

## THE EFFECT OF LEVERAGE, LIQUIDITY, AND GOOD CORPORATE GOVERNANCE ON FINANCIAL DISTRESS IN THE TEXTILE INDUSTRY 2018 - 2023

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### ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh *leverage*, likuiditas, dan *good corporate governance* terhadap *financial distress*. Penelitian ini menggunakan perusahaan industri tekstil yang terdaftar di Bursa Efek Indonesia (BEI) selama tahun 2018 – 2023. Populasi dalam penelitian ini adalah seluruh perusahaan tekstil yang terdaftar di BEI. Teknik pengambilan sampel menggunakan *purposive sampling* dengan jumlah sampel sebanyak 20 perusahaan. Teknik analisis data yang digunakan adalah regresi linear berganda dengan *software* SPSS versi 26. Hasil penelitian menunjukkan bahwa *leverage* berpengaruh negatif signifikan terhadap *financial distress*, sedangkan likuiditas dan *good corporate governance* berpengaruh positif signifikan terhadap *financial distress*.

**Kata Kunci:** *Financial Distress, Leverage, Likuiditas, Good Corporate Governance.*

### ABSTRACT

*This study aims to determine the effect of leverage, liquidity, and good corporate governance on financial distress. This study uses textile industry companies listed on the Indonesia Stock Exchange (IDX) during 2018–2023. The population in this study is all textile companies listed on the IDX. The sampling technique used purposive sampling with a sample size of 20 companies. Data analysis techniques used are multiple linear regression with SPSS software version 26. The results of the study indicate that leverage has a significant negative effect on financial distress, while liquidity and good corporate governance have a significant positive effect on financial distress.*

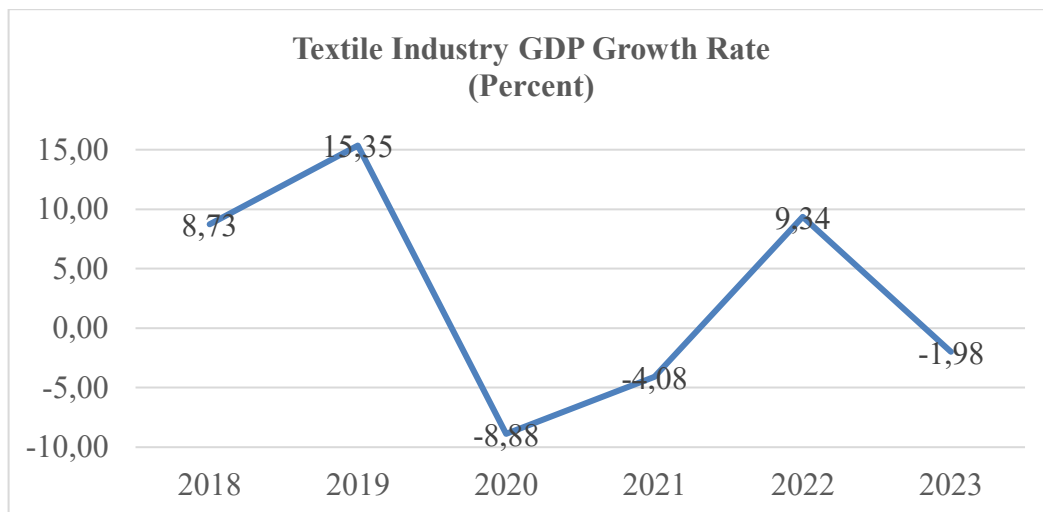
**Keywords:** *Financial Distress, Leverage, Liquidity, Good Corporate Governance.*

## A. INTRODUCTION

Over the past five years, the export performance of Indonesia's textile industry has declined significantly, marked by a decrease in shipment volume and export value to major markets such as the United States and Europe, an inability to compete with other countries in terms of price, and dependence on imported raw materials. This decline has been exacerbated by weakening global demand in the wake of the pandemic and rising logistics costs

(www.kompasiana.com, 2024). In facing these challenges, textile companies must develop effective strategies to maintain their competitive advantage (Ateljević, 2023).

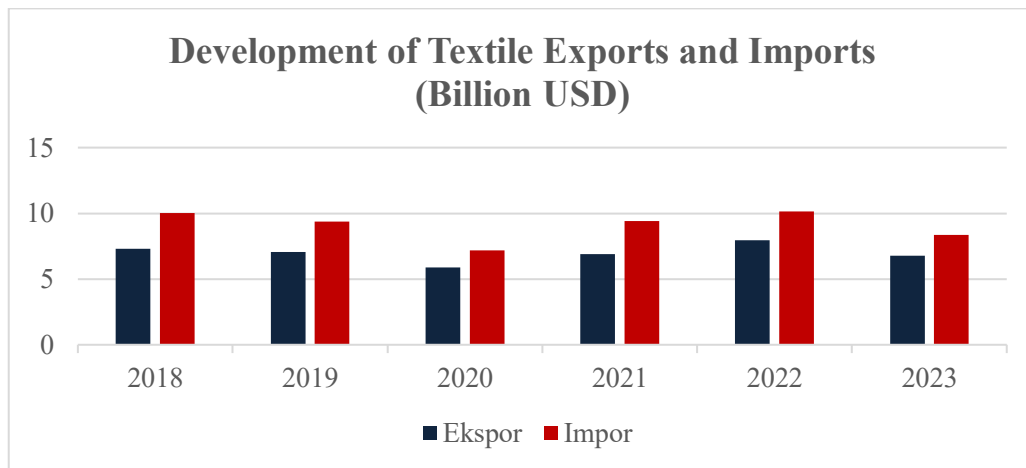
The economic health of a country is closely related to the financial health of companies, as indicated by the amount of Gross Domestic Product generated during a certain period of time (Mankiw, 2018). According to Blanchard (2017), Gross Domestic Product is the total value of goods and services produced by a country in one year. A decline in Gross Domestic Product indicates a deteriorating economic condition, while growth in Gross Domestic Product indicates an increase in economic activity (Fadhilah, 2024). The following graph shows statistics on the growth rate of the textile industry's GDP during the 2018–2023 period:



Picture 1. Industrial GDP Growth Rate 2018 – 2023

Source: <https://www.bps.go.id/id>, Data processed (2025)

Picture 1 shows the vulnerability of Indonesia's textile industry to external shocks such as the global health crisis. Entering 2022, there will be a gradual recovery from the easing of social restrictions. Increased exports and domestic demand will drive growth in 2022. The recovery did not fully address the problems in the textile industry, such as the industry's high dependence on imported raw materials and fierce competition with foreign products. An economic recession will occur in Indonesia if the Gross Domestic Product continues to decline. A company may experience financial distress as a result of the economic slowdown caused by the pandemic, which disrupt a company's performance (Ludji & Kelen, 2023).



Picture 2. Indonesian Textile Industry Exports and Imports 2018 – 2023

Source: <https://www.bps.go.id/id>, Data diolah (2025)

Picture 2 shows that the Indonesian textile industry has not met domestic market demand and export demand. Imports continue to increase due to dependence on imported raw materials and fierce competition with domestic and foreign products (Kusuma et al., 2020). Foreign products offer competitive prices and superior quality, which encourages increased imports. Low productivity and innovation, as well as an imbalance between textile exports and imports, have worsened the textile industry (Rosdiana et al., 2025). The Indonesian textile industry will experience long-term stagnation if not addressed immediately, leading to a decline in corporate financial performance and an increase in financial distress.

There are many factors that influence financial distress. The first factor that influences financial distress is the solvency ratio, which is calculated using leverage. This ratio is used to measure a company's ability to pay all its obligations if the company undergoes liquidation (Shintia, 2017). The second factor that can influence financial distress is the liquidity ratio. The liquidity ratio is a financial measure used to assess a company's ability to pay its debts or short-term obligations on time (Nuriasari, 2018). The third factor that can influence financial distress is good corporate governance. Good corporate governance is a system, process, and set of rules designed to manage the relationships between parties with interests in the company (Manossoh, 2016).

Based on the phenomena that occur, this research is important to determine the effect of

leverage, liquidity, and good corporate governance on financial distress in textile companies listed on the IDX in 2018-2023. This research is expected to help companies in the textile industry predict financial distress before experiencing bankruptcy.

## **THEORETICAL REVIEW AND RESEARCH HYPOTHESIS**

### **Agency Theory**

According to Jensen & Meckling (1976), agency theory explains the contractual relationship between two parties, namely the principal (owner or shareholder) and the agent (manager) who is given the authority to manage the company. Conflicts of interest arise when there is information asymmetry, namely an imbalance of information between the principal (owner) and the agent (manager). To reduce conflicts and agency costs, various monitoring and control systems are needed, such as ownership structure, disclosure policies, and good corporate governance principles (Setyaningsih, 2017).

### **Signalling Theory**

According to Spence (1973), signal theory explains that information conveyed by companies, whether through financial reports or managerial actions, serves as a signal to external parties such as investors, creditors, and other stakeholders. This signal aims to reduce information asymmetry, which is a condition where management generally has more knowledge than other parties outside the organizational structure (Taj, 2016).

### **Leverage**

Solvency ratio, also known as leverage, is a company's capacity to pay off all its liabilities, both short-term and long-term (Astuti et al., 2021). Companies use leverage ratios to ensure that the profits generated exceed the costs of assets and sources of funds that can increase profits (Wesa, 2018). Excessive use of leverage can create burdens and risks for companies, especially if the company's condition is deteriorating. This study uses the debt-to-asset ratio (DAR) because this ratio is based on the main source of funding, which is debt.

### **Liquidity**

Liquidity ratios are used to assess the extent to which a company is able to pay off its short-term liabilities that are due, both liabilities to parties outside the company and within the company (Astuti et al., 2021). Poor liquidity management can cause companies to have

difficulty meeting their short-term obligations or face a cash flow crisis (Jirwanto et al., 2024). This study uses the current ratio as an indicator to assess the extent to which a company is able to pay off its short-term liabilities using current assets.

### **Good Corporate Governance**

Good corporate governance is a set of systems, processes, and mechanisms that regulate a balanced relationship between the company and its stakeholders to achieve optimal performance without harming interested parties (Manossoh, 2016). This study focuses its assessment on good corporate governance through the indicator of the existence of independent commissioners because they act as supervisors who are not directly involved in company management.

### **Financial Distress**

Financial distress is the process of a decline in a company's financial position before it goes bankrupt (Abadi & Misidawati, 2023). This occurs when a company's net profit is negative for several consecutive years (Widhiari & Merkusiwati, 2015). The loss of capital causes increased financial difficulties, which affect the company's financial performance. In this study, the model used is the Altman Z-Score model, which is an improvement on the previous model (Ludji & Kelen, 2023).

### **Research Hypothesis**

Leverage is a ratio used to assess a company's ability to pay off all its liabilities, both short-term and long-term (Astuti et al., 2021). Companies use the leverage ratio to ensure that the profits generated exceed the costs of assets and funding sources, which can increase profits for shareholders (Affiah & Muslih, 2018). An increase in the leverage ratio will increase the company's fixed costs, especially in the form of interest payments and principal debt that must be fulfilled, which in turn can increase the risk of financial distress (Febrianti & Tumirin, 2024). Previous research findings by Widhiastuti et al. (2019), Shi & Li (2021), and Ambarsari (2022) state that leverage has a negative effect on financial distress. If leverage increases (more debt), the z-score value decreases, which means that leverage has a negative effect on the company's financial condition, because the higher the leverage, the worse the level of financial distress.

### **H<sub>1</sub>: Leverage affects Financial Distress.**

Liquidity ratios are used to assess the extent to which a company is able to meet its short-term obligations that have fallen due, both to external parties and within the company, which could potentially pose a risk if not resolved immediately (Astuti et al., 2021). This risk can have significant consequences for operational continuity and undermine the stability of the company. Poor liquidity management can cause companies to have difficulty meeting their short-term obligations or face a cash flow crisis (Jirwanto et al., 2024). Previous research findings by Zatira et al. (2022), Febrianti & Tumirin (2024), Hendriani et al. (2021), Fadhilah (2024), Shi & Li (2021) state that liquidity has a positive effect on financial distress. If liquidity increases, causing the z-score to rise, this means that liquidity has a positive effect on financial distress due to the company's ability to meet its short-term obligations.

## **H<sub>2</sub>: Liquidity affects Financial Distress**

Good corporate governance is designed to manage balanced and harmonious relationships between companies and stakeholders in order to improve the quality of financial reports (Manossoh, 2016). In improving company performance and reducing the risk of financial distress, independent commissioners can be used to assess the implementation of good corporate governance in terms of supervision (Berglund, 2020). Previous research findings by Telaumbanua & Budiantara (2020), Alexandra et al. (2022), Dharma et al. (2023), Usman et al. (2022), and Jati et al. (2023) state that good corporate governance has a positive effect on financial distress. If good corporate governance increases (management oversight improves), the z-score value increases, meaning that good corporate governance has a positive effect on financial distress because the strong oversight function of independent commissioners in a good corporate governance structure can improve a company's financial condition when facing a financial crisis.

## **H<sub>3</sub>: Good Corporate Governance affects Financial Distress**

### **B. METHOD**

This research is a quantitative study. The data used in this research is secondary data, obtained from annual reports and sustainability reports. The population in this study includes all textile companies listed on the Indonesia Stock Exchange (IDX) during the research period. The sampling technique used in this study is purposive sampling with the following criteria:

1) The company is part of a textile company listed on the IDX. 2) Companies that did not publish annual financial reports during 2018-2023. 3) Companies that published complete annual financial reports during 2018-2023. The analysis technique used in this study was multiple regression analysis. Data analysis in this study was assisted by IBM SPSS software version 26.

## C. RESULTS AND DISCUSSION

### Normality Test

The normality test aims to determine whether the sample data has a distribution that is close to normal. Ghozali (2021) states that regression mode is successful if the probability value (Asymp significance) is  $> 0.05$ .

Table 1. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		120
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.37436420
Most Extreme Differences	Absolute	.059
	Positive	.059
	Negative	-.035
Test Statistic		.059
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

Source: Data processed using IBM SPSS Statistics 26

The normality test table shows that the Asymp Sig. (2-tailed) value is  $0.200 > 0.05$ . This result leads to the conclusion that the research data is normally distributed

### Partial Test (T-test)

The T-test aims to partially test the independent variable against the dependent variable (Ghozali, 2021). The hypothesis will be accepted if the significance value is  $< 0.05$ .

Table 2. T-test  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.776	.150		31.796	.000
	Leverage	-.069	.030	-.191	-2.270	.025
	Likuiditas	.055	.017	.278	3.266	.001

	Good Corporate Governance	.426	.124	.292	3.433	.001
a. Dependent Variable: Financial Distress						

Source: Data processed using IBM SPSS Statistics 26

Based on the T-test table above, it can be concluded that Leverage (X1) has a significance value (Sig.) of  $0.025 < 0.05$ , and a negative coefficient of -2.270. This means that there is a significant effect between Leverage and Financial Distress. In other words, the higher a company's debt ratio, the greater the potential for the company to experience financial difficulties.

Liquidity (X2) has a significance value (Sig.) of  $0.001 < 0.05$  and a positive coefficient of 3.266. This means that there is a significant influence between Liquidity and Financial Distress. This means that the higher a company's ability to meet its short-term obligations, the lower the possibility of the company experiencing financial difficulties.

Good Corporate Governance (X3) has a significance value (Sig.) of  $0.001 < 0.05$  and a positive coefficient of 3.433. This means that there is a significant influence between Good Corporate Governance and Financial Distress. This means that the higher the proportion of independent commissioners in the company's supervisory structure, the lower the potential for financial distress.

### Simultaneous F Test

The simultaneous F test is used to test all independent variables together against the dependent variable.

Table 3. F-test

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.820	3	1.273	8.858	.000 <sup>b</sup>
	Residual	16.678	116	.144		
	Total	20.498	119			

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), Good Corporate Governance, Likuiditas, Leverage

Source: Data processed using IBM SPSS Statistics 26

Based on the F test table, the Fcount is 8.858. The F distribution table is sought at  $\alpha = 0.05$  with degrees of freedom  $N-k-1$ , which is  $120 - 3 - 1 = 116$ , resulting in an Ftable of 2.45. It can be concluded that Fcount is greater than Ftable, namely  $8.858 > 2.45$ , and the significance

value is  $0.000 < 0.05$ . This means that simultaneously, the three independent variables have a significant effect on the dependent variable of Financial Distress. In other words, when the three independent variables are tested together, the combined effect is stronger than when tested individually

### Determination Coefficient Test

The coefficient of determination test aims to measure the extent to which independent variables contribute to explaining the dependent variable, expressed as a percentage

**Table 4. Determination Coefficient Test**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.854 <sup>a</sup>	.730	.720	.21954	2.053
a. Predictors: (Constant), Good Corporate Governance, Leverage, Likuiditas					
b. Dependent Variable: Financial Distress					

Source: Data processed using IBM SPSS Statistics 26

From the coefficient of determination test table, the coefficient of determination (Adjusted R square) obtained was 0.720 or  $0.720 \times 100 = 72\%$ , which means that the influence of the independent variables. (X1, X2, and X3) on the dependent variable (Y) is 72%, and the rest is influenced by other factors that the researcher did not examine.

## DISCUSSION

### The Effect of Leverage on Financial Distress

Based on the testing of the research data, it shows that leverage has a significant negative effect on financial distress, as indicated by a significance value of  $0.025 < 0.05$  and a negative coefficient of -2.270. Thus, hypothesis 1 is accepted, which states that the leverage variable has a significant negative effect on financial distress. This finding is in line with the theory that explains that high leverage can worsen a company's financial condition (Setyaningsih, 2017).

These test results are reinforced by the case of PT. Asia Pacific Fibers Tbk, which had a very high average leverage of 5.11 during the 2018–2023 period. In 2020, the company's leverage reached 5.17 and its financial distress score was very poor at -60.93. This value continued to decline, reaching -66.57 in 2023 when leverage increased to 5.52. This shows that the higher the leverage ratio, the greater the financial pressure experienced by the company.

Excessive use of debt without good managerial control risks causing losses to shareholders due to irresponsible decisions (Wesa, 2018). The results of this study are in line with the findings of Widhiastuti et al. (2019), Shi & Li (2021), Ambarsari et al. (2022), who also stated that leverage has a significant effect on financial distress.

### **The Effect of Liquidity on Financial Distress**

Based on the testing of the research data, it shows that liquidity has a significant positive effect on financial distress, as indicated by a significance value of  $0.001 < 0.05$  and a positive coefficient of 3.266. Thus, hypothesis 2 is accepted, which states that the liquidity variable has a significant positive effect on financial distress. This finding is in line with the theory that adequate liquidity indicates that a company has sufficient cash reserves and current assets to carry out operations and pay debts on time (Shintia, 2017).

The results of this test are reinforced by the case of PT. Pan Brothers Tbk during 2018 Until 2019, the company had very high liquidity ratios of 6.46 and 6.51, respectively. During the same period, the company recorded positive financial distress scores of 5.27 and 6.12, indicating stable financial conditions. However, when liquidity declined sharply to 1.75 in 2023, the financial distress value also declined to 3.18. This shows that companies with high current ratios tend to be more resilient to operational pressures because they are able to meet their obligations without having to sell fixed assets or seek emergency funding. The results of this study are in line with the findings of Shi & Li (2021), Zatira et al. (2022), Andini et al. (2024), Gultom & Hasyim (2025), which show that liquidity has a positive relationship with financial distress.

### **The Effect of Good Corporate Governance on Financial Distress**

Based on the testing of the research data, it shows that Good Corporate Governance has a positive effect on financial distress, as indicated by a significance value of  $0.001 < 0.05$  and a positive coefficient of 3.433. Thus, hypothesis 3 is accepted, which shows that the Good Corporate Governance variable has a positive effect on financial distress. This finding is in line with the theory that explains that effective supervision can prevent mismanagement or inappropriate decision-making, which has the potential to weaken the company's financial condition (Zatira, 2022).

The results of this test are reinforced by the case of PT. Argo Pantes Tbk during the period 2018 to 2020, which had a fairly high proportion of independent commissioners, namely 0.40 in 2018 and 2019, and 0.33 in 2020. However, the company experienced severe financial distress, with values of -18.71 in 2018, -20.03 in 2019, and -23.67 in 2020. This shows that with good supervision, the potential for misuse of resources and strategic errors can be minimized, which ultimately helps improve financial conditions and reduce the risk of financial distress. The results of this study are in line with the findings of Telaumbanua & Budiantara (2020), Alexandra et al. (2022), Dharma et al. (2023), Usman et al. (2022), Jati et al. (2023), which state that good corporate governance has a positive effect on financial distress.

#### D. CONCLUSIONS

Based on the results of the analysis and discussion, the conclusion of this study is that leverage, liquidity, and good corporate governance simultaneously affect financial distress in textile companies during the 2018-2023 period. Partially, leverage has a negative effect on financial distress, while liquidity and good corporate governance have a positive effect on financial distress. The limitations of this study are that it only uses textile sector companies as samples, and the variables used are still limited.

#### E. SUGGESTIONS

Based on the findings and analysis results obtained, the suggestion for future researchers is to expand the scope of the research by adding other industrial sectors outside the textile industry, so that the research results are more general and can be compared across sectors. The use of Good Corporate Governance indicators can be expanded, not only using independent commissioners.

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