

The Impact of Ownership Structure and Audit Committee Characteristics on Financial Distress

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ABSTRACT

This research aims to empirically examine and analyze the impact of ownership structure and audit committee characteristics on financial distress in property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The ownership structure under study includes institutional ownership and managerial ownership, while the audit committee characteristics include audit committee size, independence, and meeting frequency. The sample was selected using a purposive sampling technique, resulting in 42 companies obtained with 210 observation data. The data used is secondary data obtained from the company's annual report published on the IDX website and each company's website. The data were analyzed using multiple linear regression analysis methods with the assistance of SPSS 26 software. The results of this research indicate that the frequency of audit committee meetings significantly impacts financial distress. In contrast, institutional ownership, managerial ownership, audit committee size, and audit committee independence do not substantially impact financial distress. These findings can be used as a consideration for management in taking actions to overcome financial distress and as helpful information for investors in making decisions about committing their capital to a company.

Keywords: audit committee characteristics; financial distress;; ownership structure.

INTRODUCTION

One primary objective of a company is to maximize profits using available resources, ensuring long-term development and survival. Fluctuations in business operations are common and can be caused by technological developments and changes in economic conditions that affect the company's ability to earn profits. Therefore, companies must implement a healthy corporate governance system to avoid bankruptcy. Financial distress is often a precursor to bankruptcy.

Financial distress occurs when a company's finances are unhealthy or in crisis due to sustained losses. da Rosa München (2022) characterizes financial distress as adverse conditions that affect an institution's ability to meet its commitments, potentially leading to bankruptcy. Financial distress can significantly disrupt a company's operations, making it crucial to anticipate and address it promptly. According to Krusita and Wiagustini (2019), financial distress can be caused by three interrelated factors: insufficient capital, excessive debt burden, and sustained losses. These three causal factors are interrelated. Therefore, a company must maintain its financial stability to avoid financial distress that could lead to bankruptcy.

A company experiencing negative operating cash flow for over a year indicates a decline in its financial health. If the company's management fails to implement corrective measures promptly,

bankruptcy may result. Bankruptcy involves the cessation of all company activities, an inability to meet obligations, cover expenses, or engage in transactions with external parties, except for dissolution proceedings. These circumstances suggest a comprehensive failure in the company's business operations. Therefore, company management must take prompt action when facing financial difficulties to ensure the business's survival as a going concern.

An emerging model for predicting bankruptcy is an early warning system that can help company managers make necessary changes to the company's financial management strategy to prevent financial distress (Vu et al., 2019). The early warning system is crucial for the company's internal and external parties. Thanks to this early warning, internal parties within the company can take steps to restore its financial condition before bankruptcy occurs. In addition, an early warning system can also help external parties in the company's decision-making process about whether or not to invest in a company.

Every company certainly wants to avoid facing financial distress conditions that can end in bankruptcy. The company hopes that the business it runs can make maximum profit every year so that the financial data contained in its financial statements will always be positive. However, in reality, this desire is very difficult for a company to realize. This desire is inseparable from the various problems that come continuously over time.

Since entering the ASEAN Economic Community (AEC) era, companies in Indonesia have often face many problems beyond their control, such as the increasingly weak rupiah against the dollar. From 2017 to 2021, the rupiah exchange rate tends to weaken against the US dollar. The average exchange rate of the rupiah at Bank Indonesia against the US dollar in 2017 was IDR 13,548 per US dollar. Meanwhile, in December 2021, the exchange rate of the rupiah against the US dollar was IDR 14,269 per US dollar (Indonesian Economic and Financial Statistics, 2022). It shows that the rupiah exchange rate against the US dollar from 2017 to 2021 has weakened by 5.32 percent. Problems like this can make it difficult for companies to carry out their operational activities. The results of the research conducted by Romadhina et al. (2022) show that the exchange rate significantly impacts financial distress. When the rupiah exchange rate weakens, the cost of importing raw materials becomes higher because the company has to pay more in foreign currency. Higher raw material import costs cause the company's production costs to increase. This has the potential for many companies to suffer a decrease in profits or losses due to this problem. In addition that company cannot control problems that are within the company's control can also cause financial distress, such as problems with improper resource allocation, poor implementation of the corporate governance system, and the wrong financial structure.

Companies cannot overcome the financial distress conditions properly can cause the company to go bankrupt. In 2023, in the records of the Indonesia Stock Exchange (IDX), 17 shares of companies entered the special monitoring board because the company had strong indications of bankruptcy (Setiawati, 2023). The number of companies indicated to be bankrupt shows the increasing importance for companies to know the factors that cause financial distress. This is so that the company can take the proper steps to overcome financial distress and avoid bankruptcy.

Based on the previous explanation, one of the problems that can cause financial distress is poor implementation of the corporate governance system. Corporate governance in a company aims to ensure that management acts correctly and does not prioritize personal affairs. It also aims to provide added value to stakeholders (Luthan, Ayu, and., 2018). A healthy corporate governance system can reduce the likelihood of the company facing financial distress. Meanwhile, an unhealthy corporate governance system can increase the flexibility for majority shareholders to practice transferring company assets or profits to themselves for personal interests due to a lack of transparency, which can lead to financial

distress for the company. Unique conditions in public companies in Indonesia where share ownership tends to be concentrated lead to a tendency for majority shareholders to carry out these practices (Hertanto et al., 2023). To reduce the occurrence of these practices, a healthy corporate governance system is needed. Previous research conducted by Fakhriyyah and Mawardi (2020) found that the practice of transferring company assets or profits to personal interests by majority shareholders can be minimized by implementing a healthy corporate governance system. Companies that implement a healthy corporate governance system can protect shareholders because they pay attention to the interests and rights of all stakeholders to minimize these practices that can harm minority shareholders and the company.

One of the corporate governance systems that is considered to affect the likelihood of a company experiencing financial distress is the ownership structure. This ownership structure explains how the commitment of the owners of a company to save its business continuity. The company owner will try as hard as possible to improve the company's performance because the return received by the company owner may be reduced if the company experiences financial distress. Institutional and managerial ownership are two structures classified in the corporate governance system that can impact a company's likelihood of financial distress. Previous studies have examined how ownership structure impacts financial distress. Setiawan, Sukarmanto, and Fadilah (2016) found that institutional and managerial ownership influence financial distress, which is consistent with the findings of Septiani and Dana (2019) that institutional ownership has a significant negative impact on financial distress. However, Masita and Purwohandoko (2020) found that institutional and managerial ownership do not impact financial distress which contradicts these outcomes.

In addition to ownership structure, the audit committee is another aspect of the corporate governance system that may affect a company's likelihood of facing financial distress. A company's healthy implementation of corporate governance requires the involvement of an audit committee. The audit committee's role is to provide the board of commissioners with independent and competent opinions on financial reports or other matters expressed by the company's directors. In addition, the committee plays a crucial role in reducing deviations by overseeing various aspects within the company. The formation of audit committees in companies worldwide indicates implementing a well-functioning corporate governance system. Audit committees encourage sound company management through their supervisory tasks, improving the efficiency and effectiveness of the company's operational activities and helping it achieve its goals. To minimize the occurrence of financial distress or even save the company from it, the audit committee's efficiency is crucial. This is reflected in various characteristics such as the size, independence, and frequency of meetings. One of the previous studies that examined the impact of audit committee characteristics on financial distress was research by Dwi Putra and Serly (2020). The results of the study showed that only the size of the audit committee had an impact on financial distress. However, the findings of this study are inconsistent with the findings of Susilawati (2016) and Haziroh, Bramanti, and Negoro (2017), which showed that financial distress is also impacted by the independence of the audit committee and the frequency of audit committee meetings.

As outlined above, the inconsistencies observed in various results of previous studies and the current phenomenon underscore the need for a more thorough investigation of the impact of ownership structure and audit committee characteristics on the likelihood of financial distress. A company wants to avoid experiencing financial distress that can end in bankruptcy. Therefore, company management needs to know the likelihood of financial distress and the factors that influence it early so that they can make decisions to determine the best strategy to restore the situation the company is experiencing to maintain its business survival. The research population consists of property and real estate companies listed on

the Indonesia Stock Exchange from 2017 to 2021. The reason for selecting this research population is that property and real estate companies are among the industrial sectors classified as industries with a high-risk level. These companies have unpredictable characteristics and often experience fluctuations. In addition, companies in this sector typically require significant capital due to the high cost of raw materials. This capital is often obtained through borrowing from creditors or investors. The greater the amount of debt a company has, the greater the consequences that must be borne if the company faces financial distress that can end in bankruptcy.

There two grand theories are utilized in this research, namely agency theory and resource dependence theory. Agency theory is employed to elucidate the significance of implementing a corporate governance system within a company. This association is indispensable as corporate governance has emerged to regulate or address management actions inclined towards prioritizing their interests (Luthan, Ayu, and., 2018). Adopting a corporate governance system can serve as a mechanism to mitigate agency issues and establish frameworks enabling management to operate towards the company's sustainability. This framework is imperative for ensuring that company operations adhere to predetermined objectives. Furthermore, the corporate governance system serves as a mechanism to assure investors regarding the realization of returns on their invested capital. Shleifer and Vishny (1997), as cited in Priharto (2017), state that corporate governance pertains to investors' confidence in management's alignment with their interests, assurance against misappropriation or mismanagement, and the monitoring of management practices by investors.

According to Pfeffer and Salancik (1978), as cited in Sudarman (2020), Resource Dependency Theory (RDT) underscores the role of the audit committee in resource allocation within the organization, where resources encompass "anything that can be considered a strength or weakness of a particular company." RDT posits that to ensure its survival, a firm must acquire resources, implying the company's reliance on resources, including the audit committee, to address its challenges. As a constituent resource of the company, the audit committee contributes its expertise and experience to enhance the company's competitive advantage, particularly concerning the quality of financial reporting. RDT logic states that the allocation of resources by the audit committee directly impacts company performance. The diversity among audit committee members can foster the establishment of a robust audit committee, thereby positively influencing the continuous supervisory process and adding value to financial reporting. Consequently, this enhancement in the audit committee's effectiveness will likely to bolster investor confidence in the company.

Hypotheses Development

Institutional ownership is a factor that can significantly influence company management performance. It is attributed to the heightened motivation of institutional investors to monitor management performance when they hold shares in the company. A higher proportion of shares held by institutional investor leads to more effective oversight. As institutional ownership increases, so does the quality of supervision they provide. The outcomes of such monitoring activities serve as evaluative benchmarks, incentivizing management to reform and enhance performance continually. Consequently, these monitoring endeavors improve management performance and reduce the likelihood of the company encountering financial distress. Previous research examining institutional ownership's influence on financial distress was Nilasari (2021). This research found that institutional ownership has a significant impact on financial distress.

H₁: Institutional ownership has a significant impact on financial distress.

Managerial ownership refers to the ownership of shares in a company by its management, who actively participate in the decision-making processes within the organization. When management holds shares, it implies that those who run the company also have a stake in its ownership. This form of ownership is seen as a means to mitigate agency problems that may arise within the company, which, if the problem continues, can cause the company to encounter financial distress. Managerial ownership helps align the interests of management with those of shareholders, as management also bears the consequences of the decisions they make. The higher the proportion of shares owned by management, the greater the motivation of management to improve company performance, thereby reducing the likelihood of financial distress. Previous research, such as that conducted by Lestari, Syafrinal, and Norhan (2020), has explored the impact of managerial ownership on financial distress, finding that managerial ownership impacts financial distress.

H₂: Managerial ownership has a significant impact on financial distress.

According to agency theory, rigorous supervision of management activities within a company can mitigate management opportunities, acting as agents to engage in opportunistic behaviour. To ensure the audit committee's effectiveness in controlling and overseeing management activities, the committee must comprise an adequate number of members capable of fulfilling its duties. Drawing from the principles of resource dependence theory, the audit committee's effectiveness tends to increase with its size. This is because a larger audit committee possesses more resources to address any challenges encountered by the company. An effective audit committee is assumed to aid the company in formulating appropriate strategies to maximize future profits, thereby helping mitigate the risk of financial distress. Previous research, such as that conducted by Dwi Putra and Serly (2020), has explored the impact of audit committee size on financial distress, concluding that the size of the audit committee impacts financial distress.

H₃: Audit committee size has a significant impact on financial distress.

According to agency theory, independent audit committee members can reduce information asymmetry and align the interests of management and shareholders. One way to ensure the independence of audit committee members in performing their duties and responsibilities is to follow the guidelines of the OJK regulation in the recruitment process, thereby creating independence in implementing the obligations and responsibilities of the audit committee. This independence ensures that the company's evaluations are conducted objectively, free from influence, and uphold the diverse perspectives of stakeholders in the annual reports. The presence of independent audit committee members can increase investor confidence in the annual report and reduce the likelihood of the company facing financial distress due to an unhealthy corporate governance system. Previous research on the impact of audit committee independence on financial distress has been conducted by Revitasari, Nurdin, and Azib (2017) and Susilawati (2016), who found that committee independence impacts financial distress.

H₄: Audit committee independence has a significant impact on financial distress.

Audit committees that convene meetings frequently are presumed to exhibit superior performance in overseeing and regulating the company's financial reporting procedures. The frequency of these meetings can serve as a yardstick for assessing the audit committee's effectiveness. The more meetings an audit committee holds, the less likely a company will face financial distress. The audit committee holds regular meetings to prevent or minimize errors in management decision-making. The company's

internal control is continuous and systematic, allowing management to promptly detect and resolve any issues, including potential financial distress. Research on the impact of institutional ownership on financial distress has been conducted by Haziroh, Bramanti, and Negoro (2017), who found that the frequency of audit committee meetings impacts financial distress.

H₃: The frequency of audit committee meetings has a significant impact on financial distress.

METHOD, DATA, AND ANALYSIS

This type of research is causal-comparative research with a quantitative approach that focuses on investigating data in the form of numbers processed using statistical procedures to obtain research results in the form of the impact of ownership structure and audit committee characteristics on financial distress in property and real estate companies listed on the IDX for the period from 2017 to 2021. This research uses secondary data obtained from the company's annual report, namely company financial data to measure the likelihood that the company will face financial distress, data related to company share ownership to measure the proportion of institutional ownership and managerial ownership, and data related to the audit committee of the company to measure the size of the audit committee, audit committee independence, and frequency of audit committee meetings.

The population of this research consisted of all real estate and actual estate-related companies listed on the IDX from 2017 to 2021. The purposive sampling technique was used with the following criteria:

Table 1. Summary of Sampling Results

No.	Sampling Criteria	Total
1	Property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period from 2017 to 2021.	57
2	Companies that have been delisted from the IDX during the period from 2017 to 2021.	(5)
3	Companies that have not published annual reports on both the IDX website and their own website for the period from 2017 to 2021.	(6)
4	Companies that have not provided complete information on the variables examined.	(4)
	Number of companies sampled	42
	Total research data for five periods (42 x 5)	210

Source: Indonesia Stock Exchange (2023)

The dependent variable in this research is financial distress, which denotes a company's unhealthy financial condition characterized by sustained losses and an inability to fulfil its financial obligations. Financial distress is measured using the score derived from the Ohlson model. Developed by James A. Ohlson in 1980, the Ohlson model employs logit analysis to address the limitations of the multiple discriminant analysis method. Previous research on the Ohlson model has demonstrated its high accuracy in predicting bankruptcy, with a rate of 96.4%. The equation in the Ohlson model aims to measure the likelihood of a company experiencing financial distress based on several financial factors, including financial ratios, that are considered important in determining a company's financial health. Ohlson (1980) suggests that the optimal cut-off point for the Ohlson model is 0.38. An increase in O-score above 0.38 indicates a higher likelihood of the company experiencing financial distress, potentially leading to bankruptcy if not addressed. Conversely, a decrease in O-score below 0.38 indicates that the company is less likely to experience financial distress.

$$O = -1.32 - 0.407X_1 + 6.03X_2 - 1.43X_3 + 0.757X_4 - 2.37X_5 - 1.83X_6 + 0.285X_7 - 1.72X_8 - 0.521X_9$$

Description:

- O = Bankruptcy index
- X₁ = Company size
- X₂ = Total liabilities / total assets
- X₃ = Working capital / total assets
- X₄ = Current liabilities / current assets
- X₅ = 1 if total liabilities > total assets and 0 otherwise
- X₆ = Net income / total assets
- X₇ = Operating cash flow / total liabilities
- X₈ = 1 if net profit is negative and 0 otherwise
- X₉ = (NI_t - NI_{t-1}) / (NI_t + NI_{t-1})

This research examines the independent variables of institutional ownership, managerial ownership, audit committee size, independence, and frequency of audit committee meetings. Institutional ownership refers to the ownership of a company's shares by institutional investors, such as banks, foundations, investment firms, insurance companies, pension funds, and other institutions. In this research, institutional ownership is measured by the ratio of shares owned by institutional investors to the total number of outstanding company shares (Fadillah, 2017 and Setiawan, Sukarmanto, and Fadilah, 2016). This information is obtained from the list of shareholders in the notes to the financial statement (CALK).

$$\text{Institutional Ownership} = \frac{\text{Total shares owned by institutional investors}}{\text{Total shares outstanding}}$$

Managerial ownership pertains to the ownership of shares by parties actively engaged in the company's decision-making process, including its management and directors. In this research, managerial ownership is measured by the ratio of the number of shares owned by management to the total number of outstanding company shares (Fadillah, 2017). Similar to institutional ownership, information regarding managerial ownership can be obtained from the list of shareholders listed in the notes to the financial statements.

$$\text{Managerial Ownership} = \frac{\text{Total shares owned by management}}{\text{Total shares outstanding}}$$

Audit committee size is measured by the total number of members within a company (Surnasih and Dewi, 2019 and Dwi Putra and Serly, 2020). Information about the size of the audit committee can be retrieved from the composition of the audit committee provided in the company's annual report.

$$\text{Audit Committee Size} = \sum \text{Audit committee members}$$

Audit committee independence is depicted by the ratio of the number of audit committee members who possess independence or lack affiliations with the company to the total count of audit committee members within a company (Dwi Putra and Serly, 2020). Information regarding the independence of the audit committee can be analyzed from the explanation of the membership profile provided in the company's annual report.

$$\text{Audit Committee Independence} = \frac{\text{Total independent audit committee members}}{\text{Total audit committee members}}$$

The frequency of audit committee meetings is indicated by the number of meetings held by audit committee members within a year (Surnasih and Dewi, 2019 and Dwi Putra and Serly, 2020). Information regarding the frequency of audit committee meetings can be found in the audit committee meetings section of the company's annual report.

$$\text{Frequency of Audit Committee Meetings} = \sum \text{Audit committee meetings in the current year}$$

The research uses a data analysis method that includes descriptive statistics, tests of classical assumptions, determination of coefficient tests, model viability tests (F-test), and multiple linear regression. Hypothesis testing is conducted using multiple linear regression analysis, with the test model outlined as follows:

$$\text{FDISTRESS}_{it} = \alpha + \beta_1 \text{KI}_{it} + \beta_2 \text{KM}_{it} + \beta_3 \text{UKA}_{it} + \beta_4 \text{IKA}_{it} + \beta_5 \text{FRKA}_{it} + \varepsilon$$

Description:

FDISTRESS = Financial distress

α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Regression coefficients

KI = Institutional ownership

KM = Managerial ownership

UKA = Audit committee size

IKA = Independence of the audit committee

FRKA = Frequency of audit committee meetings

ε = Residual errors

RESULTS AND DISCUSSION

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
KI	210	0.000000	0.977509	0.62383236	0.226481437
KM	210	0.000000	0.647274	0.06136237	0.144806020
UKA	210	2	4	3.00	0.268
IKA	210	0.500000	1.000000	0.98492064	0.077577039
FRKA	210	1	52	6.44	6.256
FDISTRESS	210	-54.186207	-5.460713	-9.49143947	4.335458179
Valid N (listwise)	210				

Source: Data processed (2023)

The results of descriptive statistical testing show that the dependent variable data, financial distress (FDISTRESS), has a maximum value of -5.460713. This value is less than 0.38, meaning that all the property and real estate companies sampled in this research are not classified as companies experiencing financial distress that may lead to bankruptcy if not addressed. However, the likelihood of these sample companies experiencing financial distress varies. This is indicated by the significant difference between

the minimum and maximum values of the data of the financial distress variable (-54.186207 and -5.460713, respectively) and the significant value of the standard deviation (4.335458179).

The first independent variable data, institutional ownership (KI), has an average value of 0.62383236. The study shows that most of the shares of property and real estate companies sampled are owned by institutional investors because the average value is greater than 0.5. However, some sample companies have not had institutional investors for several years, as indicated by the minimum value of the institutional ownership variable data, which is 0.

The second independent variable data, managerial ownership (KM), has an average value of 0.06136237. The data shows that, on average, the majority of the shares of the property and real estate companies sampled in this research have not been owned by their management for several years. However, given that the maximum value of the Managerial Ownership variable is 0.647274, it is worth noting that some of the sampled companies had a high level of managerial ownership for several years.

The data for the third independent variable, audit committee size (UKA), shows an average value of 3.00. This indicates that the number of audit committee members from property and real estate companies used as samples in this research is consistent with the number required by Financial Services Authority Regulation Number 55/POJK.04/2015 Article 4. The regulation requires that the audit committee comprise at least three independent commissioners and parties external to the issuer or public company. However, the data shows that the audit committee size variable ranges from 2 to 4, indicating that some sample companies still need to meet the POJK requirements for audit committee members. In contrast, others have more members than the minimum required by the POJK.

The fourth independent variable, audit committee independence (IKA), has an average value of 0.98492064. The average value indicates that most sample companies have independent audit committee members on their audit committees. However, the minimum value of the audit committee independence variable data is 0.5. This indicates that some sample companies have audit committee members who are not independent, either due to family or business relationships with the sample company management or because the audit committee members hold other positions in the sample company.

The fifth independent variable data, the frequency of audit committee meetings (FRKA), has an average value of 6.44. This average value indicates that, on average, the number of meetings held by the audit committee members of the sample companies during one year exceeds the minimum number required in the Financial Services Authority Regulation Number 55 / POJK.04 / 2015 Article 13. The regulation states that the audit committee holds meetings at least once every three months or four times yearly. However, the minimum value of the data on the audit committee meeting frequency variable is 1, which indicates that audit committees from sample companies also hold meetings in a year less than the minimum requirements in the POJK.

Table 3. Test Results of the Coefficient of Determination (Adjusted R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.244 ^a	0.059	0.036	0.64909

Source: Data processed (2023)

The adjusted R² value of the regression model in this research is 0.036. It indicates that only 3.6% of the variation in financial distress can be explained by five independent variables: institutional ownership, management ownership, audit committee size, audit committee independence, and audit committee

meeting frequency. Meanwhile, the remaining 96.4% (100% - 3.6%) is explained by other variables that are not included in the regression model of this research.

Table 4. Model Feasibility Test Results (F Test)

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.423	5	1.085	2.574	0.028 ^b
	Residuals	85.950	204	0.421		
	Total	91.372	209			

Source: Data processed (2023)

Based on the results of the F test, the F-count value is 2.574 with a significance value of 0.028 < 0.05, which means that this research regression model can be used to predict financial distress

Table 5. Multiple Linear Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.937	0.539		1.737	0.084
	KI	-0.243	0.242	-0.076	-1.004	0.316
	KM	0.245	0.366	0.050	0.671	0.503
	UKA	-0.244	0.230	-0.073	-1.061	0.290
	IKA	0.308	0.379	0.056	0.813	0.417
	FRKA	0.170	0.054	0.216	3.128	0.002

Source: Data processed (2023)

From the test results of multiple linear regression analysis, it can be seen that the t-count value of the institutional ownership variable is -1.004 with a significance of 0.316 > 0.05, so hypothesis 1, which determines that institutional ownership has a significant and influential effect on financial distress is **not supported**. The results of this test state that institutional ownership has no significant impact on financial distress. Then, the t-count value of the managerial ownership variable is 0.671, and the significance value is 0.503 > 0.05, which indicates that managerial ownership also has no significant impact on financial distress, so hypothesis 2 is **not supported**.

The t-count value of the audit committee size variable is -1.061 with a significance of 0.290 > 0.05, which indicates that one of the characteristics of the audit committee, namely the size of the audit committee, does not have a significant impact on financial distress, so it can be said that hypothesis 3 is **not supported**. Then, the t-count value of the audit committee independence variable is 0.813 with a significance of 0.417 > 0.05, which indicates that the independence of the audit committee also has no significant impact on financial distress, so hypothesis 4 is **not supported**. Meanwhile, the t-count value of the audit committee meeting frequency variable is greater than the t-table value (3.128 > 1.9714) with a significance of 0.002 < 0.05. This means that the frequency of audit committee meetings significantly impacts financial distress, so hypothesis 5 is **supported**.

The Impact of Institutional Ownership on Financial Distress

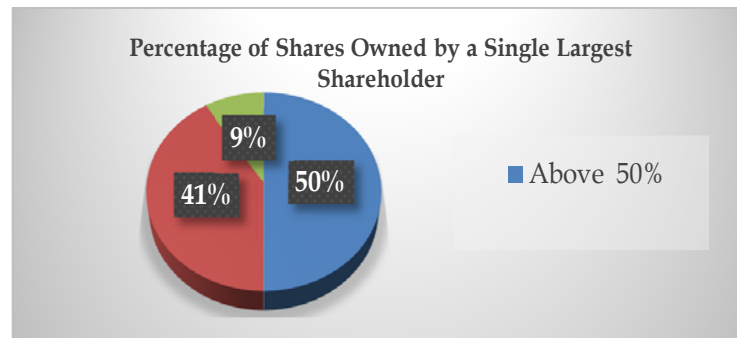


Figure 1. Percentage of Shares Owned by a Single Largest Shareholder
Source: Data processed from the sample company's annual report (2023)

The results of this research are not in line with the results of Fathonah (2017) and Septiani and Dana (2019), which are evidence of the negative impact of institutional ownership on financial distress. However, this research's results align with those obtained by Kurniasanti and Musdholifah (2018) and Abbas and Sari (2019), which prove that institutional ownership has no impact on financial distress. The lack of impact of institutional share ownership on the probability of a firm being in financial distress may be because most real estate and property companies in Indonesia are under the ownership of a single largest shareholder. This is illustrated in Figure 2, which shows that the sample data in this research, where the single largest shareholder owns more than 50% of the company's shares, is half the total sample data. Centralized ownership can cause a lack of transparency in the use of company assets (Anh and Tuan, 2019 and Adiyanto, 2021) and an imbalance in the fulfilment of various interests, such as the interests of shareholders and management or the interests of controlling and non-controlling shareholders (Adiyanto, 2021). This implies that the supervision carried out by shareholders other than the largest shareholder on management performance tends to be not optimal, so management has greater discretion to make decisions that are only beneficial to themselves. Therefore, if the company's share ownership remains centralized, the proportion of shares owned by institutional investors, whether large or small, does not impact on their ability to supervise. In addition, institutional investors are just one of the parties responsible for overseeing management performance. The management itself is the entity that makes and implements decisions regarding the company's operational activities.

The Impact of Managerial Ownership on *Financial Distress*

The results of this research differs from those of Lestari, Syafrinal, and Norhan (2020) and Nilasari (2021), which proved that managerial ownership significantly impact on financial distress. However, this result is consistent with the results of the research of Kurniasanti and Musdholifah (2018), Rachmawati and Retnani (2020), Aliyana, Salim and Priyono (2020), and Yoda *et al.* (2021), which proves that the size or proportion of managerial ownership in a company is not one of the aspects that can influence the occurrence of financial distress. The proportion of shares owned by management does not seem to impact on the likelihood of financial distress in a company, suggesting that whether a company is healthy or not does not depend on the proportion of shares owned by management but instead on management's expertise in running the company (Fidyningrum and Retnani, 2017; Rachmawati and Retnani, 2020; and Yoda *et al.*, 2021). If the proportion of shares owned by management increases, but

their operational expertise is suboptimal, the likelihood of financial distress remains inevitable. This is supported by the results of previous research conducted by Kartika and Hasanudin (2019), which shows that profitability affects financial distress. The higher the profitability, which indicates management's expertise in managing assets to generate profits, the lower the likelihood of the company experiencing financial distress (Kartika and Hasanudin, 2019). In addition, in most property and real estate companies in Indonesia, the management only owns a few shares, and even if they are not too large, they may not feel the great benefits of owning shares in the company. Even if the company is in financial distress, the management does not suffer as much loss as other shareholders.

The Impact of Audit Committee Size on *Financial Distress*

This research presents results that differ from those of Dwi Putra and Serly (2020), who found that the size of the audit committee impacts on financial distress. However, these results are in line with the results in the research of Purba and Laksito (2016) and Rahmawati and Herlambang (2018), which prove that the size of the audit committee represented by the number of audit committee members of a company does not have a significant influence on the likelihood of the company facing financial distress. The number of audit committee members of a company has no influence on the likelihood of the company facing financial distress or the magnitude of such distress, which means that the performance of the audit committee in the performance of its monitoring duties is not affected by the number of its members. The lack of impact of the size of the audit committee on financial distress in a company may be because the number of audit committee members is often determined only to fulfill the requirements of Financial Services Authority Regulation Number 55/POJK.04/2015 Article 4, which states that the audit committee consists of at least three members from independent commissioners and parties from outside the issuer or public company, rather than to improve the ability of the audit committee to perform its oversight duties (Purba and Laksito, 2016). The results of the descriptive statistics show that the average number of audit committee members in real estate and property companies in Indonesia is exactly three people, as required by the POJK.

The Impact of Audit Committee Independence on *Financial Distress*

The results of this research differ from those of Susilawati (2016) and Revitasari, Nurdin and Azib (2017), which suggest that audit committee independence impacts on financial distress. However, these results are consistent with Dwi Putra and Serly (2020) and Masak and Noviyanti (2019) prove that audit committee independence does not impact on financial distress. The impact of the proportion of independent audit committees on a firm and the likelihood of facing financial distress is uncertain due to doubts about the independence of audit committee members in performing oversight duties. The lack of transparency in the selection of audit committee members raises questions about their level of independence. Audit committee members may have family or business relationships with company management, which could compromise their ability to supervise management effectively. Failure to address this issue could undermine the credibility of the company's financial reporting and lead to financial difficulties. Similarly to the audit committee size, the presence of independent audit committee members in most property and real estate companies in Indonesia is believed to be solely for compliance purposes and to avoid potential sanctions. The presence of independent audit committee members is not necessarily intended to enhance the quality of management oversight.

The Impact of Audit Committee Meeting Frequency on *Financial Distress*



Figur 2. Frequency of Audit Committee Meetings in a Year
Source: Data processed from the sample company's annual report (2023)

The results of this research are not in line with the results of Masak and Noviyanti (2019), Dwi Putra and Serly (2020), and Sukawati and Wahidahwati (2020) research, which proves that audit committee meeting frequency has no impact on financial distress, but is in line with the results of Rizqiani and Umaimah (2020) research, which proves that the frequency of audit committee meeting has an impact on financial distress. The frequency of audit committee meetings does not directly cause the likelihood of a company experiencing financial distress. However, the presence of frequent audit committee meetings may signal that the company is experiencing serious financial challenges or problems that require further attention and monitoring. Therefore, frequent audit committee meetings can be a potential indicator of the number of existing problems or financial risks that may need to be addressed (Rizqiani and Umaimah, 2020). Ideally, the audit committee should hold four meetings a year following the provisions listed in the Financial Services Authority Regulation Number 55/POJK.04/2015 Article 13. As shown in Figure 3, many audit committees in the sample companies held audit committee meetings more than four times a year. Financial Services Authority Regulation Number 55/POJK.04/2015 Article 13 recommends that an audit committee should meet four times a year. Most of the objectives of the audit committee, which holds meetings more than four times a year, are to find a solution to the problems faced by the company. In addition, the positive impact of the frequency of audit committee meetings on the likelihood of companies facing financial distress may also occur because smaller audit committees may be unable to detect financial problems even if financial reports are discussed during the meetings. Thus, the more often the audit committee holds meetings, the more it will not benefit to the company's finances but only increase the cost incurred.

Conclusions and suggestions

The results indicate that institutional ownership and managerial ownership do not significantly impact on financial distress in Indonesian property and real estate companies. Similarly, audit committee size and independence do not significantly impact on financial distress. However, the frequency of audit committee meetings significantly impacts financial distress in these companies. This research found that ownership structure cannot impact the likelihood of companies facing financial distress, and audit

committee characteristics also have no impact on financial distress, except for the frequency of audit committee meetings, which is found to have a significant impact on financial distress. These results serve as literature for future researchers interested in conducting in-depth research on ownership structure, audit committee characteristics, and financial distress. In addition, management can use these results to make informed decisions if their company is experiencing financial distress. Management can use these outcomes to decide whether to reduce the number of meetings held by audit committee members. This is because the number of audit committee meetings has increased the company's likelihood of financial distress. Investors and shareholders can also consider these results when making investment decisions in a company and when expressing their opinions at the General Meeting of Shareholders (GMS).

The research is limited to property and real estate companies, and the observation period covers only five years (2017-2021). Future research should include companies in other sectors, such as manufacturing, banking, and transportation, and extend the observation period. In addition, this research is limited to using Ohlson model to measure the likelihood of a firm being in financial distress. Future research is recommended to explore the use of alternative distress prediction models such as Zmijewski, Springate, and Altman. Further research can compare the outcomes obtained using one financial distress prediction model with other models to measure the likelihood that a company will face financial distress.

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