



## Predicting financial distress in Indonesia property sector company

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### ABSTRACT

Research about bankruptcy predictions and financial distress is a topic that is always researched every year, because it is important for the company, investors, creditors, etc. to find out whether the company is in a healthy condition in its finances and management. This study examine the impact of financial ratios and market ratio towards company's financial distress. This research objectives are property sector companies listed in Indonesia Stock Exchange from 2016 till 2019. The data analysis are using e-views program to conducting descriptive statistical test, outlier test, and hypothesis test. The results show that the liquidity ratio does not have a significant effect on financial distress, while the other three financial ratios such as productivity ratios, profitability ratios, solvency ratios have a positive effect on financial difficulties. Market ratios such as market value of equity and leverage do not have a significant effect on the level of financial difficulty. This research is also expected to help the company to find out its financial condition so that it can immediately overcome financial problems before bankruptcy occurs.



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## INTRODUCTION

The global financial crisis has had a huge impact on the economies of countries around the world, various problems facing the world such as the large number of unemployed, increased credit risk that has made a company bankrupt (Pham Vo Ninh et al., 2018). This is one of the risks of establishing a company. There are 2 types of risks that a company faces when it stands, namely business risk and financial risk. Business risk is the exposure of a company has to factors that will reduce its profits or make it to fail (Nugroho et al., 2023). A business risk is anything that jeopardizes a company's capacity to meet its financial objectives. Many things might come together to produce business risk. The company's leadership or senior management can sometimes put the organization in a position where it is more vulnerable to danger (Indriyanto, 2022). The danger of losing money on an investment or business endeavour is referred to as financial risk. One sort of danger that might result in a loss of wealth for interested parties is financial risk (Indriyanto & Rosmalia, 2022). Corporations are similarly at risk of defaulting on obligations they incur, but they may also fail to do so, putting a financial strain on the company. Various macroeconomic pressures, changes in market interest rates, and possible defaults by big sectors or enterprises all pose financial hazards to financial markets. Individuals are exposed to financial risk when they make decisions that may imperil their income or ability to repay obligations.

According to financial theory, systematic risk connected with common factors influences returns on equity, and assets that are more risk sensitive should be compensated by investors for retaining equity by delivering greater returns (Mselmi et al., 2019). The signaling theory discusses how a company's actions should inform investors about how management views the company's prospects (Indriyanto & Cahyani, 2022). By creating excellent financial reports or integrated information, signal theory can assist companies (agents), owners (principals), and outsiders in reducing information asymmetry. A healthy company is more likely to disclose when a company experiencing financial distress. The term "financial distress" refers to a drop in performance caused by inadequate management or a financial crisis (Restianti & Agustina, 2018). Financial distress differs from bankruptcy in that it occurs when a company's financial liabilities may not be met owing to a decline in commercial activities, illiquid assets, or large fixed expenditures (Ria et al., 2022).

Bankruptcy, on the other hand, is the last condition in which a corporation ceases to operate due to financial difficulties. Financial distress can sometimes be noticed before a company goes bankrupt. As a result, financial distress does not necessarily result in bankruptcy (Pham Vo Ninh et al., 2018). There are numerous sorts of financial distress, including

economic failure, which occurs when total costs exceed total revenue, and business failure, which occurs when a company ceases to operate. The term "technical bankruptcy" refers to a company's inability to satisfy its present obligations. When a firm files a formal claim due to bankruptcy, it is known as legal bankruptcy. If the book value of the company's debt exceeds the market worth of the company, the company is said to be bankrupt (Ginting, 2017).

Supported by Muflihah (2017) cash flow difficulties occur when the expenses incurred are greater than the income from operations obtained and management irregularities in regulating and controlling existing cash flows, worsening the situation. The amount of debt incurred in the condition of the bill that was due and at the same time the company did not have money or cash to pay off which caused the creditor to confiscate to pay or settle the debt. Ross, Wastefield, & Jordan (2013) argue that a declining company condition can trigger financial distress. The decline in the company's condition was due to the company's cash flow that was not smooth in paying off its liabilities, such as interest expenses and liabilities to creditors. Companies that are experiencing a downturn are demanded to immediately make improvements because the short-term financial distress is not classified as severe because it can still be repaired. Conversely, if these short term financial distress are not resolved quickly, this condition will continue to worsen so that it cannot be resolved and will lead to company liquidation. When a corporation is in financial difficulties or receives bad news, it sends out a negative signal to investors that will effect financial statement disclosure. While the company has "excellent news," which means that the firm's financial performance is strong enough to influence management's decision to provide company information, management aims to provide information that will help the firm succeed even if it is not required (Puteri, 2022).

Analysis of the prediction of financial difficulties and bankruptcy is an important part for investors and creditors, including for companies. It is important for companies to anticipate bankruptcy. This analysis is carried out to determine the company's financial condition, which means the level of financial health of the company itself (Edi & Tania, 2018). The stage in which a declining financial condition occurs in a company prior to bankruptcy is an understanding of financial distress (Platt & Platt in Kisman & Krisandi, 2019). When a company is experiencing financial distress, its operating profit usually shows a negative number or another meaning that the company is experiencing a loss, it may also be seen from the negative or decreasing book value of equity. Financial distress refers to a company's inability to meet its financial obligations to creditors due to liquidity problems (Hanifah, 2013).

According to the data from the Ministry of Finance as of December 31, 2018, several state companies in various industrial fields recorded low scores on the Altman Z Score index. Altman Z Score is a measuring tool that assesses the financial status of companies experiencing financial distress. The number that shows a company is in the red zone or financial distress is below 1.23 for manufacturing companies and 1.1 for non-manufacturing corporations. 2019 have been a great year before the beginning of pandemic covid19. Covid19 have been a pandemic which cause mostly of the company to experience financial distress and down falling of many business. Which is mean 2016 till 2019 are the best year to study financial distress without influence of pandemic covid19 effect.

This study examines the influencing effect of liquidity, profitability, productivity, solvency, market value of equity and leverage towards financial distress for property sector companies. This research measure the company's ability to prevent financial difficulties that can lead to company bankruptcy. If a corporation's operational income, net income, and book value of equity are all negative, the company is said to be in financial difficulty. This condition is generally found prior to bankruptcy or liquidation. The process of financial distress in a company starts from a decline in performance to the lowest point then there will be a recovery process if the company can improve its performance. If the performance gets worse, it is likely that the company will face bankruptcy. In contrast, if the company's performance improves, the company has the opportunity to overcome financial distress.

This research is expected to help the company to find out which financial condition need to be met so that it can immediately overcome financial problems before bankruptcy occurs. This research provide the novelty of providing a new insight related to the factors that have an effect on financial

distress and bankruptcy by doing empirical research to confirm previous research of Pham Vo Ninh, Do Thanh, & Vo Hong (2018) whether financial ratio will giving the same impact to financial distress in property business at Indonesia. This research also add productivity ratio because only a few studies use this variable for financial distress prediction but for property sector productivity was an important factor that could decide the outcome of company performance. The reason why we chose property companies to be our research sample is because the property business over the last few years has stagnated, with new rules such as easing PPNBM on property in 2019 it will certainly increase the potential of the property business, but with the potential for business increases, of course, it will bring the same big business risks so there needs to be research that can help company in avoiding the risk of financial distress in the future. Then it can be an additional reference for future researchers who want to develop similar research how financial and market ratio effect property sector financial distress especially during the global crisis.

## RESEARCH METHOD

The method used by the researcher to analyze the data is panel regression analysis. Descriptive statistical analysis is the first stage in this research to describe research data, both qualitative data and quantitative data (Susilo & Ria, 2022). The next stage is the stage of separating the data that deviate or extreme data specifically by performing outlier tests. The research sample are using property sector companies listed on the Indonesia Stock Exchange (IDX) during 2016 – 2019 as research objects.

The research samples are obtained through purposive sampling method. Furthermore, the data are collected from firm's financial data reported in company annual report available in Indonesia Stock Exchange Data. Companies that can be used as samples for this research are companies that have complete and audited financial statements and the information provided meets the criteria needed in this study making it easier to test the data, other criteria are property companies listed on the BEI that are active in the 2016 period - 2019 which means we don't use company data outside the period including companies that have just traded their shares to the public or also known as an initial public offering (IPO).

The amount of property company that are listed at 2019 are 77 company but only 54 companies data are available to be used in this research. The next stage after data collection is the data processing stage, the author uses evIEWS program. Based on the results of the outlier test, there are 37 data that become outlier data, so the sample data that can be tested and feasible is 179 data. The multiple linear regression, the panel regression, the Spearman, data analyzing are through the E-Views program version 10.

## Measurement of Financial Distress

This study uses financial distress as the dependent variable. Financial debt is the leading cause of financial difficulty and business failure. Many scholars have attempted to assess the likelihood of default in this regard. They employ indices of company operations efficiency and financial costs. Financial distress, for example, is defined as the gap between EBITDA (earnings before interest, taxes, and depreciation) and interest payments (Edi & Tania, 2018). Companies may not be able to generate enough revenue to satisfy their financial obligations. The interest coverage ratio between returns / income before interest and tax (EBIT) and interest payments determines the likelihood of a company experiencing financial trouble. If this ratio is less than one, or if EBIT is less than interest payments, the business is in financial distress zone (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018).

$$\text{Financial Distress} = \frac{\text{Earning Before Interest Tax}}{\text{Interest Expense}} \quad (1)$$

## Measurement of Liquidity

Company liquidity refers to the amount of cash or other liquid assets a company has. A number of ratios for liquidity measurements are available, and they indicate a business's ability to make payments. The net financial liquidity of assets is measured by the working capital to total assets ratio. Several research models show that this is the most widely used of the three other financial ratios that indicate company liquidity and greatly contribute to differentiating between companies that are in

financial distress and those that are not (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018).

$$\text{Liquidity} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Total Assets}} \quad (2)$$

### Measurement of Profitability

The ratio of retained earnings to total assets is used to calculate profitability. The cumulative profitability of the business during the period of its operation is referred to as retained earnings relative to TA. Companies with low financial debt or a minimal risk of default have high retained earnings to total assets ratios (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018).

$$\text{Profitability} = \frac{\text{Retained Earnings}}{\text{Total Assets}} \quad (3)$$

### Measurement of Productivity

The formula for earnings before interest and tax on total assets (Earning before interest tax / Total assets) illustrates the productivity of the company's assets, omitting taxes and the leverage component or the earning strength of assets, which has been used in many previous studies (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018).

$$\text{Productivity} = \frac{\text{Earning Before Interest Tax}}{\text{Total Assets}} \quad (4)$$

### Measurement of Solvency

Solvency means the ability of a company to be responsible for fulfilling all the liabilities that exist within the company. The book value of equity is compared to total liabilities in this study to determine the company's ability to cover its financial debts with assets. Using this variable to gauge financial hardship in emerging markets, the lower the chance of financial distress, the greater the book value of equity / total liabilities (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018).

$$\text{Solvency} = \frac{\text{Book Value of Equity}}{\text{Total Liabilities}} \quad (5)$$

### Measurement of Market Value of Equity

The market value of equity, also known as market capitalization, is a measure of a company's capital value as assessed by market players. One of the most common variables used to describe a company's size is its market value of stock. A multiple of the share price and the number of shares outstanding is used to calculate the market value of equity (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018).

$$\text{Market Value of Equity} = \text{Share Price} \times \text{Outstanding Shares} \quad (6)$$

### Measurement of Leverage

The definition of leverage is the total debt used to purchase company assets. A company can be said to have a high level of leverage if the company has debt that is greater than equity (Pham Vo Ninh, Do Thanh, & Vo Hong, 2018). Leverage in this study is measured using a ratio scale which is stated as follows:

$$\text{Leverage} = \frac{\text{Total Liabilities}}{\text{Total Equity} + \text{Total Liabilities}} \quad (7)$$

### Liquidity and Financial Distress

A good liquidity ratio will be able to prevent the company facing financial distress (Huang, Wang, & Kochenberger, 2017). This is because if a firm is unable to settle its short-term debt, it will

enter a poor cycle, which is fueled by a poor debt reputation, which might prevent the company from renewing revenue (Waqas & Md-Rus, 2018). The better debt paying ability by the company will create a better reputation for the company to get more purchase and renew revenue for the firm and lowering the financial distress level. (Paule-Vianez, Gutiérrez-Fernández, & Coca-Pérez, 2019). The higher the current asset to current debt ratio, the better the company's ability to cover its short-term liabilities, and vice versa, the lower the ratio, the worse the company's ability to pay its short-term debt (Mesak, 2019). Even though the company sells its entire inventory and collects all receivables, this still does not guarantee that the company will not experience financial distress (Dirman, 2020). From the statement above, we concluded the hypothesis as below:

*H<sub>1</sub>: Liquidity has a significant negative effect on financial distress*

### **Profitability and Financial Distress**

Profitability ratios are crucial for a company's survival in financial crisis because most companies encounter financial crisis at an early stage because they require funds to fulfill their liabilities, which are derived from the company's profits (Ufo, 2015). The company's liabilities will be paid off by the profit generated from its revenue so that the company will not experience financial distress. Average of non-financial company has a fairly stable profitability and is quite influencing the financial condition of the company (Freitas Cardoso, Peixoto, & Barboza, 2019). From the statement above, we concluded the hypothesis as below:

*H<sub>2</sub>: Profitability has a significant positive effect on financial distress*

### **Productivity and Financial Distress**

When a company facing a financial distress, selling one of its asset are the main symptom this is because when a firm cannot generate healthy profit to help the cash flow, it will need sell its asset to get fresh cash to keep the company operating. (Samanhyia & Oware, 2016). The company's productivity variable shows the company's ability to increase sales so that the company makes a profit every year (Khaddafi et al, 2017). This means that the company will be far from financial distress if the company's productivity ratio gets better (Pham Vo Ninh et al, 2018). Productivity ratio measures the ability of capital invested in company assets to generate profits for investors. A high productivity ratio indicated that the company's management is managing the company's assets well so that the company gets high profits (Effendi et al., 2016). From the statement above, we concluded the hypothesis as below:

*H<sub>3</sub>: Productivity has a significant negative effect on financial distress*

### **Solvency and Financial Distress**

When company are unable to cover its long term debts with assets, this company has a high risk in facing its financial distress (Moch et al, 2019). The company's solvency ratio which can determine the company's financial condition using the company's ability to pay its debts. This suggests that a company's ability to pay its debts is inversely related to its financial health (Islami & Rio, 2019). It can be concluded that the average company that is not experiencing financial distress is because the company is able to overcome financial problems that are happening or the company has anticipated that there will be no difficulties in paying its liabilities (Huang et al., 2017 & Pham Vo Ninh et al., 2018). From the statement above, we concluded the hypothesis as below:

*H<sub>4</sub>: Solvency has a significant negative effect on financial distress*

### **Market Value of Equity and Financial Distress**

A low market value shows that the company is severely harmed and on the verge of bankruptcy, or when total debt surpasses assets. The greater this financial ratio's value, the less likely a company is to be in a bad financial situation. Thus, the higher the value of the equity market value variable has a lower probability of financial failure / difficulty (Hernandez Tinoco & Wilson, 2013). From the analysis of equity market value that it reflects the condition of the company in terms of assets, debt and capital conclude that the higher the market value of equity, the further away the company is from financial distress (Kihooto et al, 2016 and Maccarthy, 2017). In this study show that the lower the equity market value ratio, the higher the level of financial distress that the company will

or is currently facing (Pham Vo Ninh et al., 2018). From the statement above, we concluded the hypothesis as below:

*H<sub>5</sub>: Market Value of Equity has a significant negative effect on financial distress*

### Leverage and Financial Distress

Company's ability to pay all its bonds bringing the meaning the possibility of the company facing financial distress is also reduced (Kristanti, Rahayu, & Huda, 2016). The higher the debt used to finance the company's assets, the higher the risk of the company experiencing financial distress (Aisyah, Kristanti, & Zultilisna, 2017). If the company's leverage rises, it will have an impact on its financial distress (Masdupi et al., 2018). The leverage ratio is a calculation that compares all debt, including current debt, to total equity (Makiwan, 2018). The more debt a corporation carries, the more financial trouble it will experience (Kisman & Krisandi, 2019). From the statement above, we concluded the hypothesis as below:

*H<sub>6</sub>: Leverage has a significant positive effect on financial distress*

## RESULT AND DISCUSSION

Descriptive statistics giving a brief information about financial condition in property sector companies listed in Indonesia Stock Exchange. The company is categorized as a company that is experiencing financial distress if the company has low financial debt, as well as how productive the company is in increasing sales and how big the company's ability to cover the company's debt. The interest coverage ratio between return/earnings before interest and taxes (EBIT) and interest payments determines the likelihood of a company experiencing financial difficulties. If this ratio is less than one, or if EBIT is less than interest payments, the business is in a financial distress zone. There are 24 sample data companies from 179 data classified as being in a state of financial distress because the profit before tax and interest is not able to cover the company's interest debt or the ratio value is less than one. Averagely property sector companies have the ability to pay their financial expenses from earnings before interest tax by 3-4 times. Averagely property sector companies have the ability to pay their short term liability from asset and have the ability to generate profits during a certain period at the level of sales, assets, and certain share capital by 20%. Averagely property sector companies only 4% have ability to turn their assets and debts into profit and company's equity is able to cover the company's debt 21 times. The average market capitalization of property sector companies can be concluded that property companies has quite a large number of outstanding shares. From the results leverage variable in the table, it shows an average value of 44%, it can be concluded that the property sector companies listed on the Indonesia Stock Exchange for the period 2016 - 2019 have a fairly stable leverage ratio, which means that the data between liabilities and company capital are not too distorted far.

**Table 1. Descriptive statistic**

| Variable                | N   | Minimum    | Maximum        | Means         | Std. Deviation |
|-------------------------|-----|------------|----------------|---------------|----------------|
| Financial Distress      | 179 | -19.63238  | 23.87611       | 3.7351880     | 5.01195245     |
| Liquidity               | 179 | -0.23961   | 0.72249        | 0.2088709     | 0.19149893     |
| Profitability           | 179 | -0.38194   | 0.78333        | 0.2071156     | 0.20125670     |
| Productivity            | 179 | -0.22917   | 0.27765        | 0.0476419     | 0.04999895     |
| Solvency                | 179 | 0.02820    | 15.20502       | 2.1024294     | 2.56003001     |
| Market Value of Equity* | 179 | 33.751.010 | 54.984.900.600 | 6.658.215.657 | 9.812.428.227  |
| Leverage                | 179 | 0.06171    | 0.97258        | 0.4400037     | 0.18955725     |

\* Served in thousands of rupiah

Source: author's calculation (2021)

**Table 2. Chow test result**

| Effects Test             | Statistic  | d.f.     | Prob.  |
|--------------------------|------------|----------|--------|
| Cross-section F          | 5.975118   | (48,124) | 0.0000 |
| Cross-section Chi-square | 214.413122 | 48       | 0.0000 |

Source: author's calculation (2021)

The Chow test was conducted to compare the PLS and FEM relapse models. This procedure is carried out by taking into consideration the coming about probabilities. In case the likelihood esteem appears a number more than 0.05, at that point the PLS relapse model is the foremost appropriate demonstrate to utilize. Meanwhile, if the esteem of probability appears a number less than 0.05, at that point FEM could be a show relapse that can be chosen from this test. Table 2 shows a probability value of 0.0000 which means less than 0.05 so that the PLS model is not suitable or not suitable for use in this study. Because the Chow test was selected as an FEM model, it was necessary to carry out the next stage, namely the Hausman test to get the best model results to be selected.

**Table 3. Hausman test result**

| Test Summary         | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob.  |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 7.441243          | 6            | 0.2820 |

Source: author's calculation (2021)

Hausman test is carried out by comparing the FEM and REM. The criteria that have to be considered within the Hausman test are the values that produced on the chi-square measurement. In case the likelihood result is more than 0.05, at that point the FEM model is the most excellent model in this test. On the other hand, if the likelihood number appears a result lower than 0.05, at that point the REM is the most appropriate model to be chosen for this research data. so REM is the foremost reasonable model for this research. Table 3 shows a probability value of 0.2820, which means that the value is greater than 0.05, so it can be concluded from the Hausman test stage that the selection of the best model that fits the criteria and conditions of the sample data in this study is the REM or Random Effect Model. After determining the most suitable model for this research, then the hypothesis is tested which is shown below:

**Table 4. Hypothesis test result**

| Variable               | Coefficients | P-value | Criteria | Conclusion          |
|------------------------|--------------|---------|----------|---------------------|
| Liquidity              | 3.050567     | 0.1066  | <0.05    | Not Significant     |
| Profitability          | 5.771333     | 0.0044  | <0.05    | Positif Significant |
| Productivity           | 64.24101     | 0.0000  | <0.05    | Positif Significant |
| Solvency               | 0.543554     | 0.0021  | <0.05    | Positif Significant |
| Market Value of Equity | 4.485049     | 0.2536  | <0.05    | Not Significant     |
| Leverage               | 0.363843     | 0.8846  | <0.05    | Not Significant     |

Source: author's calculation (2021)

#### **Analysis of relationship between liquidity and financial distress**

Based on the results of the hypothesis test, it shows that the hypothesis are reject due to the insignificant result. The result of this study are different with previous result such as Masdupi et al (2018), Moch et al (2019) and Waqas & Md-Rus (2018). The reason behind this result could be property sector company's ability to pay its short-term liabilities does not have an effect on company financial distress level. Not all companies have current debts exceeding current assets threaten the continuity of the company's operations. One of the components of current debt is trade payable, which is non-interest debt, so that it does not pose a threat of financial distress because liquidity was categorized as operation activity. The value of debt can describe the characteristics of managerial because it is able to take the risk of debt in carrying out its operations.

#### **Analysis of relationship between profitability and financial distress**

Based on the results of the hypothesis test, it shows that the profitability variable is able to have a significant effect on the Financial Distress variable. Which is consistent with several previous result such as Dirman (2020), Islami & Rio (2019), and Mesak (2019). The profitability of the company or how well the company is able to generate profits during a certain period has a significant influence to find out whether the company is experiencing financial distress. Strong retained earnings values also characterize companies with high profitability values. The higher the value of retained

earnings on the statement of financial position prevents the company from having financial risk or debt repayment risk. In other words, companies that have high profitability will not experience financial distress because they can be prevent financial distress with company profits (Dirman, 2020).

#### **Analysis of relationship between productivity and financial distress**

Based on the results of the hypothesis test, there is a positive significant effect given by the productivity variable to the Financial Distress variable. Which is consistent with several previous result such as Peoples et al (2020) and Supriyanto & Darmawan (2018). The productivity of company assets, excluding tax and leverage components or the income strength of assets, can provide information on whether or not the company is experiencing financial distress. In the property sector company, surely it will not be separated from how productive the company's assets are, which can provide profit to the company. If an asset or property was created at a high cost but not sold, the firm will not make a profit; if this happens on a regular basis, the EBIT value will not be able to balance the asset's worth, the firm would be in financial hardship due to ongoing costs and no profit because there was no sale. Many property sector companies that go bankrupt start with financial distress because they are unable to get the profit to pay their liabilities. So this is very influential on the Financial Distress variable (Supriyanto & Darmawan, 2018).

#### **Analysis of relationship between solvency and financial distress**

Based on the results of the hypothesis test, the solvency variable has a significant effect on financial distress. Which is consistent with Huang et al (2017) and Kisman & Krisandi (2019). Solvency and liquidity have different function, both indicate the company's ability to pay off its liabilities, only if in liquidity it assesses how capable the company is to pay its short-term liabilities using the assets owned by the company. Unlike the case with solvency, which functions to determine the company's ability to pay its long-term liabilities when it is undergoing liquidation. Which is why solvency will have a great impact to financial distress because long term debt have interest expenses and bigger value than short term debt which will give a significant effect to the company financial burden.

#### **Analysis of relationship between market value of equity and financial distress**

Based on the results of the hypothesis test, this study have not succeeded in finding a significant influence between Market Value of Equity and Financial Distress, which is consistent with Ginting (2017), who argues that companies can be said to experience financial distress or to the stage of bankruptcy if the book value of the debt company is greater than the market value of the company. Although the market value of equity is one of the variables that can provide information about the size of a company. It is not sufficient to affect the level of financial distress of a company. This means that no matter how much the equity value of a company, it does not guarantee that the company is far from financial distress. From the results of this test, it strengthens the assumption that the Market Value of Equity cannot help investors to find out whether the company that is going to be or is being invested has the possibility of experiencing financial distress or not.

#### **Analysis of relationship between leverage and financial distress**

Based on the results of the hypothesis test, leverage variable does not have a significant effect on the level of financial distress faced by a company. As previously described, the leverage variable is used to measure how much the company's debt are able to finance its own assets. It can be concluded that the company's assets obtained through company debt do not have a sufficient role in influencing the level of financial distress experienced by a company. In addition, property sector companies generally will using long term debt to finance or acquire assets, so this clearly has no effect because using long term debt as finance tools are general activities in property business sectors. The results of the study have a positive but insignificant effect which is consistence with the statement from Muflihah (2017) said that when the expenses incurred greater than the income earned as well as long term debt activities to acquire assets but ultimately assets does not generate revenue for the company, it will provide very bad impact on the company's financial conditiod and vice versa.

## CONCLUSION

This research found that the liquidity variable has no influence on financial distress, the profitability variable has a positive influence on financial distress, the productivity variable has a positive association with financial distress, the solvency and financial distress variables have a negative link, and the market value of equity and leverage variable has no influence on financial distress, according to this study. The managerial implication of this study contribute to help the company to find out its financial condition so that it can immediately overcome financial problems before bankruptcy occurs. The management shall focusing on maintaining profitability ratio as their main concern to avoid further financial distress. By pushing the high efficiency of cost it will help getting the profitability of the company to be healthier and able to preventing financial distress. This study also contribute to helping investors, creditors, etc. to find out which was the right factor to concern to know whether their company are in healthy condition in its finances and management. It is important for companies to anticipate bankruptcy and investor and creditors to make decision whether they should invest and give funds for the company. This analysis is carried out to determine the company's financial condition, which means the level of financial health of the company itself

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