

THE EFFECT OF LEVERAGE AND CHARACTERISTICS OF THE BOARD OF DIRECTORS ON FINANCIAL DISTRESS

Bintang Wahyu Erliyanto¹⁾, Anggita Langgeng Wijaya²⁾, Richo Diana Aviyanti³⁾

¹ Fakultas Ekonomi dan Bisnis, Universitas PGRI Madiun
bintangwahyu144@gmail.com

² Fakultas Ekonomi dan Bisnis, Universitas PGRI Madiun
gonggeng14@gmail.com

³ Fakultas Ekonomi dan Bisnis, Universitas PGRI Madiun
rdiana@unipma.ac.id

Abstrak

Penelitian ini bertujuan untuk menguji dan menganalisis secara empiris pengaruh *leverage* dan karakteristik direksi terhadap *financial distress*. Penelitian ini pada perusahaan sektor properti dan *real estate* yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2021-2024. Penelitian ini menggunakan data sekunder dari laporan keuangan tahunan perusahaan yang bersumber dari website IDX dan web resmi perusahaan. Penelitian ini termasuk dalam penelitian kuantitatif. Penelitian ini menggunakan *metode purposive sampling*, populasi penelitian ini terdiri dari 284 perusahaan. Penelitian ini menggunakan teknik analisis linier berganda dan diolah menggunakan program SPSS versi 24. Hasil penelitian menunjukkan bahwa *leverage* berpengaruh terhadap *financial distress* dan karakteristik direksi berpengaruh terhadap *financial distress*.

Kata Kunci: Leverage, Karakteristik Direksi, Financial Distress

Abstract

This study aims to empirically examine and analyze the effect of leverage and board characteristics on financial distress. This study examined property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2021-2024. This study used secondary data from the companies' annual financial reports sourced from the IDX website and the companies' official websites. This study is a quantitative study. It employed a purposive sampling method, with a population of 284 companies. Multiple linear regression analysis was used and analyzed using SPSS version 24. The results indicate that leverage influences financial distress, and board characteristics influence financial distress.

Keywords: Leverage, Director Characteristics, Financial Distress

A. INTRODUCTION

Financial distress is when a business has financial challenges to pay debt that could result in bankruptcy or liquidation (Hidayat *et al.*, 2024). This is the outcome of both a decline in revenue and the company's incapacity to settle its short-term and long-term debt to creditors. Economic conditions that are uncertain might have a negative impact on a company's financial. This raises the likelihood of encountering financial distress. A corporation in financial distress will hurt its creditors as well as its investors. Due to the company's incapacity to repay loaned funds, creditors will incur losses and investors will lose company shares (Sariroh, 2021).

PT Cowell Development Tbk was unable to pay its debtors 53.4 billion rupiah, resulting in financial difficulties. PT Cowell's default or bankruptcy resulted in a two-year suspension and possible delisting from the Indonesia Stock Exchange. Following a bankruptcy ruling from the commercial court, PT Cowell was forced to liquidate the company's assets to repay its debts to creditors. This incident highlights the importance of understanding potential financial problems and their causes. As corporate governance managers, stakeholders can take proactive steps to mitigate the likelihood of financial challenges, which could negatively impact the company.

One factor that predicts financial distress is leverage. Leverage is to forecast how a company would use debt-derived cash to create revenue and settle both short- and long-term debt (Maulana & Prasetyo, 2025). Creditors can evaluate the degree of debt risk posed to the company by using ratio leverage. Companies that use excessive debt can increase financial risk and potentially lead to default.

The traits of the board of directors are another indicator of financial distress. The characteristics of the board of directors refer to the personal attributes, abilities, and variety possessed by directors in managing a corporation company (Ramadan & Fadilah, 2025). The educational background of directors will influence their mindset and policy decision-making for the company. In order to mitigate the danger of financial distress, directors' educational backgrounds will therefore influence making decisions business.

Signalling Theory

Spence first signaling theory in 1973. According to this theory, businesses use financial reports information to stakeholders about their prospects and potential for the future (Amanah *et al.*, 2023). Providing information to stakeholders is considered a signal to stakeholders. This signal can be a positive signal containing good news and a negative signal containing bad information.

Financial Distress

Financial distress is corporation be in financial difficulty operating cash flow has decreased unable to pay its debt such as interest payments and accounts payable (Robbani & Ritonga, 2024). A fall in financial performance and management mistakes in decision-making can result in financial distress and an unhealthy financial state (Widiyanto & Dwijayanti, 2022). One of the internal causes of bankruptcy is the inexperience and ignorance of management on the appropriate handling of assets and liabilities. The following are examples of external factors: laws, taxation, inflation, and declining foreign exchange values (Qathrunnada *et al.*, 2024). financial distress uses the modified altman z-score ratio.

Leverage

Leverage is the ability of a firm to pay down its short- and long-term debt (M. A. Fitri & Dillak, 2020). A company's risk of going into financial trouble as a result of its inability to pay its creditors before they become due increases with the amount of liabilities it must assume. The high degree of leverage indicates that businesses frequently rely on money from loans to third parties. Leverage is the connection between an organization's capital, assets, and debt. Financial difficulty is even more likely if the Leverage ratio is large and the management is bad. Research conducted by Hakim *et al.* (2022) and (R. A. Fitri & Syamwil, 2020) State that leverage influences financial distress, because a company's risk of financial distress increases with its leverage ratio. This is because creditors' trust in the business has declined as a result of the company's incapacity to fulfill its debt. This contrasts with research conducted by Purwaningsih (2022) and Hayati & Sholichah (2022) stated that leverage has no effect

on financial distress, because businesses who manage their debt well will be able to make money from their operations. This makes it possible for the company to repay all debt of its creditors and lessens the likelihood of financial distress. Leverage has calculations use the debt equity ratio.

H1: Leverage has an effect on financial distress

Characteristics of the Board of Directors

The characteristics of directors refer to age, gender, and educational background, which can influence their decision-making in managing company performance (Nu'ma & Utomo, 2025). Directors with education relevant to the company's industry will be able to enhance business success. Directors with educational backgrounds in economics and business are considered more capable in financial management and decision-making. The educational background of directors helps their way of thinking in developing the company and human resources. Research conducted by Nugroho (2025) that directors' educational backgrounds influence financial distress argued that although although it is not required of a companies, businesses that have directors with business and economic degree are more successful. Compared to directors who have not studied economics or business, those who have are more equipped economic and bussines to oversee the company's operations and formulate policies. Conversely, research conducted by Kharis & Nugrahanti (2022) that directors' educational backgrounds in economics and business do not influence financial distress. The more directors with economic and business education backgrounds, the higher the financial distress because there is a possibility that directors' educational backgrounds that are in line with the company's sector can improve company performance. In addition to technical expertise and knowledge, leadership abilities, communication skills, and thought processes all play a part in a company's success and help reduce the likelihood of financial distress. The characteristics of the board of directors use the economic director composition ratio

H2: Characteristics of directors influence financial distress

B. METHOD

Quantitative approaches are used in this study wicks aims effect of leverage and board characteristics on financial distress. The secondary data used in this study annual report from the IDX website and the websites of all companies listed on the Indonesia Stock Exchange for the years 2021–2024. Purposive sampling was the sample strategy employed in this investigation and this study uses multiple linear analysis techniques.

Table 1 Sampling Criteria

No	Sampel Criteria	Amount
1.	Property and real estate companies listed on the Indonesia Stock Exchange in 2021-2024	92
3.	Property and real estate companies that did not consistently publish complete annual financial reports during the research period.	(21)
Total sample		71
Number of observations data 2021-2024		284
Total outlier data		(110)
Amount of research data		174

C. RESULTS AND DISCUSSIONS**Descriptive Statistics****Table 2 Descriptive Analysis Results**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	174	0,09	1,81	0,6243	0,43197
Characteristics of the Board of Directors	174	0,33	0,83	0,5759	0,10897
Financial Distress	174	-0,64	15,81	5,5228	3,36047
Valid N (listwise)	174				

Source: Data processed 2025

Normality Test

Table 3 Normality Test Result
One-Sample Kolmogorov Smirnov Test

		Unstandardized Residual
N		174
Normal Parameters ^{a,b}	Mean	0,0000000
	Standard Deviation	2,35403951
Most Extreme Differences	Absolute	0,062
	Positive	0,062
	Negative	-0,032
Test Statistics		0,062
Asymp. Sig. (2-tailed)		0,096

Source: Data processed 2025

From the above table 3, the residual value of the Kolmogorov Smirnov Test is 0,096 which is higher than 0,05. Consequently, it may be said that the research data is distributed normally.

F Test (Simultans)

Table 4 F Test Result

ANOVA ^a

Model	Sum of Square	df	Mean Square	F	Sig.
Regression	19,443	2	9,721	130,483	0,000
Residual	12,740	171	0,075		
Total	32,182	173			

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), Directors' Characteristics, Leverage

Source: Data processed 2025

Based on the F statistical test above the significance level is known to be $F=0,000 < 0,05$. It can be concluded that independent variabel, when tasted simultans have an influence on the dependent variabel. This findings indicates in the partial test (t-test) there is at least one independent variabel that has a significant influence on dependent variabel.

Multiple Linear Analysis Test

Table 5 Results of Multiple Linear Regression Analysis Test

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error			
(Constant)	2,812	0,073		38,336	0,000
Leverage	0,449	0,028	0,789	16,129	0,000
Characteristics of the Board of Directors	0,226	0,112	0,099	2,020	0,045

a. Dependent Variable: Financial Distress

Source: Data processed 2025

$$Y = 2,812 + 0,449X_1 + 0,226X_2$$

According to the above table of test results, it shows that the regression equation has a constant value of 2,812, indicating that when the leverage and board of directors' characteristics variables are valued at 0, financial distress increases by 2,812. The leverage regression coefficient value is 0,449, meaning that for every 1% increase in leverage of 0,449, financial distress will increase by 0,449. The regression coefficient value of board of directors' characteristics is 0,226, meaning that for every 1% increase in board of directors' characteristics of 0,226, financial distress will increase by 2,812. will increase by 0,226.

Hypothesis Test (t-Test)

Table 6 Hypothesis Test Result

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error			
(Constant)	2,812	0,073		38,336	0,000
Leverage	0,449	0,028	0,789	16,129	0,000
Characteristics of the Board of Directors	0,226	0,112	0,099	2,020	0,045

a. Dependent Variable: Financial Distress

Source: Data processed 2025

According to the above table of test results, it shows that the leverage variable on financial distress shows a sig value of $0,000 < 0,05$ and the calculated $t < t$ table

obtained is $16,129 > 1,7753$. So it can be concluded that the first hypothesis **H1 is accepted**. Leverage influences financial distress because a company's risk of financial distress is increased by heavy leverage. This occurs because the company must cover debt to creditors. High leverage can be detrimental to a company, as it will have difficulty obtaining additional funding for its operations from external parties. Theoretically, having a lot of leverage is a bad indicator since it shows that the business is having financial problems and cannot pay its debts to creditors. This situation can erode investor and creditor confidence.

According to the above table of test results, it shows that the variable of directors' characteristics on financial distress shows a sig value of $0,000 < 0,005$ and the calculated $t > t$ table obtained $2,020 < 1,7753$. Therefore, it may be said the characteristics of directors influences on financial distress **H2 is accepted**. The characteristics of directors, such as their educational background in economics and business, will influence the way directors think when making decisions regarding the company's business continuity. Directors with an economics education are considered more capable of managing a business than directors with educational backgrounds other than economics and business. In signaling theory, having directors with economics and business education is a positive signal for a company. This is due to the fact that businesses run by directors who have studied economics and business are better equipped to control financial performance and lower the likelihood of financial distress.

Test of Determination Coefficient (R^2)

Table 7 Test of Determination Coefficient (R^2)

Model Summary ^b

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0,179	0,032	0,021	0,63021

a. Predictors: (constant) Characteristics of Directors , Leverage

b. Dependent Variable: Financial Distress

Source: Data processed 2025

According to the above table of test results, R-Square value of 0,032 or 3,2%, indicating that independent variabel together explain 3,2% of the dependent variabel. The study's excluded criteria account for the remaining 96,8 %.

D. CONCLUSIONS

Leverage has an impact on financial distress, according to the study's findings. Since businesses with significant debt are more likely to default and go bankrupt, having a lot of leverage might make a company more vulnerable to financial difficulties. Financial distress is influenced by the board of directors' traits. It is believed that directors with business and economics degrees are better suited to run a firm than those without. The company may benefit from this since it can enhance its financial performance and reduce the probability of financial distress.

E. SUGGESTIONS

Suggested for future studies Research variables, such as corporate governance elements that can affect a company's financial difficulties. Other companies sectors could be the subjects of future studies, and the monitoring time could be prolonged. Different analytical approaches could be used in future studies to better understand additional elements that can affect financial distress in businesses and to provide more precise information on financial distress.

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