Agusti, 2013). In this case, the implementation of good corporate governance is expected to reduce agency conflicts between owners and managers. Triwahyuningtias (2012) said that the existence of corporate governance can reduce agency problems that exist today between the company owner and the manager so that both parties can be aligned in their interests.

Financial Distress

Annither et al., (2020) mention that financial distress is a phenomenon where the company is in the stage before going to bankruptcy or liquidation. Financial distress, according to Putri et al., (2018) and Septiani et al., (2021), is a state of declining financial performance in which firm lacks or has insufficient funds to carry out its operations. Indications or symptoms arising from financial distress according to Sari & Putri (2016), are cost reductions in all fields, cuts in employee salaries, massive layoffs, and drastic drops in stock prices. According to Santoso & Nugrahanti (2022), Financial difficulties can be also caused by errors that occur in the company, the low level of managerial skills in making decisions, and the weakness and lack of supervision of financial conditions. Valentina & Jin (2020) state that if the company's performance continues to decline, it is feared that the company will experience financial distress which will lead to company bankruptcy. In conclusion, financial distress is a condition of financial difficulty in a company in the form of a decrease in profit, the company's inability to pay debts, and obligations that are presented based on financial statements with financial comparisons of the previous period (Putri & Aminah, 2019).

The Effect of Foreign Ownership on Financial Distress

According to Apriyani & Muhyarsyah (2021), foreign ownership refers to persons, legal entities, and governments that are not based in Indonesia yet hold shares in companies. Foreign ownership is an essential resource for a business since it enables monitoring and enhancement of the firm's performance (Apriyani & Muhyarsyah, 2021). So, foreign ownership is defined as the control of a business by individuals who are not citizens or by organizations that are located outside the country.

According to the agency hypothesis, conflicts of interest may emerge between foreign investors and other shareholders or between management and foreign investors (Young et al., 2008). Thus, according to agency theory, foreign investors can reduce agency conflicts within enterprises (Yoo & Koh, 2014).

Foreign ownership is suspected to have a positive correlation to control over a company in order to meet the expectations of shareholders from their home country (Chen, Firth, Gao and Rui, 2006). Thus, it can be concluded that with adequate controls from foreign investors, the company has a smaller possibility to get caught up in financial difficulties (Annither et al., 2020).

Several previous studies which stated on Annither et al., (2020) have shown that there is a positive relationship between foreign ownership and company performance (Ongore, 2011; Jusoh, 2015). This is because foreign investors tend to be more profit-oriented and have many motives to monitor the management of the companies that are invested. A study conducted by Setiawan et al. (2016), said that companies whose ownership structures are controlled by foreigners have a tendency to maintain their company reputation in their home country. Thus, the research hypothesis is as follows:

H_1: Foreign Ownership positively affects to the financial distress in multi-sector companies listed on the Indonesian Stock Exchange (IDX) during the pandemic-era

CEO Profile

Effect of CEO Tenure on Financial Distress

CEO tenure is the length of time a CEO has been with a business. The length of service as CEO determines the tenure of office (Saputri, 2021). Being in a job for a long time allows CEOs to develop diverse behavior patterns, hence tenure is a distinguishing factor when comparing CEOs (Citrin et al., 2019). CEOs have a significant interest in their profession by seeking information and demonstrating a drive to learn, despite their limited familiarity with the company, particularly in the early phases of their employment (Citrin et al., 2019). CEOs perform better and gain more confidence as their tenure grows (Citrin et al., 2019). (Ali et al., 2021).

For instance, according to research by Gibbons and Murphy from 1992, managerial control rises when the CEO holds the job for a longer period of time and makes decisions that are in line with

their interests. In a similar vein, D'Aveni (1990) and Hambrick and D'Aveni (1992) contend that the firm encounters various issues at various stages of the CEO's term. Ooghe and De Prijcker (2008) discovered that management with a severe lack of managerial and industry-related experience was a key factor in start-up company insolvency. According to Hambrick and Fukutomi (1991), new CEOs should start out with a knowledge gap but gradually pick up information about their positions, organizations, and the environment.

H_2: CEO Tenure has a significant impact on Financial Distress

Effect of CEO Age on Financial Distress

CEO age displays a CEO's age from the study year forward. The CEO becomes older as the value increases. A person's preference for risk is greatly influenced by the age of the CEO (Serfling, 2013). According to behavioral finance, young CEOs frequently have high aspirations and like to take risks. Beber and Fabbri (2012), however, claim that senior CEOs tend to be cautious and risk-averse (risk-averse). By the rule of "high risk, high return," while taking a smaller risk, the outcomes will be lower. A senior CEO will therefore deliver a lesser return on assets. The age of the CEO may influence corporate risk-taking, which may therefore affect the possibility of corporate failure, according to a number of study publications.

For instance, Graham et al. (2013) contend that senior managers can take on greater risk since age symbolizes experience and perspective. These findings are consistent with those of McClelland et al. (2012), who discovered that CEOs with younger present careers defined by age likely to use risk-averse techniques, which, on average, may have a negative impact on business performance.

H_3: CEO Age has a significant impact on Financial Distress

Effect of CEO Educational Background on Financial Distress

An individual's thoughts, reactions, and judgment are influenced by their educational background, which is seen to be a crucial factor in determining their personal ability and cognition (Yao, 2021). The UET asserts that the traits of the CEOs' organizations reflect their education (Orens & Reheul, 2013; Ting et al., 2015). Theoretically, CEOs with more education are less risk-averse and more receptive to new concepts, innovations, and investment opportunities (Barker & Mueller, 2002). Higher education levels positively correspond with increasing financial leverage, according to Rakhmayil and Yuce (2011).

According to other prior research (Yao, 2021), a senior management team with more education is better equipped to handle information when faced with threats from rivals and has a greater understanding of how complex the environment is. According to Shipilov and Danis (2006)'s study of top manager traits, an individual's level of schooling is strongly connected with their capability for flexible strain and information processing. It's thought that CEOs with more education feel entitled to rely on their own judgment and expert opinions when making business decisions (Wei, Ouyang, and Chen 2018). Meanwhile, a company's ability to secure outside venture capital from businesses with experience in a certain area or through international collaboration increases with the level of education a CEO in business management has (King, Srivastav, and Williams 2016). In conclusion, the theory of human capital hypothesizes that struggling businesses with CEOs who have postgraduate degrees may be more likely to recover to strong businesses.

H_4: CEO Educational Background has a significant impact on Financial Distress

Effect of Leverage on Financial Distress

The amount of debt a business uses to finance itself is known as leverage. Leverage, according to Fahmi (2014), affects how much of a company's funding comes from debt. According to additional research, leverage can be seen as the company's ability to repay all short- and long-term loans (Agustini & Wirawati, 2019). Leverage ratios are used to display the company's level of leverage. The leverage ratio is the ratio of the amount of loans a firm has to its assets (Kasmir, 2016, p.151). Leverage results from using corporate funds to pay off debt owed to third parties (Cinantya & Merkusiwati, 2015). Suppose the corporation has more assets than liabilities overall. In that instance, the business might pay liabilities with its own assets to prevent financial trouble. However, if the company's entire obligations are greater than its total assets, it may go through financial crisis (Putri & Merkusiwati, 2014).

Rizki (2019) asserts that a company's incapacity to support its dependents might lead to financial crisis. Leverage and financial difficulty are related in that excessive levels of leverage make it possible for businesses to default on their loans when they

become due (Agustini & Wirawati, 2019; Septiani et al., 2021). According to research by Yusbardini and Rashid (2019), (Hidayat & Meiranto, 2014), Financial distress is influenced by the leverage variable, according to (Rahmadini et al., 2018).

H_5: Leverage has significant impact on Financial Distress

3. Data and Methods

The population of this study is multi-sector companies listed on the Indonesian Stock Exchange (IDX) for the period during the COVID-19 pandemic 2020. The total number of multi-companies listed which divided into 8 sectors (with no finance sector) on the Indonesian Stock Exchange (IDX) with the total is 622 companies. Then sampling was carried out based on a stratified random sampling technique. The population is first divided into some segments; thereafter subjects are drawn in proportion to their original numbers in the population. Based on criteria other than their original population numbers. Determination of the sample size of this study using the Slovin formula (Rahyuda, et al, 2004) with a tolerable error rate of 5 percent with the total result 243 companies.

Tabel 1. Variable Operational

Research Variables	Operational Variables	Operational Definition	Measurement	Sources
Dependent Variable				
Financial Distress (Y)	Altman Z-Score	Altman Z-score measures liquidity, profitability, leverage or solvency, and performance (Fitri & Dillak, 2020).	$Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$	Altman, (1968)
Independent Variables				
Foreign Ownership (X1)	FI (Foreign Ownership)	The percentage Foreign investors' share of outstanding shares (Salihu et al., 2015)	$FO = \frac{Total\ shares\ owned\ by\ foreign\ investors}{Total\ outstanding\ shares} x\ 100\%$	Salihu et al. (2015).
CEO Tenure (X2)	the length of time a person has served as CEO	The CEO's tenure determines their period of office/ acting as CEO (Saputri, 2021).	The number of years from taking office to the year of resigning	(Chen et al., 2019).
CEO Age (X3)	Dummy Variable	CEO age at the data collection year. Company value increases CEO age. Age greatly affects risk taking (Serfling, 2013).	The number of years/ ages	(Oh et al., 2016)
CEO Educational Background (X4)	Dummy Variable	Dummy variables can only be 0 or 1 to represent the absence or presence of a categorical influence expected to alter the outcome (Draper & Smith, 1998).	0 = Diploma/ Bachelor degree 1 = Having master or doctoral degree	(Dewi & Damayanti, 2020)
Leverage (X5)	DER (Debt to Equity)	Leverage is a company's debt. Leverage measures a company's debt financing (Fahmi, 2014)	$DER = \frac{Total\ Liabilities}{Total\ Shareholder's\ Equity}$	Nathania et al. (2021)

This study uses Multiple Linear Regression to analyze the data. The dependent variable is financial distress. Measurement of the dependent variable is measured using the Altman Z-score. he higher the Z-Score value, the lower the level of financial distress in a company (Altman, 1968; Yati & Afni Patunrui, 2017; Udin et al., 2017).

Altman Z-score is formulated as follows:

$$Z\text{-}Score = 6.56\ (X\backslash 1) + 3.26\ (X2) + 6.72\ (X3) + 1.05\ (X4)$$

Whereas: X_1= Working capital/total assets; X_2= retained earnings/ total assets; X_3= earnings before interest and tax/total assets; X_4 = book value of equity/total liabilities.

Typically, companies that score above 2.60 are less likely to be bankruptcy and are considered to be in a "safe zone" and predict that firm has no chance of distress in near future. The value of Z-score lies between 1.1 and 2.60 (i.e. 1.1< Z < 2.60) is categorized as a "grey zone" which indicates that firm has no financial problem at the present, but may face difficulty in near future. Conversely, a score below 1.1 (1.1< Z) indicates that companies are likely heading for bankruptcy and are treated as "distress zone" (Altman, 1968).

In this study, the independent variables include foreign ownership, CEO tenure, CEO age, CEO educational background and leverage. The measurement of the independent variables is as follows: foreign ownership is measured by the percentage of total share owned by foreign investors on the total outstanding shares; CEO age is measured by the length of time a person has served as CEO; CEO educational background is dummy variable which value of 0 for D3-S1 and 1 for S2-S3; leverage measured by the percentage of women directors on the total board of directors; institutional ownership measured by the total liabilities on the total shareholder's equity. investors; and audit committee measured by the total number of audit committee. The measurement of variables used in this study presents in Table 1.

4. Result

The descriptive statistics analysis used in this study was to give a description of the research variables in the form of a frequency distribution table which shows the minimum, maximum, mean and standard deviation values using SPSS 26 version. The result of descriptive statistics can be seen in Table 2.

Table 2. Descriptive Statistics Result

Variable	N	Min	Max	Mean	Std. Deviation
Foreign Ownership (X_1) (%)	243	0	99.66	25.9178	26.17808
CEO Tenure (X_2) (Year)	243	1.00	44.00	6.0700	7.13211
CEO Age (X_3) (Year)	243	34.00	81.00	55.5473	8.95355
CEO Educational Background (X_4) (0 = associate or undergraduate degree; 1 = graduate or postgraduate degree)	243	0	1	0	0
Leverage (X_3) (Ratio)	243	-4.37	22.80	1.4085	2.49531
Financial Distress (Y) (Ratio)	243	-8.80	17.74	3.2311	3.91649

According to the aforementioned descriptive statistics, the mean score for financial distress is 3.23, with a standard deviation of 3.92. The financial distress variable ranges from -8.80 to 17.74, with a minimum value. It shows that there was moderate to severe financial suffering among the businesses during the pandemic. A minimum value of 0 and a maximum value of 99.66 are available for the foreign ownership variable. According to the statistics, one company from the research sample had a higher percentage of foreign ownership than the others, reaching over 100% of its ownership. The CEO tenure variable's data collecting findings show that the smallest value is 1 and the maximum value is 44 years. The standard deviation is 7.1, while the average is 6.07. It implies that the average length of office terms, which is roughly 6 years, can be regarded as sufficient to contribute to financial stability. According to Barno (2017), managers need to have a long tenure in order to comprehend the business of the organization and make wise decisions.

The CEO age variable has a mean value of 55.55 and a standard deviation of 8.95. Additionally, the majority of CEOs are between the ages of 34 and 81, with the youngest being only 34 years old. The findings show that CEOs in multi-sector corporations are, on average, 55 years old, indicating that they are mature enough to manage the expectations of performance in the organizations and to make strategic decisions regarding the direction of the financial institution (Croci & Jankensgard, 2014; Barno, 2017).

As can be seen, the CEO educational background variable has a range of 0 to 1, with 1 representing individuals with graduate or postgraduate degrees (S2-S3) and 0 representing those with associate's or undergraduate degrees. CEO age is a variable that has an average value of 0, means that the

majority of CEO educational background is associate's or undergraduate degrees.

Table 3 shows that the leverage variable's minimum value is -4.37 and highest value is 17.74. The leverage variable's standard deviation is 3.91, and its average value is 3.23. Because the standard deviation in this variable is higher than the average value, the data in this variable is heterogeneous or dispersed.

Pre-regression tests

Before performing the multiple regression analysis, pre-regression tests were performed, namely normality, multicollinearity, and Heteroscedasticity. Normality testing is carried out using the Kolmogorov-Smirnov test by looking at the level of significance. The data will be normally distributed if a significance value is greater than 0.05 or 5%. Obtained Asymp. Sig. 2-tailed or the significance value of the test results is 0.069.

Furthermore, multicollinearity test refers to VIF value. The values of tolerance and VIF were obtained from foreign ownership variables of 0.968 and 1.033, CEO tenure of 0.896 and 1.116, CEO age of 0.920 and 1.087, CEO educational background of 0.920 and 1.087, and leverage of 0.997 and 1.003. All of the above values are more than >0.10 for tolerance and <0.10 for VIF, thus concluding that there is no multicollinearity in the regression model used. Heteroscedasticity test was performed by evaluating the scatterplot graph. The graph does not form a certain pattern or the points are evenly spread both above and below the number 0 on the Y axis, then it is said that there is no heteroscedasticity.

Multiple linear regression results

The first set of tests using multiple linear regression analysis seeks to determine the impact of foreign ownership (X1), CEO tenure (X2), CEO age (X3), CEO educational background (X4), and leverage (X5) upon financial distress (Y) in Indonesian multi-sector enterprises during the COVID-19 epidemic. Using a significance level of 0.05 (5%) and the regression coefficient, this test was performed to determine whether to accept or reject a hypothesis. Table 3 displays the results of the tests conducted on the hypothesis.

Table 3 Hypothesis Testing Result

	Coefficient	t-statistics	Prob.	Decision
FO	0.024	2.639	0.009	Accepted
CEO Tenure	0.059	1.739	0.083	Accepted
CEO Ag	0.067	2.480	0.014	Accepted
CEO Edu	1.592	3.301	0.001	Accepted
LEV	-0.447	-4.834	0.000	Accepted
C	-1.456	-0.970	0.333	
Prob (F-statistic)	0.000			Accepted
R Square				0.180
Adjusted R Square				0.163

According to Table 3, the multiple linear regression model used in this study is as follows:

Z-Score= -1,456 + 0,024 X1 + 0,059 X2 + 0,067 X3 + 1,592 X4 – 0,447 X5 + e

This study found that foreign ownership has positive influence on financial distress. It means that companies with higher foreign ownership experienced severer financial distress. Meanwhile, companies lead by senior CEO and with better education backgrounds faced higher financial distress.

Furthermore, the coefficient of determination (R^2) test is carried out to ascertain how much foreign ownership, profitability, and leverage affect tax evasion. R^2 has a value that ranges from 0 to 1 and is expressed as a positive number. Independent variables practically provide all the information required to estimate the dependent variable variability if the value is close to one (Ghozali, 2018). Tables 3 shows that a R Square value of 0.180, indicating that the dependent variable, financial hardship, can be explained by the independent variables, foreign ownership, CEO tenure, age, CEO education background, and leverage, with a proportion of 18%. In contrast, other factors not covered in this study account for the remaining 82%.

5. Discusssion

The study's findings indicate that financial distress is influenced by a number of factors, including leverage, foreign ownership, CEO tenure, age, educational background and leverage. Foreign ownership, CEO tenure, CEO age, CEO education background, and leverage are known to be able to explain the dependent variable, namely financial distress, which has a coefficient of determination of

0.180 and a percentage of 18%. In contrast, other factors not covered in this study account for the remaining 82%.

Foreign ownership positively affects the z-score, according to hypothesis testing. Foreign ownership is profit-oriented and has various reasons to supervise the management of invested enterprises (Santoso & Nugrahanti, 2022). The study adopts agency theory, which states that foreign owners can be good monitors and controllers, giving supervisors more incentives to maintain the company's performance to avoid financial difficulties. Khan & Javid (2016) and Annither et al. (2020) found that foreign ownership worsens financial di-stress. Greater foreign ownership, higher z-score, lower financial distress risk. Foreign investors only care about their return on firm shares (Santoso & Nugrahanti, 2022). It contradicts Idarti & Hasanah (2018), Maghfiroh & Isbanah (2020), and Jodjana et al. (2021) findings that foreign ownership does not affect financial distress. Foreign shareholders must supervise more (Maghfiroh & Isbanah, 2020). Foreign shareholders' monitoring is limited by corporate location, shareholder country, and professional managers who don't own shares. So, a company's foreign ownership doesn't matter. Foreign investors will become passive and less interested in company governance (Williansyah & Meiliana, 2022).

Moreover, the hypothesis testing result showed that CEO tenure positively and significantly affects the z-score. Thus, CEO tenure positively impacts financial distress. Company continuity is linked to tenure. At the start of his tenure, the CEO showed a strong interest in his work by seeking information and learning. Even though they know little about the company, this will reduce financial distress. When a company is struggling financially and has doubts about its future performance, financial distress can occur (Kartika, 2018). Company continuity is linked to tenure. At the start of his tenure, the CEO showed a strong interest in his work by seeking information and learning. Even though they know little about the company, this will reduce financial distress. When a company is struggling financially and has doubts about its future performance, financial distress can occur (Kartika, 2018). A CEO's experience increases with time. It can help the CEO consider when making decisions. According to Santoso & Rakhman (2013), a CEO's revenue management skills improve with tenure. Because the CEO can gain more experience and control.

Director tenure negatively impacts financial distress, according to Salloum et al. (2012) and Santen (2009). As tenure increases, CEOs become more confident (Citrin et al., 2019) and perform better (Ali et al., 2021). However, this study found that the longer the CEO tenure, the higher the z-score and the lower the risk of financial distress. The longer a CEO works for a company, the more they learn about it.

It contradicts Gustafsson and Uysal (2020), McClelland et al. (2010), and Henderson et al. (2006), who found no correlation between CEO tenure and financial distress. They found that shorter-tenured CEOs performed better in dynamic, which suggests that a negative association between CEO tenure and cash holdings exists because longer-tenured CEOs become set in their paradigm, which makes them unwilling to innovate and hold cash ready for investment.

CEO age positively affects the z-score, according to hypothesis testing. CEO Age has a significant negative impact on financial distress. CEO age affects corporate risk-taking, which may affect corporate failure. A person's age does not necessarily guarantee the wisdom of that person. Likewise, with the age of a CEO, a CEO at a young age is not necessarily unwise, and vice versa (Agustin & Bhilawa, 2020). The company's continuity depends on the CEO's decisions. Older CEOs will prioritize the precautionary principle (Saputri, 2021), and Graham et al. (2013) argue that experience and perspective allow top managers to take more risks. Age has a negative and significant impact on financial distress, according to Naseem et al. (2019), Barno (2017), and Hermann & Datta (2006). The result indicates that the older the age, the less likely financial distress. This happens because these older CEOs pay a lot of attention to their older career years to secure and ensure that their finances are stable when they retire. Considering this situation, Herrmann & Datta (2006) point out that such older CEOs will pay less attention to risky projects.

However, it contradicts the research from Gorts (2016), which states that CEO age had no effect on financial strategy, implying that age did not influence financial decision-making that may cause the occurrence of financial distress. It also claims that younger CEOs are better than older CEOs when it comes to processing information and making analyses because older CEOs have "less physical and mental stamina."

CEO's educational background had a positive and significant impact on the z-score, accord-

ing to the hypothesis testing result. The significant value of 0.001, which is less than 0.05 or 5%, indicates it. The fourth hypothesis (H4), according to which the CEO's educational background has a significant impact on financial distress, is therefore accepted. Therefore, financial distress is negatively and significantly impacted by the CEO Age variable.

This is due to the fact that having highly educated directors has been proven to help reduce the risk of financial difficulties. These directors, after all, have more expansive ideas. CEOs with advanced degrees do, in fact, bring intangible advantages like more extensive connections and a better reputation, which manifest in superior market performance. Theoretically, CEOs with greater education are less risk-averse and more receptive to innovation, change, and investment opportunities (Barker & Mueller, 2002). As a result, there is less financial distress the more educated the CEO is. Additionally, companies find it easier to secure outside venture capital from businesses with industry or international cooperation experience the more business management education the CEO has (King, Srivastav, and Williams 2016). CEOs in this study had a range of educational backgrounds, including diploma, junior high school, high school/ vocational school, bachelor's degree, master's degree, and doctoral degree (S3). The result is consistent with studies by Williansyah and Meiliana (2022), Munene et al. (2020), Kanakriyah (2021), and Yousaf et al. (2020), which discovered that knowledge has a significant and negative effect on financial distress. Silvina et al. (2022) argued that the result confirmed that CEO level of education has positive and significant impact on Firm Performance. The result indicates that the higher the education, the more positive and better the condition of the company, and the less likely financial distress. This occurs as a result of the board of directors' high level of education contributing to organizations' future-focused vision, mission, and strategy formulation (Singhal et al., 2021). It goes against the findings of studies by Sabli et al. (2016), Pujakusum & Sinarti (2019), and Munene & Ndegwa (2021), which claim that the level of education of the board of directors has no significant impact on financial distress. This occurs because many CEOs with low levels of education are typically older and have a lot of experience. Additionally, as a result of this, the CEO's many experiences can be used to cover the level of education.

Lastly, leverage significantly and negatively affects the z-score, according to the test results. The significant value of 0.000, which is less than 0.05 or 5%. Leverage has a significant impact on financial distress, so the fourth hypothesis (H5) is accepted. Leverage thus had an impact on financial distress.

This is due to the fact that leverage establishes how much debt a company is financed by (Fahmi, 2014). Leverage results from using company funds obtained through debt from third parties (Cinantya & Merkusiwati, 2015). Suppose the company's total assets are greater than its liabilities. In that case, the company can pay its liabilities with its assets so that financial distress does not occur. Companies that have high leverage will cause greater financial distress. Suppose a company increasingly uses short-term debt or long-term debt. In that case, there is a risk of difficulty in paying at the specified time or in the future because the debt is higher than the assets owned. Hence, the company cannot generate more profit to pay off debt and the amount of interest.

The result is in line with the research conducted by Santoso & Nugrahanti (2022), Jannah et al. (2021), Septiani et al. (2021), Sekarningrum (2020), and Kazemian et al. (2017) that leverage has a negative effect on the z-score as a predictive model for financial distress. Khorraz and Dewayanto (2020) show that leverage has a significant and positive effect on financial distress, meaning that the higher the leverage value, the greater the company will experience financial distress. A firm weakened by too much leverage has higher business risk, and the company shall pay more interest rates on borrowed funds. This situation makes the firm highly volatile, and its capital expenditure is unpredictable (Jayawardhana, 2018).

6. Conclusion and Suggestion

Conclusion

It can be concluded from the study's findings and the discussion above that foreign ownership has a detrimental and considerable impact on the financial distress of multi-sector companies listed on the Indonesia Stock Exchange (IDX). Because the likelihood of financial hardship decreases with increasing foreign ownership and z-score, Only the rate of return on the company's shares is of importance to foreign investors. CEO tenure has a detrimental and significant impact on multi-sector companies listed on the Indonesia Stock Exchange's financial distress (IDX). This is due to the decreased likelihood of financial difficulties the longer the CEO's tenure.

CEO age has a negative and considerable

impact on multi-sector companies listed on the Indonesia Stock Exchange's financial hardship (IDX). Financial distress is less likely to occur as people age. The financial hardship of multi-sector firms listed on the Indonesia Stock Exchange is negatively and significantly impacted by the CEO's educational background (IDX). The company's condition will improve and the likelihood of financial crisis decreasing with increased education. The financial distress of multi-sector corporations listed on the Indonesia Stock Exchange (IDX) is positively and significantly impacted by leverage. The likelihood of financial distress increases as leverage value rises

Suggestion

The limitations of the research obtained by researchers included, researchers had difficulties in collecting data on the financial sector to calculate the z-score due to differences in the form of financial reports in the financial sector, this made researchers have to reduce the research sample and rearrange the data arrangement. Future research can be suggested based on the limitations of this study and areas that still require development. Other elements, such as CEO gender, CEO duality, CEO ownership, job experience, government ownership, managerial ownership, and others, may be developed by future studies and may have an impact on financial distress.

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