IJAMESC, Vol. 4 No. 1, February 2026
DOI: https://doi.org/10.61990/ijamesc.v4i1.716 e-ISSN 2986-8645

FINANCIAL DISTRESS DETERMINANTS IN INFRASTRUCTURE FIRMS: THE ROLES OF AUDIT COMMITTEES, FINANCIAL INDICATORS, AND OWNERSHIP STRUCTURE WITH PROFITABILITY AND FIRM VALUE EFFECTS

Mohamad Zulman Hakim[1]*, Fakhra Aura Febriawanto[2], Anggun Ardianih[3], Mulyanti[4], Alya Fakhirah Mashuri[5]
[1,2,3,4,5]Accounting Study Program, Faculty of Economics and Business, Muhammadiyah University of Tangerang, Indonesia
*Corresponding Author:
mohamadzulmanhakim@ymail.com

Abstract
This study aims to examine the influence of audit committees, sales growth, liquidity, leverage, and institutional ownership on financial distress, with profitability as a moderating variable and company value as a mediating variable. The research object includes infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. From a total population of 70 companies during the five-year observation period, 12 companies were selected as samples using purposive sampling. The results show that liquidity has a significant effect on financial distress. Meanwhile, the audit committee, leverage, institutional ownership, and sales growth do not have a significant effect on financial distress. Furthermore, profitability moderates the relationship between leverage and financial distress, but does not moderate the effect of the audit committee, liquidity, institutional ownership, and sales growth on financial distress. Moreover, company value acts as a mediating variable in the relationship between sales growth, liquidity, and leverage on financial distress, but does not mediate the relationship between the audit committee and institutional ownership on financial distress.

Keywords: Audit Committee, Financial Ratios, Institutional Ownership, Sales Growth, Financial Distress, Company Value

1. Introduction

Business competition in Indonesia is becoming increasingly intense, compelling companies to innovate continuously to sustain and grow their operations. A high level of competition can negatively affect company performance and potentially lead to financial distress. According to Mulansari and Setyorini (2019), financial distress refers to a decline in a company's financial health due to an inability to meet short-term obligations, often linked to liquidity problems. Poor management of working capital and assets can further worsen this condition. Platt and Platt in Fahmi (2013) describe financial distress as a phase preceding liquidation or bankruptcy, marked by the company's failure to fulfill current and long-term obligations. Companies facing financial distress can often be identified by missed debt payments and the suspension of dividend distributions. Altman and Hotchkiss (2005) state that financial difficulties arise when a company's total assets fall below its total liabilities. Similarly, Ngadi and Elkadjaja (2019) explain that financial distress can hinder a company's ability to meet its financial obligations.

A company's performance can be determined through analysis of its financial statements. The results of this analysis form an important basis for decision-making and

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policy formulation for owners, management, and investors. Published financial ratio information can be used as a tool to assess the potential for financial difficulties experienced by a company. Financial distress generally arises when a company is unable to manage and maintain its performance stability, leading to operational losses (Whidiari & Merkusiwati, 2015).

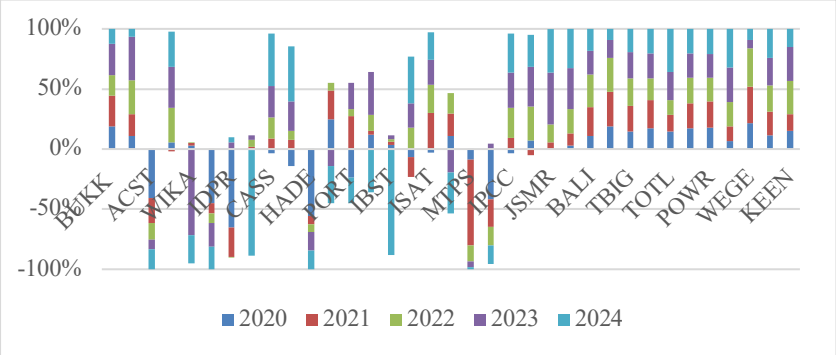

Figure 1. Income Statement Graph of The Infrastructure Sector

on the income statement graph of companies in the infrastructure sector for the 2020-2024 period, it is clear that several companies have experienced a decline in profits and recorded consecutive losses, which could be an early sign of financial distress. This condition is in line with the results of research (Stepani & Nugroho, 2023) which reveals that a consistent decline in profitability indicates a company's weak ability to meet its financial obligations. The study (Juhaeriyah et al., 2021) shows that negative or slowing sales growth can worsen distress conditions because companies lose their ability to generate stable income. This is in line with real cases that have occurred in infrastructure companies such as PT Waskita Karya (WSKT), PT Wijaya Karya (WIKA), PT Adhi Karya (ADHI), and PT Pembangunan Perumahan (PTPP), which have experienced serious financial pressures in the form of repeated losses, defaults, and high debt burdens since 2020.

The audit committee is a crucial element in the implementation of corporate governance, tasked with overseeing financial reporting and ensuring that the company complies with applicable rules and regulations. An effective audit committee enhances transparency, strengthens internal control, and reduces company risk, while an ineffective one can weaken oversight and worsen the company's financial condition (Permatasari et al., 2023; Hanifa et al., 2024).

Sales growth illustrates a company's capacity to increase its revenue sustainably and serves as a key indicator of financial performance. High sales growth can strengthen the company's financial condition, but without operational efficiency and effective cost management, it may increase the risk of financial distress (Juhaeriyah et al., 2021). Research by (Naibaho & Natasya, 2023) further confirms that sales growth has a significant correlation with financial distress, where consistent sales growth reflects a company's ability to maintain cash flow and avoid excessive financial pressure.

Liquidity describes the extent to which a company is able to meet its short-term obligations by utilizing its available current assets. A high level of liquidity indicates stable financial conditions, as the company is able to meet its short-term obligations and finance its operational activities using its current assets. This helps the company avoid potential financial distress (Stepani & Nugroho, 2023). In addition, the results of the study (Wijaya & Suhendah, 2023) reinforce that adequate liquidity is an important indicator for

companies in maintaining their short-term payment capabilities and reducing the potential for financial distress.

Leverage describes the extent to which a company relies on borrowed funds for its operations. High leverage increases financial obligations and the risk of financial distress, as companies must generate sufficient capital to meet debt payments (Asmiraldha et al., 2024). Research by (Wijaya & Suhendah, 2023) also shows that excessive leverage can lead to financial pressure from higher interest expenses and long-term liabilities, as well as imbalance between capital structure and profit generating ability.

Institutional ownership enhances management supervision, as institutional investors typically focus on long-term company performance and stability. High institutional ownership promotes rigorous monitoring of managerial actions, reducing the risk of decisions that could lead to financial distress (Santoso & Nugrahanti, 2022). Studies also show that it strengthens corporate governance, increases transparency, and helps lower the risk of financial distress (Senandung Nacita Usman et al., 2022).

Profitability describes a company's capacity to generate profits through its operational activities and indicates the effectiveness of management in utilizing available assets and resources to achieve optimal financial results. It plays a crucial role in reinforcing oversight mechanisms such as institutional ownership to maintain financial stability. High profitability indicates strong managerial performance and boosts investor confidence (Naibaho & Natasya, 2023), while also showing effective management of sales growth and liquidity that supports cash flow and minimizes financial pressure. Conversely, declining profitability can worsen the impact of leverage on financial distress, as limited profits make it harder to meet debt obligations (Rangga et al., 2025).

Company value reflects investors' views on the company's future prospects and performance, which indicates the market's level of confidence in management's ability to manage resources effectively and maintain financial stability. A high company value indicates sustainable profitability and effective operations (Asmi & Suryadi, 2024), while increasing firm value shows success in managing growth, liquidity, and governance mechanisms such as institutional ownership, thereby reducing distress risk (Sitepu et al., 2024). In contrast, a decline in firm value can heighten financial pressure, especially when leverage is high, as the market perceives weaker capability to meet obligations. Nonetheless, previous research shows that the effect of firm value on the relationship between internal factors and financial distress remains inconsistent.

The urgency of this research is underscored by the increasing incidence of financial distress among infrastructure companies in Indonesia, as evidenced by the repeated losses and high debt burdens experienced by major state-owned construction firms. Despite the existence of various governance mechanisms and financial indicators that theoretically should predict or prevent financial distress, the persistent financial difficulties faced by these companies suggest that current understanding of the factors contributing to financial distress may be incomplete. The inconsistent findings in previous literature regarding the effects of audit committees, sales growth, liquidity, leverage, institutional ownership, profitability, and company value on financial distress highlight the need for further investigation.

Therefore, this study aims to analyze the factors influencing financial distress in infrastructure companies listed on the Indonesia Stock Exchange. Specifically, the research seeks to examine the effects of audit committees, sales growth, liquidity, leverage, institutional ownership, profitability, and company value on financial distress. By addressing these multiple factors simultaneously, the study aims to provide a more

comprehensive understanding of financial distress determinants and contribute to both academic literature and practical efforts to prevent corporate financial failure.

The findings of this research are expected to provide empirical evidence that will inform policy development, guide company management in strengthening financial oversight, and offer practical insights for investors and regulators in assessing financial distress risk. By achieving these objectives, the study aims to contribute to the stability of capital markets and the sustainability of infrastructure development in Indonesia.

2. Theoretical Background

2.1 Agency Theory

Communication within an organization reflects the relationship between managers and shareholders as explained by Agency Theory. According to Smulowitz et al. (2019), this theory highlights the information asymmetry between agents—company managers or the board of directors—and principals, namely owners or shareholders. Agents are responsible for executing operations and making business decisions on behalf of principals, while principals evaluate and monitor the information provided by agents (Fadjrih Asyik, 2016). Purwanto and Oktita Earning (2013) state that this agency relationship is established through a contract that clearly defines the duties, authorities, rights, and obligations of both parties. Agency theory serves as a fundamental framework for understanding corporate governance, emphasizing the contractual relationship between investors as principals and managers as agents authorized to manage the company. Agency conflicts emerge when differences in interests arise between the two parties, and one key factor influencing these conflicts is the ownership structure, both managerial and institutional. An effective ownership structure can enhance monitoring and control, thereby improving performance and helping achieve the company's main goal, maximizing firm value. Hence, control mechanisms are required to align the interests of agents and principals, with corporate governance serving to create added value for stakeholders while minimizing agency conflicts and costs.

2.2 Signaling Theory

Signaling Theory was first proposed by Michael Spence in 1973. This theory explains that parties with more information (signalers) can convey certain signals to other parties (receivers) to reduce uncertainty caused by information asymmetry. In the context of companies, this theory emphasizes that the information conveyed by management to investors serves as a signal that will be interpreted by the market (Brennan & Kraus, 1984).

When a company shows good financial conditions, this will be perceived as a positive signal by investors. Conversely, if the information provided reflects poor financial conditions, the market will respond negatively (Tirta A A, 2024). Thus, signals conveyed by management through financial reports, performance disclosures, and company policies can be used to describe the possibility of financial distress. Investors then use these signals as a basis for making investment decisions.

2.3 Financial Distress

Financial distress is a condition that indicates early signs that a company is facing financial problems before eventually going bankrupt. This condition occurs when a company faces financial pressure that causes it to be unable to meet its short-term and long-term obligations. As a result, the total assets owned by the company become smaller

than the amount of its debt (Meilani & Iskandar, 2021). When a company is in financial distress, its position can change for better or worse. If the company's revenue performance continues to decline, it could lead to bankruptcy. Conversely, if the company's revenue increases, it still has a chance to get out of financial distress and improve its financial stability (Wijaya & Suhendah, 2023a).

2.4 Audit Committee

An audit committee is a group within a company that is specifically tasked with overseeing financial reporting, internal control mechanisms, and external audit processes. An effective audit committee can improve the quality of oversight of management because audit committee members typically have the competence and independence that promote corporate transparency and accountability. A high level of audit committee effectiveness encourages a more rigorous monitoring process of managerial actions, thereby reducing the likelihood of decisions that are detrimental to the company and trigger financial distress (Siswanto & Fuad, 2017). Research by Sari and Husaini (2021) shows that audit committee characteristics such as financial expertise and meeting frequency have a strategic influence in improving corporate governance quality by strengthening control and managerial transparency functions, which ultimately can reduce the risk of financial distress. Based on this explanation, the hypothesis used in this study is:

H1: The Audit Committee has a negative effect on Financial Distress

2.5 Sales Growth

The study conducted by Rochendi and Nuryaman (2022) demonstrates that sales growth has a positive effect on financial distress, indicating that sales growth reflects a company's ability to increase its sales over time and successfully implement effective marketing and sales strategies, leading to higher potential profits. In line with this, Naibaho and Natasya (2023) describe sales growth as a ratio used to assess how well a company maintains its position within the economy, where an increase in sales growth signifies effective operational management and well-executed sales strategies. Based on these insights, the following hypothesis is formulated:

H2: Sales Growth has a positive effect on Financial Distress

2.6 Liquidity

Liquidity shows a company's ability to pay its short-term obligations on time. The higher the liquidity level, the lower the possibility of the company experiencing financial distress. The liquidity ratio is used to assess the company's ability to meet its short-term obligations by comparing the amount of current assets to current liabilities. The level of this ratio can affect investor confidence in investing their capital in the company (Idarti & Hasanah, 2018). In addition, the results of research from (Rangga et al., 2025b) show that liquidity has a positive effect on financial distress, which means that companies with high liquidity levels have sufficient current assets to be used to pay their short-term debts. Based on this explanation, the hypothesis used in this study is:

H3: Liquidity has a positive effect on Financial Distress

2.7 Leverage

Leverage is the proportion of debt used by a company in its capital structure. High leverage can increase a company's risk because the interest and principal obligations that

must be paid increase, making supervision of management even more important. When a company uses a large amount of debt, its financial burden increases and the likelihood of detrimental managerial decisions and financial distress increases (Agusti, 2013). Research (Yuliandriani et al., 2023) shows that leverage has a positive effect on financial distress, meaning that the higher a company's debt, the greater the risk of financial difficulties. Based on this explanation, the hypothesis used in this study is:
H4: Leverage has a positive effect on Financial Distress

2.8 Institutional Ownership

Institutional ownership is the proportion of a company's shares owned by institutions such as banks, insurance companies, or pension funds. Institutional ownership can increase the effectiveness of management oversight because institutional investors tend to have a long-term interest in maintaining the company's performance and stability. High institutional ownership encourages a more rigorous monitoring process of managerial actions, thereby reducing the likelihood of decisions that are detrimental to the company and cause financial distress (Santoso & Nugrahanti, 2022). Research by (Senandung Nacita Usman et al., 2022) shows that institutional ownership plays a strategic role in improving the quality of corporate governance by strengthening control functions and increasing management transparency, thereby reducing the risk of financial distress. Research by (Handriani et al., 2021) supports these findings by showing that institutional ownership contributes to reducing the risk of financial distress through effective monitoring of managerial performance. Based on this explanation, the hypothesis used in this study is:
H5: Institutional ownership has a negative effect on Financial Distress

2.9 Profitability

Profitability is a company's ability to generate profits through the effective use of assets, reflecting the efficiency of management in running the company's operations. This concept is used consistently in several studies included in your mapping, for example, Putri and Nugroho (2023), which uses profitability as an indicator of a company's ability to generate profits to reduce the risk of financial distress. Other studies such as Indah Nur Asmiralda et al. (2024), and Nik Amah et al. (2023) also state that profitability is an important measure of financial performance because sufficient profits can strengthen financial conditions and influence the relationship of other variables to financial distress. This ratio is generally measured using Return on Assets (ROA) with the formula ROA = Net Profit / Total Assets, as used in the studies by Gunawan and Dyarini (2025) and Betari and Hanif (2023). Based on this explanation, the research hypotheses used are:

H6 : Profitability acts as a moderating variable in the relationship between the audit committee and financial distress
H7 : Profitability acts as a moderating variable in the relationship between liquidity and financial distress
H8 : Profitability acts as a moderating variable in the relationship between leverage and financial distress
H9 : Profitability acts as a moderating variable in the relationship between institutional ownership and financial distress
H10: Profitability acts as a moderating variable in the relationship between sales growth and financial distress

2.10 Company Value

Company value is a reflection of the market's perception of a company's performance and prospects, which is reflected in the extent to which the company is able to provide economic benefits to shareholders. In the journals in your mapping, company value is seen as an important indicator because it reflects the company's success in creating value and is a signal of a healthy financial condition, thereby potentially reducing the risk of financial distress. Research such as Betari and Hanif (2023) and Gunawan and Dyarini (2025) confirms that company value can play a role in bridging the relationship between governance variables, profitability, and the company's financial condition with financial distress. Enterprise value in financial research is generally measured using Tobin's Q, which is Tobin's Q = (Market Value of Equity + Total Debt) / Total Assets, as is also widely used in research related to indirect influence mechanisms. Thus, corporate value in the context of this study is positioned as a mediating variable that connects the audit committee, liquidity, leverage, institutional ownership, and sales growth to financial distress. Based on this explanation, the hypotheses used are:

H11: Firm value acts as a mediating variable in the relationship between the audit committee and financial distress

H12: Firm value acts as a mediating variable in the relationship between liquidity and financial distress

H13: Firm value acts as a mediating variable in the relationship between leverage and financial distress

H14: Firm value acts as a mediating variable in the relationship between institutional ownership and financial distress

H15: Firm value acts as a mediating variable in the relationship between sales growth and financial distress

3. Methods

This study uses a quantitative approach with the aim of analyzing the influence of audit committees, company growth, liquidity levels, leverage ratios, and institutional ownership on corporate financial distress, with profitability acting as a moderating variable and company value as a mediating variable. The data used come from secondary sources, namely companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 research period, which were collected through the official IDX website (www.idx.co.id) and the official websites of each company. Research information was obtained from the annual reports and annual financial reports of the relevant companies.

The population in this study consisted of all infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, with a total of 70 companies. The research method used was purposive sampling, which is a sampling technique carried out by adjusting the characteristics of the research object to predetermined criteria. The sampling criteria used in this study were as follows:

1) Infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024.
2) Companies that published complete Annual Reports and Annual Financial Reports during the research period.
3) Companies that have complete institutional ownership data.
4) During the research period, the companies did not record losses to avoid distorting the measurement of profitability and company value.

Based on these criteria, 32 companies were eliminated because they did not publish complete annual reports, 2 companies were eliminated because institutional ownership data were incomplete, and 24 companies were eliminated because they suffered losses during the research period. Thus, 12 companies were obtained as samples for the researcher's observation period, with a total of 60 observation data points (12 companies × 5 years).

To analyze the relationship between variables, this study used multiple linear regression. This method allows researchers to simultaneously test the effect of several independent variables on one dependent variable, as well as assess the role of variables in strengthening or weakening this relationship. In addition, multiple linear regression can also be used to test mediating relationships to determine the extent to which the influence of independent variables on dependent variables is channeled through mediator variables.

4. Results and Discussion

4.1 Panel Data Model Selection Test

Table 1. Panel Data Model Selection Test Results

Test Type	Test Summary	Statistic	d.f.	Prob.	Result	Model
Chow Test	Cross-section F	49.792673	(11.38)	0.0000	Reject H_0	FEM
	Cross-section Chi-square	164.115281	11	0.0000	Reject H_0	FEM
Hausman Test	Cross-section random	500.165897	10	0.0000	Reject H_0	FEM

Source: EViews, data processed in 2025

The Chow test results show probability values of 0.0000 for both the Cross-section F test and the Cross-section Chi-square test, which are below 0.05. This indicates that the Fixed Effect Model (FEM) is more appropriate to use than the Common Effect Model (CEM). The Hausman test results show a Chi-Square statistic of 500.165897 with a probability value of 0.0000, which is also below 0.05, indicating that the Fixed Effect Model (FEM) is more appropriate to use than the Random Effect Model (REM). From these test results, it can be concluded that the Panel Data Model Selection in this study uses the Fixed Effect Model (FEM).

4.2 Classical Assumption Tests

Table 2. Results of Multicollinearity and Heteroscedasticity Tests on Moderating Variables

Variable	VIF Value	Multicollinearity Status	Prob	Heteroscedasticity
KA	< 0.80	No Multicollinearity	0.9816	Homoscedastic
SG	< 0.80	No Multicollinearity	0.7913	Homoscedastic
LIK	< 0.80	No Multicollinearity	0.8561	Homoscedastic
LEV	< 0.80	No Multicollinearity	0.4941	Homoscedastic
KI	< 0.80	No Multicollinearity	0.2504	Homoscedastic
KA*ROA	< 0.80	No Multicollinearity	0.3866	Homoscedastic
SG*ROA	< 0.80	No Multicollinearity	0.6475	Homoscedastic
LIK*ROA	< 0.80	No Multicollinearity	0.7727	Homoscedastic
LEV*ROA	< 0.80	No Multicollinearity	0.4784	Homoscedastic
KI*ROA	< 0.80	No Multicollinearity	0.3273	Homoscedastic
Constant	–	–	0.4307	Homoscedastic

Source: EViews, data processed in 2025

Based on the results of the multicollinearity test, it is known that all independent variables (KA, SG, LIK, LEV, KI) and the interaction of moderating variables have a Variance Inflation Factor (VIF) value below the threshold value of 0.80. This finding indicates that the regression model used does not experience multicollinearity. This means that each independent variable is able to provide an independent explanatory contribution without excessive linear relationships between variables.

Furthermore, the results of the heteroscedasticity test show that all variables have a probability value above 0.05. This value indicates that the regression model does not contain heteroscedasticity problems. Thus, it can be concluded that the variance of the residuals is constant or homogeneous, so that this research model is considered stable, consistent, and feasible for use in the next stage of analysis.

Table 3. Results of Multicollinearity and Heteroscedasticity Tests on Mediating Variables

Variable	VIF Value	Multicollinearity Status	Prob	Heteroscedasticity
KA	< 0.80	No Multicollinearity	0.2438	Homoscedastic
SG	< 0.80	No Multicollinearity	0.8543	Homoscedastic
LIK	< 0.80	No Multicollinearity	0.8110	Homoscedastic
LEV	< 0.80	No Multicollinearity	0.1290	Homoscedastic
KI	< 0.80	No Multicollinearity	0.6703	Homoscedastic
NP	< 0.80	No Multicollinearity	0.2608	Homoscedastic
Constant	–	–	0.2702	Homoscedastic

Source: EViews 12 Output (2025)

Based on the results of the multicollinearity test, it is known that all independent variables (KA, SG, LIK, LEV, KI, and NP) have a Variance Inflation Factor (VIF) value below the limit of 0.80. This finding indicates that the regression model used does not experience multicollinearity. This means that each independent variable is able to provide an independent explanatory contribution without excessive linear relationships between variables.

Furthermore, the results of the heteroscedasticity test show that all variables have a probability value above 0.05 (KA = 0.2438; SG = 0.8543; LIK = 0.8110; LEV = 0.1290; KI = 0.6703; NP = 0.2608; Constant = 0.2702). These values indicate that the regression model does not contain heteroscedasticity problems. Thus, it can be concluded that the variance of the residuals is constant or homogeneous, so that this research model is considered stable, consistent, and feasible for use in the next stage of analysis.

4.3 Panel Data Regression Model Analysis

Moderating Model Equation:

$$FD = 1.04462044261 + 0.0461130826094*KA + 0.109390531958*SG + 0.32972159011*LIK - 0.039267730596*LEV + 0.372445396614*KI + 1.41564541549*KA\_ROA - 1.1040481406*SG\_ROA - 0.376019177292*LIK\_ROA + 3.70368387646*LEV\_ROA - 10.6537645528*KI\_ROA + [CX=F]$$

The results of this study indicate that the relationship between the independent and dependent variables, both directly and with the moderating variable, is determined in accordance with the hypotheses established in the research model.

Mediating Model Equations:

Model 1:

$$NP = 0.0881312778786 - 0.0343767920908*KA + 0.261920408087*SG + 0.148857717747*LIK + 0.176449961174*LEV - 0.963330542934*KI + [CX=F]$$

DOI: https://doi.org/10.61990/ijamesc.v4i1.716 e-ISSN 2986-8645

Model 2:

$$FD = 1.20660602986 + 0.0727984690547*KA + 0.0874895787999*SG + 0.237185946911*LIK - 0.0960379781671*LEV + 0.381687405136*KI + 0.393449576471*NP + [CX=F]$$

The results of this study indicate that the relationship between independent variables and dependent variables, both directly and through mediating variables, is determined in accordance with the hypotheses established in the research model.

4.4 Coefficient of Determination (Adjusted R^2)

Table 4. Results of the Coefficient of Determination (Adjusted R^2) on Moderating Variables

R-squared	0.989611
Adjusted R-squared	0.983870

Source: EViews, data processed in 2025

An adjusted R-squared of 0.9838 indicates that the model is able to explain 98.38% of the variation in financial distress through the variables of audit committee, sales growth, liquidity, leverage, institutional ownership, and profitability as moderators. Meanwhile, the remaining 1.62% of the variation is explained by determinants outside the model specification.

Table 5. Determination Coefficient Results (Adjusted R^2) on Mediating Variables

Model	R-squared	Adjusted R-squared
Model 1	0.855004	0.801052
Model 2	0.990162	0.986180

Source: EViews, data processed in 2025

An adjusted R-squared of 0.801052 indicates that the model is able to explain 80% of the variation in company value, which indicates that model 1 has strong explanatory power and is consistent with the data. Meanwhile, an adjusted R-squared of 0.986180 indicates that almost all of the variation in financial distress can be explained by the variables in model 2, so this model has a very high level of suitability.

4.5 F Test (Simultaneous Test)

Table 6. Results of the F Test (Simultaneous Test) on Moderating Variables

F-statistic	172.3660
Prob. (F-statistic)	0.0000

Source: EViews, data processed in 2025

The F-statistic value of 172.3660 with a probability of 0.000000 < 0.05 indicates that the variables of audit committee, sales growth, liquidity, leverage, and institutional ownership, as well as the moderating variable of profitability, simultaneously have a significant effect on financial distress.

Table 7. F-Test Results (Simultaneous Test) on Mediating Variables

Test	F-statistic	Prob. (F-statistic)
F-test (1)	15.84750	0.00000
F-test (2)	248.6656	0.0000

Source: EViews, data processed in 2025

The F-statistic values are 15.84750 (F-test 1) and 248.6656 (F-test 2) with probabilities of 0.000000 < 0.05, indicating that the variables of audit committee, sales growth, liquidity, leverage, and institutional ownership simultaneously influence the mediating variables of company value and financial distress.

4.6 Partial Hypothesis Test (t-test)

Table 8. Results of the Partial Hypothesis Test (t-test) on the Moderating Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.044620	0.463876	2.251938	0.0302
KA	0.046113	0.100956	0.456765	0.6504
SG	0.109391	0.156474	0.699095	0.4887
LIK	0.329722	0.129101	2.553979	0.0148
LEV	-0.039268	0.055409	0.708692	0.4828
KI	0.372445	0.500527	0.744106	0.4614
KA*ROA	1.415645	1.113739	1.271074	0.2114
SG*ROA	-1.104048	1.226584	0.900100	0.3737
LIK*ROA	-0.376019	1.741684	0.215894	0.8302
LEV*ROA	3.703684	1.477965	2.505934	0.0166
KI*ROA	-10.653760	6.756313	1.576861	0.1231

Source: EViews, data processed in 2025

Based on the t-test results in Table 9, it is known that of all the independent variables and interactions tested, only the Liquidity (LIK) variable and the interaction between Leverage and Profitability (LEV*ROA) have a significant effect on Financial Distress, with significance values of 0.0148 and 0.0166 (< 0.05). Meanwhile, other variables such as Audit Committee (KA), Sales Growth (SG), Leverage (LEV), Institutional Ownership (KI), and all their interactions with ROA do not have a significant effect on Financial Distress because they have a probability value above 0.05. This indicates that liquidity factors and the role of profitability in strengthening the influence of leverage are the most decisive factors in influencing a company's financial distress.

Table 9. Results of the Partial Hypothesis Test (t-test) on Mediating Variables (Model 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.088131	0.607097	0.145168	0.8853
KA	0.034377	0.109705	0.313355	0.7555
SG	-0.261920	0.110276	-2.375142	0.0221
LIK	0.148858	0.057743	2.577957	0.0134
LEV	0.176450	0.073790	2.391236	0.0212
KI	-0.963331	0.597561	-1.612105	0.1143

Source: EViews, data processed in 2025

The t-test results reveal that individually, only Sales Growth, Liquidity, and Leverage have a significant effect on Company Value, while the Audit Committee and Institutional Ownership do not show a significant effect.

Table 10. Results of the Partial Hypothesis Test (t-test) on Mediating Variables (Model 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.206606	0.406612	2.967460	0.0049
KA	0.072798	0.073543	0.989880	0.3279
SG	0.087490	0.078535	1.114018	0.2716
LIK	0.237186	0.041545	5.709130	0.0000
LEV	-0.096038	0.052593	-1.826070	0.0750
KI	0.381687	0.412041	0.926333	0.3596
NP	0.393450	0.102113	3.853073	0.0004

Source: EViews, data processed in 2025

The t-test results in the second model show that only the Liquidity and Firm Value variables have a significant effect on Financial Distress, while the Audit Committee, Sales Growth, Leverage, and Institutional Ownership variables do not have a significant effect.

4.7 Sobel Test

Table 11. Sobel Test Results

No	Sobel Test Path	T-Value	T-Table	Conclusion
1	KA against FD through NP	0.27	2.00	Does not mediate
2	SG to FD via NP	2.03	2.00	Mediating
3	LIK to FD via NP	2.10	2.00	Mediating
4	LEV on FD through NP	2.15	2.00	Mediating
5	KI to FD via NP	1.48	2.00	Does not mediate

Source: Data processed, 2025

The Sobel test results indicate that the Company Value variable functions differently in bridging the relationship between the independent variable and financial distress. The analysis results show that the paths of Audit Committee (0.27) and Institutional Ownership (1.48) to Financial Distress through Company Value have T-Values lower than the T-Table value of 2.00, indicating that Company Value does not mediate the relationship. Conversely, the paths of Sales Growth (2.03), Liquidity (2.10), and Leverage (2.15) have T-Values that exceed the T-Table value, indicating that Company Value mediates the relationship between these three variables and financial distress.

4.8 Interpretation of Results

4.8.1 The Effect of the Audit Committee on Financial Distress

The first hypothesis in this study states that the audit committee has a negative effect on financial distress. However, the t-test results show a probability value of 0.6504, which means that the audit committee variable has no effect on financial distress. Thus, the first hypothesis is rejected. According to agency theory, audit committees function as a monitoring mechanism to reduce conflicts of interest and information asymmetry between management and shareholders. However, the insignificant results suggest that audit committees in the sampled firms have not effectively fulfilled this role in preventing financial distress.

These results are consistent with research conducted by Alrahmani Trisari et al. (2023), which found that audit committees have no effect on the integrity of financial reports in manufacturing companies in Indonesia, as well as the findings of research which states that audit committees do not affect the level of financial distress. Conversely, these results contradict the research of Hulu et al. (2025), which shows that audit committee competence has a significant negative effect on financial distress. The differences in results between these studies are likely influenced by factors such as industry context, the effectiveness of supervisory functions, and the varying quality and experience of audit committee members in each company.

4.8.2 The Effect of Sales Growth on Financial Distress

The second hypothesis in this study states that sales growth has a positive effect on financial distress. However, the t-test results show a probability value of 0.4887, which means that the sales growth variable has no effect on financial distress. Thus, the second hypothesis is rejected. Based on signaling theory, sales growth is expected to convey a positive signal to investors about a company's future financial prospects. However, the

insignificant results suggest that higher sales do not always indicate financial health, as growth may not be supported by efficiency, profitability, or effective cost control. Naibaho and Natasya (2023) found no significant relationship between sales growth and financial distress in real estate firms listed on S&P Capital IQ during 2017–2021. In contrast, Juhaeriyah et al. (2021) reported a significant positive relationship, suggesting that rapid sales growth can increase distress risk when not backed by sufficient funding. These inconsistencies may stem from differences in industry characteristics, macroeconomic conditions, or management strategies in handling growth and financial risk.

4.8.3 The Effect of Liquidity on Financial Distress

The results of this study indicate that liquidity has a positive and significant effect on financial distress ($p = 0.0148$), thus accepting the third hypothesis. This finding can be explained using agency theory, where managers as agents often take conservative policies by increasing liquidity ratios as a form of caution or protective action when companies face financial pressure. This condition indicates that high liquidity does not always reflect a healthy financial condition, but can be a signal that the company is holding large amounts of cash in anticipation of future financial difficulties. These results are in line with research conducted by N (year), which found that liquidity has a significant effect on financial distress. However, these results contradict the research of Susanto and Handoyo (2023), which states that liquidity has no effect on financial distress.

4.8.4 The Effect of Leverage on Financial Distress

Leverage, measured by the Debt to Equity Ratio (DER), obtained a probability value of 0.4828. This result shows that leverage does not have a significant effect on financial distress. This finding is consistent with agency theory, which explains that agents have fulfilled their responsibilities in managing the company's finances efficiently. Agents play a role in controlling and optimizing the use of company assets to meet debt obligations, one of which is through increasing company profitability. This finding is in line with research which found that leverage has no effect on financial distress.

4.8.5 The Effect of Institutional Ownership on Financial Distress

Institutional ownership is measured based on the percentage of shares owned by institutions relative to the total number of outstanding shares. A probability value of 0.4614 indicates that institutional ownership has no significant effect on financial distress. Signal theory serves to provide information to external parties about the actual condition of a company. This information can be in the form of positive signals (good news) or negative signals (bad news). Positive signals reflect good financial conditions, increased profits, and dividend distributions, while negative signals can be in the form of losses, no dividend distributions, or an increase in debt, which indicates potential bankruptcy. Signal theory explains that management will convey positive signals when the company's financial condition is good and it has promising growth prospects (Wijaya & Suhendah, 2023d).

4.8.6 Moderation of Profitability on the Influence of Audit Committees

The sixth hypothesis in this study states that profitability can moderate the audit committee's influence on financial distress. However, the t-test results show a probability value of 0.2114, which means that profitability cannot moderate the audit committee's

influence on financial distress. Thus, the sixth hypothesis is rejected. This finding can be explained through agency theory, which explains that audit committees act as a supervisory mechanism to reduce conflicts of interest between management and shareholders. In this context, high profitability should strengthen the effectiveness of audit committee oversight in preventing financial distress. However, the insignificant results indicate that profitability conditions are not sufficient to strengthen this relationship, suggesting that the audit committee's oversight function is not yet functioning optimally even though the company is in a favorable financial condition.

4.8.7 Moderation of Profitability on the Effect of Sales Growth

The seventh hypothesis in this study states that profitability can moderate sales growth on financial distress. However, the t-test results show a probability value of 0.3737, which means that profitability is not yet able to moderate the effect of sales growth on financial distress. Thus, the seventh hypothesis is rejected. According to signaling theory, sales growth is generally viewed as a positive signal to stakeholders about a company's future financial prospects. However, since profitability fails to moderate this relationship, sales growth alone does not effectively reduce the risk of financial distress. This suggests that even with increasing sales, without sufficient profitability and strong financial management, the signal remains weak in preventing distress. Gunawan and Dyarini (2025) also found that profitability does not moderate the relationship between sales growth and financial distress. Conversely, they differ from Naibaho and Natasya (2023), who reported that profitability can moderate this relationship.

4.8.8 Profitability Moderation on the Effect of Liquidity

The test results show that the profitability variable is unable to moderate the relationship between liquidity and financial distress, with a probability value of 0.8302, indicating an insignificant effect on financial distress. This study is in line with signal theory, which states that liquidity ratios are an important aspect for companies, especially when facing difficulties in meeting short-term obligations, as this can lead to a decline in company value and investor interest in investing. A high level of liquidity reflects good company performance and contributes to reducing the possibility of financial distress (Stepani & Nugroho, 2023c).

4.8.9 Moderation of Profitability on the Effect of Leverage

The test results show that the profitability variable is able to moderate the relationship between leverage and financial distress, with a probability value of 0.0166, indicating a significant effect on financial distress. The leverage ratio is used to see a company's ability to meet its financial obligations, both short-term and long-term. In this study, profitability is used as a moderating variable because it can describe how much profit a company generates from its production activities. A high level of profitability can increase the amount of company assets and can be reused according to the company's needs.

4.8.10 Moderation of Profitability on the Effect of Institutional Ownership

The test results show that the profitability variable is unable to moderate the relationship between international ownership and financial distress, with a value of 0.1231 indicating an insignificant effect on financial distress. Agency theory is the conceptual basis for understanding corporate governance practices. The main principle of this theory explains the contractual relationship between the principal, namely the

investor, and the agent, namely the manager. Agency conflicts can arise due to differences in interests between the two parties and are influenced by ownership structure, both managerial and institutional. Several studies show that ownership structure plays an important role in determining the direction and effectiveness of company management, which ultimately has implications for the performance and main objectives of the company, namely to maximize company value (Hanifa & Afifah, 2024).

4.8.11 Mediation of Firm Value on the Influence of Audit Committees

Hypothesis eleven in this study states that corporate value can mediate the audit committee's influence on financial distress. However, the calculated t-value is 0.27 (< t-table = 2.00), which means that this mediation is not statistically proven. Therefore, hypothesis eleven is rejected. This finding can be explained through agency theory, which states that audit committees play an important role in supervising and ensuring that financial reports are presented reliably to protect the interests of shareholders. In this context, the existence of an effective audit committee should increase company value, which in turn plays a role in reducing the risk of financial distress. However, the results of this study show that the function of the audit committee has not been able to be translated significantly into an increase in company value that has an impact on reducing distress. This indicates that the effectiveness of audit committee supervision may still be limited, either due to factors of independence, competence, or supervision intensity that are not yet optimal. In line with the view in agency theory, when corporate governance mechanisms do not function properly, agency costs increase and can reduce company value, which ultimately increases the likelihood of financial distress.

4.8.12 Mediation of Company Value on the Effect of Sales Growth

The twelfth hypothesis in this study states that company value is able to mediate sales growth on financial distress. The t-value shows a negative value of 2.03 (> t-table = 2.00), which means that this mediation is statistically proven, thus the twelfth hypothesis is accepted. This finding can be explained through signaling theory, which states that sales growth serves as a positive signal to investors regarding the company's future prospects and performance. Increased sales reflect the company's ability to expand its market and increase revenue, which ultimately strengthens the market's perception of the company's value. High company value can then increase investor and creditor confidence, thereby reducing the risk of financial distress. Thus, the positive signal from sales growth is successfully translated into an increase in company value that has an impact on financial stability. This is in line with the view of Spence (1973) in signaling theory that information conveyed by companies to the market, such as sales growth and profitability, can reduce information asymmetry between management and investors and strengthen market confidence in the company's financial condition.

4.8.13 Mediation of Company Value on the Effect of Liquidity

The variable of company value has been proven to mediate the relationship between liquidity and financial distress, as shown by the t-test result of 2.10. This finding can be interpreted from the perspective of agency theory, which explains that managers as agents tend to implement conservative policies by increasing the liquidity ratio as a form of caution or preventive action when the company faces financial pressure. This situation shows that high liquidity does not always indicate stable financial conditions, but can be

a signal that the company is holding large amounts of cash in anticipation of potential financial difficulties in the future (Whidiari & Merkusiwati, 2015).

4.8.14 Mediation of Firm Value on the Effect of Leverage

The fourteenth hypothesis in this study states that company value can mediate leverage on financial distress. However, the t-value shows a value of 2.15 (> t-table = 2.00), which means that this mediation is statistically proven, thus accepting the fourteenth hypothesis. This finding can be explained through agency theory, which states that capital structure, particularly the use of debt (leverage), can be a disciplinary mechanism for management to act more efficiently and be accountable to shareholders. Optimally managed leverage can increase market confidence in a company's performance, thereby strengthening the company's value, which ultimately reduces the risk of financial distress. In other words, a healthy increase in leverage can send a positive signal about a company's ability to utilize borrowed funds to increase its value and profitability. This is in line with the view of agency theory, which states that financing decisions through debt can reduce agency conflicts between managers and shareholders due to the obligation to pay interest, which forces management to use company resources more efficiently, thereby increasing company value and reducing the potential for distress.

4.8.15 Mediation of Company Value on the Influence of Institutional Ownership

The company value variable proved unable to mediate the relationship between institutional ownership and financial distress, as indicated by the t-test result of 1.48. This finding is explained in Agency Theory, which is the main foundation for understanding the concept of corporate governance. This theory explains the contractual relationship between the principal, namely the investor, and the agent, namely the manager, in the context of carrying out corporate management responsibilities. Agency conflict can be influenced by ownership structure, such as managerial ownership and institutional ownership.

5. Conclusion

The results of this study indicate that liquidity has a significant effect on financial distress, while audit committees, leverage, institutional ownership, and sales growth do not have a significant direct effect. Profitability is proven to moderate the relationship between leverage and financial distress, meaning that companies with higher profitability are better able to manage debt-related risks. However, profitability does not moderate the influence of audit committees, liquidity, institutional ownership, or sales growth on financial distress. In addition, company value is able to mediate the effects of sales growth, liquidity, and leverage on financial distress, but it does not mediate the effects of audit committees and institutional ownership.

These findings emphasize the critical importance of liquidity management in maintaining financial stability. Companies with strong liquidity positions are more capable of meeting short-term obligations and avoiding financial distress. The moderating role of profitability further highlights its function as a protective factor, particularly in managing leverage risk. Meanwhile, the mediating role of company value suggests that market perceptions and firm valuation play an essential role in transmitting the effects of operational and financial performance into actual financial distress risk.

From a practical perspective, companies should prioritize maintaining adequate liquidity, ensuring sustainable profitability, and managing leverage prudently.

Strengthening company value through improved performance and positive market perception can also help reduce the likelihood of financial distress.

Nevertheless, this study has several limitations, including its focus solely on infrastructure sector companies, the limited research period of 2020–2024, and the use of relatively limited independent variables. Future research is recommended to include additional financial and non-financial variables, extend the observation period, and explore different sectors or cross-country comparisons. Incorporating qualitative approaches may also provide deeper insights into the mechanisms underlying financial distress in various organizational contexts.

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