

FINANCIAL DISTRESS IN INDONESIAN PROPERTY AND REAL ESTATE COMPANIES: THE INFLUENCE OF LEVERAGE, PROFITABILITY, LIQUIDITY, AND CORPORATE GOVERNANCE

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Abstract

This study aims to analyze the influence of leverage, profitability, liquidity, and corporate governance on financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period. The research uses a quantitative approach with secondary data in the form of the company's annual financial statements. The research sample consisted of 54 companies with a total of 270 observations selected using purposive sampling techniques. The data analysis technique uses multiple linear regression. The results of the study show that leverage has a significant negative effect on financial distress, while profitability and liquidity have a significant positive effect. Corporate governance has no significant effect on financial distress. Simultaneously, all independent variables have a significant effect on financial distress. The Adjusted R Square value of 0.435 indicates that 43.5% of the variation in financial distress can be explained by the research model. This study shows that financial distress conditions are influenced by a combination of financial performance factors and corporate governance.

Keywords: Leverage, Profitability, Liquidity, Corporate Governance, Financial Distress

1. Introduction

The increasingly dynamic and competitive development of the business world requires companies to have a healthy and sustainable financial performance. Global economic instability, changes in government policies, and market uncertainty are challenges for companies in maintaining their business continuity (Betari & Hanif, 2023; Kurniawati et al., 2024). One of the important indicators in assessing a company's financial health is its ability to avoid financial distress, which is the stage of decline in financial condition before bankruptcy which is characterized by the company's inability to meet its financial obligations (Abdillah & Andajani, 2025; Rangga et al., 2025a).

The property and real estate sector in Indonesia is a sector that is prone to financial distress due to its business characteristics that require large capital, have a long business cycle, and are greatly influenced by macroeconomic conditions. In 2020, the sector experienced significant pressure due to the COVID-19 pandemic which caused a decrease in demand, project delays, and a weakening of people's purchasing power. Although it has entered the recovery phase, the sector still faces challenges in the form of rising interest rates, inflation, and market uncertainty (Kurniawati et al., 2024; Shavila & Purwanto, 2025). This condition shows the high sensitivity of this sector to economic changes that have the potential to increase the risk of financial distress (Rangga et al., 2025a; Betari & Hanif, 2023).

Various studies have examined the factors that affect financial distress, including leverage, profitability, liquidity, and corporate governance (Kristorio et al., 2025; Masrurroh, 2025). However, the results of previous studies still show inconsistencies,

especially related to the effect of leverage on financial distress which shows positive, negative, or insignificant results (Ananda et al., 2026b; Iswanto et al., 2024). In addition, research examining the role of corporate governance as an independent variable in the property and real estate sectors is still limited. Profitability and liquidity also show mixed research results in several industry sectors, so that consistent conclusions have not been reached regarding the dominant factors affecting a company's financial distress.

In addition to the inconsistency of research results, most of the previous research was conducted more on the manufacturing, infrastructure, and corporate sectors in general, while research that specifically examined the property and real estate sectors was still relatively limited, especially in the post-COVID-19 pandemic period of 2020–2024. The property industry has different business characteristics compared to other sectors, such as high capital requirements, long-term project cycles, and a great dependence on external financing (Kurniawati et al., 2024; Rangga et al., 2025a). This condition makes this sector more vulnerable to financial pressure and financial distress when economic instability occurs.

In addition, previous research generally only focused on financial performance variables such as leverage, profitability, and liquidity, while testing corporate governance as a mechanism for corporate supervision against financial distress has not been carried out comprehensively, especially in the property and real estate industry (Abdillah & Andajani, 2025; Shavila & Purwanto, 2025). Therefore, this study was conducted to provide empirical evidence regarding the influence of leverage, profitability, liquidity, and corporate governance on financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period. The 2020–2024 period was chosen because it represents the transitional conditions from the pandemic crisis to economic recovery, thus providing a more comprehensive picture of the company's resilience to external pressures.

The urgency of this research is underscored by the persistent vulnerability of the property and real estate sector to financial distress and the inconsistent findings in existing literature regarding the determinants of financial distress. Without a comprehensive understanding of how leverage, profitability, liquidity, and corporate governance influence financial distress, efforts by company management to enhance financial stability and by investors to assess risk may remain unfocused and ineffective. The property sector's unique characteristics—high capital intensity, long business cycles, and heavy dependence on external financing—make the integration of financial performance and governance mechanisms particularly important for sustainable business continuity.

Therefore, this study aims to analyze the influence of leverage, profitability, liquidity, and corporate governance on financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period. Specifically, the research seeks to test the hypotheses regarding the effects of Debt to Asset Ratio, Return on Assets, Current Ratio, and Corporate Governance mechanisms on the Altman Z-Score as a measure of financial distress. By addressing these multiple factors simultaneously, the study aims to provide a more comprehensive understanding of financial distress determinants in the Indonesian property and real estate sector.

The findings of this research are expected to provide both theoretical and practical contributions. Theoretically, the study contributes to the literature on financial distress by providing empirical evidence on the determinants of financial distress in the property and real estate sector in an emerging market context. The findings extend the understanding of how financial performance indicators and corporate governance mechanisms interact

to influence a company's vulnerability to financial distress. Practically, the results offer actionable insights for company management in making financing and operational decisions, for investors in assessing potential risks, and for regulators in monitoring financial stability. By achieving these objectives, the study aims to contribute to the enhancement of corporate financial resilience and the stability of the Indonesian property and real estate sector. The article is organized as follows. The next section discusses the theoretical background and hypothesis development, followed by the research methods. The results and discussion are then presented, and the final section concludes the study.

2. Theoretical Background

2.1 Signaling Theory

Signaling Theory was first proposed by Michael Spence in 1973. This theory explains how corporations convey future prospects to investors, particularly those related to corporate financial management (Nabilah et al., 2023). In the context of financial distress, Signaling Theory states that management will send positive signals when the company's financial situation is stable and its prospects are favorable. This emphasizes the significance of clearly disclosing financial information such as profitability, liquidity, leverage, and corporate governance. This information is essential for avoiding financial trouble and maintaining stakeholder confidence.

Signaling Theory provides the foundation for understanding how financial performance indicators serve as signals to external parties, including investors, creditors, and regulators. When a company demonstrates strong financial performance through high profitability, adequate liquidity, manageable leverage, and effective corporate governance, it sends positive signals that reduce information asymmetry and enhance stakeholder trust. Conversely, weak financial performance signals potential financial distress and increases the risk of adverse stakeholder reactions (Ross, 1977; Brigham & Houston, 2019). In the context of property and real estate companies, these signals are particularly important given the sector's high capital intensity and long business cycles, where stakeholder confidence is crucial for sustaining operations and securing external financing.

2.2 Trade-Off Theory

The trade-off theory, developed by Kraus and Litzenberger (1973) and refined by Myers (1984), explains that companies balance the benefits and costs associated with debt financing. The theory posits that companies determine an optimal capital structure by weighing the tax benefits of debt against the costs of financial distress and bankruptcy (Myers, 2001). In the context of financial distress, the trade-off theory suggests that companies can enhance financial stability by utilizing debt up to an optimal level, beyond which the costs of additional debt outweigh the benefits.

Excessive leverage beyond the optimal level increases interest expenses and financial risk, which can lead to financial distress. Property and real estate companies, which typically require substantial capital for land acquisition, construction, and project development, often rely heavily on debt financing. However, when leverage exceeds the optimal level, the burden of interest payments and principal repayments can become overwhelming, particularly during economic downturns when property demand declines and cash flows are constrained. Therefore, this theory provides a framework for understanding the relationship between leverage and financial distress, where moderate

levels of leverage are expected to be manageable while excessive leverage increases the risk of financial distress.

2.3 Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), describes the relationship between principals (shareholders) and agents (management) in the context of corporate governance. This theory highlights the potential for conflicts of interest when management prioritizes personal goals over shareholder wealth maximization. In the context of financial distress, agency theory explains how management decisions regarding leverage usage, profitability management, liquidity maintenance, and corporate governance practices can affect the company's vulnerability to financial difficulties.

Effective corporate governance mechanisms, such as independent boards of commissioners, audit committees, and transparent reporting practices, can mitigate agency problems by aligning management interests with shareholder interests (Abdillah & Andajani, 2025; Ananda et al., 2026a). In property and real estate companies, where large investments and long-term projects create significant information asymmetry between management and shareholders, strong corporate governance is essential for ensuring that management makes prudent financial decisions that minimize the risk of financial distress. Agency theory suggests that effective monitoring mechanisms and alignment of interests between principals and agents are essential for achieving optimal financial performance and avoiding financial distress (Jensen & Meckling, 1976).

2.4 Financial Distress

Financial distress is a condition of declining a company's financial performance that occurred before bankruptcy, which is characterized by the company's inability to fulfill its short-term and long-term obligations. This condition reflects an imbalance between cash flow and company liabilities so that it has the potential to disrupt business continuity (Akbar & Widajatun, 2026; Ananda et al., 2026a). Financial distress occurs when a company's financial condition deteriorates to the point where it struggles to meet its financial obligations, often marked by declining revenues, increasing debt burdens, liquidity shortages, and eroding profitability.

In this study, financial distress was measured using the Altman Z-Score which is used to predict the potential for company bankruptcy based on the company's financial condition. The Altman Z-Score model combines multiple financial ratios to provide a comprehensive assessment of a company's financial health. The higher the Altman Z-Score indicates the company's healthier financial condition and lower risk of financial distress, while the lower the Z-Score indicates the company is at greater risk of financial distress. Companies with Z-Scores below 1.81 are considered to be at high risk of bankruptcy, while those with scores above 2.99 are considered financially healthy (Altman, 1968). In the context of property and real estate companies, the Altman Z-Score provides a valuable tool for assessing the vulnerability of these capital-intensive firms to financial distress.

2.5 Leverage

Leverage describes the extent to which a company uses its debt-derived sources of funds to finance its assets. A high level of leverage indicates a company's dependence on external financing which can increase the burden of fixed liabilities in the form of interest and principal debt (Jessie & Tannia, 2024). In unstable economic conditions, high

leverage can increase the risk of financial distress because companies have heavier financial burdens (Rangga et al., 2025b). The Debt to Asset Ratio (DAR) is commonly used to measure debt levels, calculated as total liabilities divided by total assets.

In Signaling Theory, leverage serves as a critical indicator of a company's financial health and stability. High leverage is perceived as a negative signal indicating excessive dependence on debt financing, which increases financial strain and the risk of payment difficulties. In contrast, a low debt-to-equity ratio implies a sound capital structure and signals that the firm is better able to meet its financial commitments. According to the trade-off theory, companies with excessive leverage face higher financial distress risk because the costs of debt, including interest expenses and principal repayments, can become unmanageable during economic downturns. Previous research has shown inconsistent results regarding the effect of leverage on financial distress, where some studies have found positive, negative, or insignificant effects (Ananda et al., 2026b; Iswanto et al., 2024). This shows that the influence of leverage on financial distress is still an issue that needs further research, especially in the property and real estate industry.

H₁: Leverage has a positive effect on Financial Distress.

2.6 Profitability

Profitability shows the ability of a company to generate profits from its assets. Companies with a high level of profitability tend to have more stable financial conditions and are able to meet their obligations (Masruroh, 2025; Ananda et al., 2026a). Return on Assets (ROA) is commonly used to measure profitability, calculated as net income divided by total assets. A high ROA indicates that the company is efficiently utilizing its assets to generate profits, which enhances its ability to meet financial obligations and reduces the risk of financial distress.

In the context of Signaling Theory, profitability serves as a positive signal to external stakeholders. High profitability indicates that the company is efficiently utilizing its assets to generate returns, which enhances investor confidence and creditor trust. Companies with strong profitability are better positioned to meet their financial obligations and are perceived as having lower financial risk (Sarai & Amin, 2023; Azizah & Asrori, 2022). Previous research has shown that profitability tends to have a negative effect on financial distress, where companies with high profit levels have a better ability to meet their financial obligations so that the risk of financial difficulties is lower (Masruroh, 2025; Ananda et al., 2026a). In the property and real estate sector, where projects require substantial capital and generate returns over extended periods, sustained profitability is essential for maintaining financial stability and avoiding distress.

H₂: Profitability has a negative effect on Financial Distress.

2.7 Liquidity

Liquidity describes a company's ability to meet its short-term obligations. Low liquidity levels can increase the risk of financial difficulties (Idawati & Wardhana, 2021; Shavila & Purwanto, 2025). The Current Ratio is commonly used to assess a company's liquidity, calculated as current assets divided by current liabilities. A high Current Ratio reflects the company's success in managing short-term obligations and reduces the risk of financial crisis (Ramaadhianti et al., 2023). Companies with adequate liquidity are able to maintain operational continuity and avoid financial distress, which can support profitability and long-term sustainability.

From the perspective of Signaling Theory, liquidity provides an important signal to investors, creditors, and other external parties regarding a company's financial soundness. High liquidity demonstrates the company's ability to manage short-term finances and assets effectively, signaling financial stability. Conversely, low liquidity signals potential financial problems and may indicate an increased risk of financial distress (Shalini et al., 2022; Sarai & Amin, 2023). Previous research has shown that high liquidity can reduce the risk of financial distress because companies have a better ability to meet their short-term obligations (Shavila & Purwanto, 2025; Kristorio et al., 2025). In the property and real estate sector, where cash flows can be irregular due to the timing of project completions and sales, maintaining adequate liquidity is particularly important for meeting short-term obligations and avoiding financial distress.

H₃: Liquidity has a negative effect on Financial Distress.

2.8 Corporate Governance

Corporate governance is a supervisory mechanism that aims to ensure that company management runs in accordance with the principles of transparency, accountability, responsibility, independence, and fairness (Rivanda et al., 2023). Corporate governance involves the structures and processes for directing and controlling companies, including the roles of the board of commissioners, board of directors, audit committees, and other governance mechanisms. Effective corporate governance ensures that management acts in the best interests of shareholders and other stakeholders, making prudent financial decisions that minimize the risk of financial distress.

In Signaling Theory, corporate governance practices serve as signals to external stakeholders regarding the quality of management and the reliability of financial reporting. Strong corporate governance signals that the company is well-managed, transparent, and accountable, which enhances stakeholder confidence and reduces information asymmetry. In the context of agency theory, corporate governance plays a role as a supervisory mechanism that can reduce agency conflicts between management and shareholders by aligning interests and ensuring appropriate oversight (Abdillah & Andajani, 2025; Ananda et al., 2026a). Thus, Corporate governance plays a role as a supervisory mechanism that can reduce the risk of Financial Distress (Abdillah & Andajani, 2025; Ananda et al., 2026a). In the property and real estate sector, where large investments and long-term projects create significant information asymmetry, strong corporate governance is essential for ensuring that management makes prudent financial decisions that minimize the risk of financial distress.

H₄: Corporate governance has a positive effect on Financial Distress.

3. Methods

3.1 Research Design

This study uses a quantitative approach to examine the influence of leverage, profitability, liquidity, and corporate governance on financial distress in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. The study adopts a causal-explanatory research design to investigate how leverage, profitability, liquidity, and corporate governance influence financial distress within property and real estate companies. A quantitative approach is considered appropriate because the study aims to empirically test the proposed hypotheses using statistical analysis.

3.2 Population and Sample

The population in this study is all companies in the property and real estate sector listed on the Indonesia Stock Exchange during the 2020–2024 period as many as 90 companies. The sampling technique uses purposive sampling, which is a technique of determining samples based on certain criteria (Sugiyono, 2019). The sample criteria in this study include: (1) property and real estate companies listed on the IDX during the 2020–2024 period, (2) companies that consistently publish annual financial statements during the research period, and (3) companies that have complete data related to all research variables. Based on these criteria, 54 companies were obtained as research samples. The use of this purposive sampling technique is supported by previous research which states that the technique is commonly used in financial research to obtain samples that are in accordance with analytical needs (Firmansyah et al., 2024; Savitri & Nursiam, 2024). The number of research observations was obtained from 54 companies during the 5-year research period, so that the total observation data was 270 data.

Table 1. Research Sample Data

Remarks	Quantity
Population: property and real estate companies listed on the IDX for the period 2020–2024	90
Companies that do not present complete financial statements during the period 2020–2024	(36)
Companies that meet the sample criteria	54
Number of research observations (54 companies × 5 years)	270

Source: Processed Data (2026)

3.3 Data Collection Techniques

The data used in this study is secondary data obtained from the annual financial statements of companies listed on the Indonesia Stock Exchange (IDX) and the official website of each company. The data collection procedure involves the following stages:

- 1) Identifying property and real estate companies listed on the IDX during the 2020–2024 period.
- 2) Selecting companies that meet the purposive sampling criteria.
- 3) Collecting annual financial statement data from the IDX official website (www.idx.co.id) and company websites.
- 4) Compiling the data into a structured format for analysis.

3.4 Operational Definitions of Research Variables

Table 2. Operational Definitions of Research Variables

Variable	Definition	Measurement	Formula	Scale	Source
Financial Distress (Y)	A condition of declining financial performance characterized by the company's inability to fulfill its short-term and	Altman Z-Score	$6.56(WC/TA) + 3.26(RE/TA) + 6.72(EBIT/TA) + 1.05(BV/TL)$	Ratio	Altman (1968); Akbar & Widajatun (2026)

Variable	Definition	Measurement	Formula	Scale	Source
	long-term obligations				
Leverage (X ₁)	The extent to which a company uses debt to finance its assets	Debt to Equity Ratio (DER)	Total Liabilities / Total Equity	Ratio	Jessie & Tannia (2024); Rangga et al. (2025b)
Profitability (X ₂)	The ability of a company to generate profits from its assets	Return on Assets (ROA)	Net Income / Total Assets × 100%	Ratio	Masrurroh (2025); Ananda et al. (2026a)
Liquidity (X ₃)	The ability of a company to meet its short-term obligations	Current Ratio (CR)	Current Assets / Current Liabilities	Ratio	Idawati & Wardhana (2021); Shavila & Purwanto (2025)
Corporate Governance (X ₄)	A supervisory mechanism to ensure management runs in accordance with principles of transparency, accountability, and fairness	Proportion of Independent Commissioners	Number of Independent Commissioners / Total Board of Commissioners	Ratio	Rivanda et al. (2023); Abdillah & Andajani (2025)

Source: Author's construction (2026)

3.5 Data Analysis Techniques

The data analysis techniques used in this study include descriptive statistical analysis, classical assumption tests, and multiple linear regression analysis. Before conducting multiple linear regression, classical assumption tests are performed to ensure the model meets the required assumptions. The normality test using the Kolmogorov-Smirnov test determines whether the residuals are normally distributed, with a significance value greater than 0.05 indicating normal distribution (Ghozali, 2018). The multicollinearity test uses Tolerance and VIF values, where Tolerance > 0.10 and VIF < 10 indicate no multicollinearity. The heteroscedasticity test using the Glejser test detects inequality in residual variance, with a significance value greater than 0.05 indicating no heteroscedasticity (Ghozali, 2018).

After the classical assumptions are met, multiple linear regression is conducted to examine the influence of leverage, profitability, liquidity, and corporate governance on financial distress using the model:

$$FD = \alpha + \beta_1 DER + \beta_2 ROA + \beta_3 CR + \beta_4 CG + \varepsilon$$

Where:

FD = Financial Distress (Altman Z-Score)
 α = Constant
 $\beta_1, \beta_2, \beta_3, \beta_4$ = Regression coefficients
 DER = Debt to Equity Ratio (Leverage)
 ROA = Return on Assets (Profitability)
 CR = Current Ratio (Liquidity)
 CG = Corporate Governance (Proportion of Independent Commissioners)
 ε = Error term

Hypothesis testing is conducted through partial tests (t-test) and simultaneous tests (F-test), with the hypothesis accepted if the significance value is less than 0.05. The coefficient of determination (R^2) is used to measure the extent to which the independent variables explain the variation in the dependent variable (Ghozali, 2018). Descriptive statistical analysis includes the calculation of the mean, minimum value, and maximum value of each research variable to provide an overview of the data distribution and characteristics. The selection of this method is based on previous relevant research that uses a similar approach in analyzing the factors that affect financial distress. All statistical analyses are conducted at a significance level of $\alpha = 0.05$ (95% confidence level) using appropriate statistical software (SPSS or EVIEWS).

4. Results and Discussion

4.1 Descriptive Statistical Analysis

Table 3. Descriptive Statistical Analysis Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Leverage (X_1)	270	0.03	4.55	0.6487	0.67824
Profitability (X_2)	270	-0.25	0.28	0.0103	0.05515
Current Ratio (X_3)	270	0.08	9.60	2.2963	1.73844
Corporate Governance (X_4)	270	0.13	0.90	0.4283	0.13001
Financial Distress (Y)	270	-9.16	11.11	3.9054	3.00615
Valid N (listwise)	270				

Source: SPSS Output (2026)

Table 2 shows the results of descriptive statistical analysis of 270 observations on each research variable. The Leverage variable (X_1) has a minimum value of 0.03 and a maximum of 4.55 with an average of 0.6487 and a standard deviation of 0.67824, which shows a fairly high variation in the data. Profitability (X_2) has a minimum value of -0.25 and a maximum value of 0.28 with an average of 0.0103, indicating that in general the profitability of companies tends to be low and close to zero. The Current Ratio (X_3) shows a minimum value of 0.08 and a maximum value of 9.60 with an average of 2.2963, which means that the company's liquidity is generally in a fairly good condition but has a large variation. Corporate Governance (X_4) has an average value of 0.4283 with a standard deviation of 0.13001. These results show that the level of corporate governance implementation in the research sample is in the moderate and relatively consistent category. Financial Distress (Y) has an average of 3.9054 with a fairly wide range of values from -9.16 to 11.11, indicating a difference in financial conditions between companies.

4.2 Classical Assumption Tests

4.2.1 Normality Test

Table 4. Normality Test Results (One-Sample Kolmogorov-Smirnov Test)

	Unstandardized Residual
N	270
Normal Parameters	Mean: 0.0000000
Test Statistic	0.091
Asymp. Sig. (2-tailed)	0.120
Monte Carlo Sig. (2-tailed)	0.182

Source: SPSS Output (2026)

The results of the normality test using the One-Sample Kolmogorov-Smirnov Test showed that the number of samples (N) was 270 with an Asymp. Sig. (2-tailed) value of 0.120. This value is greater than 0.05 so it can be concluded that the residual data is normally distributed. This is also strengthened by the Monte Carlo Sig. result of 0.182 which is above the significance level of 0.05, thus supporting the conclusion of data normality. The test statistical value of 0.091 shows a relatively small deviation from the normal distribution. In addition, a residual mean of 0.0000000 indicates that the regression model is not systematically biased. Thus, the assumption of normality in the regression model has been met, so that the data analysis can be continued to test other classical assumptions as well as hypothesis testing.

4.2.2 Multicollinearity Test

Table 5. Multicollinearity Test Results

	Tolerance	VIF
Leverage (X_1)	0.992	1.009
Profitability (X_2)	0.970	1.031
Current Ratio (X_3)	0.969	1.032
Corporate Governance (X_4)	0.964	1.037

Source: SPSS Output (2026)

The results of the multicollinearity test in this study, which examined the influence of Leverage, Profitability, Liquidity, and Corporate Governance on Financial Distress in property and real estate companies for the 2020–2024 period, showed that there were no symptoms of multicollinearity between independent variables. This is evidenced by the Tolerance value of all variables that are above 0.10, namely Leverage (0.992), Profitability (0.970), Current Ratio (0.969), and Corporate Governance (0.964). In addition, the Variance Inflation Factor (VIF) value also shows a very low number, which ranges from 1.009 to 1.037, all of which are well below the 10 limit. Based on these results, it can be concluded that there is no high correlation between independent variables, so the regression model is feasible to use for further analysis. Thus, the data meet the classical assumption of multicollinearity and can be proceeded to testing the research hypothesis.

4.2.3 Heteroscedasticity Test

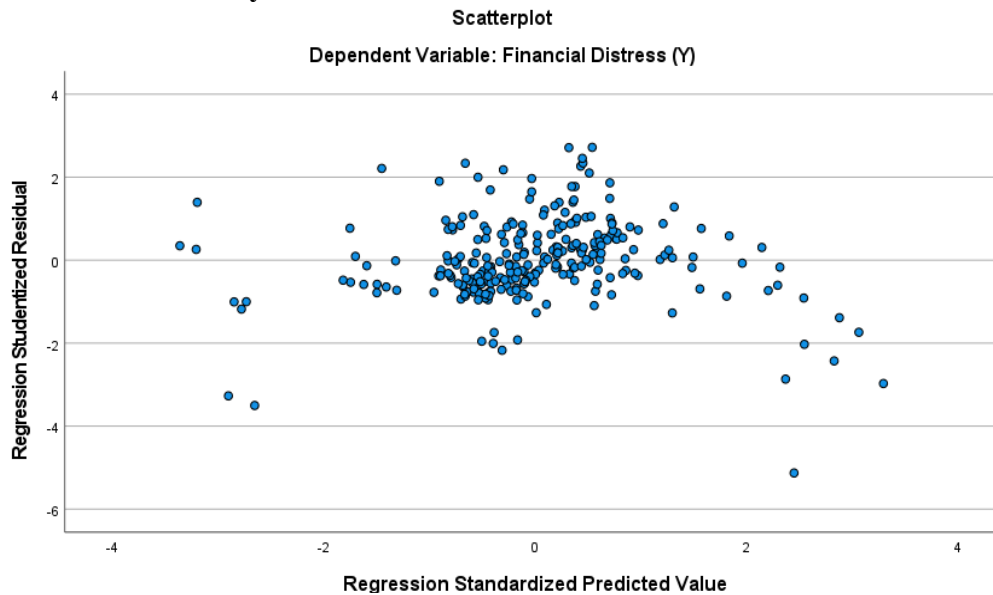


Figure 1. Heteroscedasticity Test Results with Scatter Plot

Source: SPSS Output (2026)

The results of the heteroscedasticity test using the scatterplot method showed that the residual points were randomly spread above and below the zero line on the Y axis and did not form a specific pattern. This condition indicates that the residual variance is constant across all predictor values. Thus, it can be concluded that there are no symptoms of heteroscedasticity in the regression model, so the regression model used in this study meets classical assumptions and is suitable for further analysis.

4.3 Multiple Linear Regression Test

Table 6. Multiple Linear Regression Test Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.508	0.514		4.879	0.000
Leverage (X ₁)	-0.427	0.204	-0.096	-2.092	0.037
Profitability (X ₂)	21.467	2.536	0.394	8.463	0.000
Current Ratio (X ₃)	0.869	0.080	0.502	10.790	0.000
Corporate Governance (X ₄)	-1.264	1.079	-0.055	-1.171	0.243

Source: SPSS Output (2026)

Based on the table of results of the multiple linear regression test above, it can be seen that the regression equation explains the relationship between independent variables, namely Leverage (X₁), Profitability (X₂), Current Ratio (X₃), and Corporate Governance (X₄) to the dependent variable Financial Distress (Y). Based on the table, the regression model is as follows:

$$FD = 2.508 + (-0.427)(Leverage) + (21.467)(Profitability) + (0.869)(Current Ratio) + (-1.264)(Corporate Governance) + \varepsilon$$

The equation shows that Leverage and Corporate Governance have a negative influence on Financial Distress, while Profitability and Current Ratio have a positive influence direction. The coefficient of each variable describes the magnitude of the change in Financial Distress if there is a change of one unit in an independent variable assuming that the other variable is considered constant.

4.4 Hypothesis Testing

Table 7. T-Test Results (Partial)

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Conclusion
	B	Std. Error	Beta			
(Constant)	2.508	0.514		4.879	0.000	
Leverage (X ₁)	-0.427	0.204	-0.096	-2.092	0.037	Significant
Profitability (X ₂)	21.467	2.536	0.394	8.463	0.000	Significant
Current Ratio (X ₃)	0.869	0.080	0.502	10.790	0.000	Significant
Corporate Governance (X ₄)	-1.264	1.079	-0.055	-1.171	0.243	Not Significant

Source: SPSS Output (2026)

The results of the t-test (partial) showed that Leverage (X₁) had a coefficient value of -0.427, a calculated t-value of -2.092, and a significance value of 0.037 (< 0.05). This shows that leverage has a negative and significant effect on Financial Distress. Profitability (X₂) has a coefficient value of 21.467, a calculated t-value of 8.463, and a significance value of 0.000 (< 0.05). These results show that profitability has a positive and significant effect on Financial Distress. The Current Ratio (X₃) has a coefficient value of 0.869, a calculated t-value of 10.790, and a significance value of 0.000 (< 0.05). This shows that liquidity proxied with the current ratio has a positive and significant effect on Financial Distress. Corporate Governance (X₄) has a coefficient value of -1.264, a calculated t-value of -1.171, and a significance value of 0.243 (> 0.05). This shows that corporate governance does not have a significant effect on Financial Distress.

4.4.3 Coefficient of Determination (R²)

Table 8. Coefficient of Determination Test Results

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.666	0.443	0.435	2.25977

Source: SPSS Output (2026)

The results of the determination coefficient (R²) test showed an R Square value of 0.443 and an Adjusted R Square of 0.435. This means that the variables Leverage, Profitability, Current Ratio, and Corporate Governance were able to explain the variation in Financial Distress by 43.5%, while the remaining 56.5% was influenced by other variables outside the research model. An R value of 0.666 indicates a fairly strong relationship between independent variables and Financial Distress. Thus, the regression model in this study has a moderate explanatory ability in describing the condition of Financial Distress in property and real estate companies listed on the IDX for the 2020–2024 period.

4.5 Discussion

4.5.1 The Effect of Leverage on Financial Distress

The results of the t-test showed that Leverage (X_1) had a negative and significant effect on Financial Distress with a significance value of 0.037 (< 0.05), so the first hypothesis was accepted. Theoretically, leverage reflects the level of debt utilization in a company's capital structure that has the potential to increase financial risk. According to Brigham and Houston (2019), the use of high debt increases financial risk due to the obligation to pay fixed interest which can worsen the company's financial condition. However, the results of this study show a negative relationship, which indicates that in property and real estate companies, leverage can actually be used effectively as a source of funding for long-term projects so that it does not necessarily increase financial distress. This can happen because the property sector has large tangible assets (collateralizable assets) so that debt risk can be managed through restructuring or refinancing. In addition, companies with large asset bases can utilize debt strategically to fund long-term projects, and during economic downturns, they can restructure debt or refinance at lower rates.

4.5.2 The Effect of Profitability on Financial Distress

The results of the t-test showed that Profitability (X_2) had a positive and significant effect on Financial Distress with a significance value of 0.000 (< 0.05), so the second hypothesis was accepted. In theory, the higher the profitability should be, the lower the risk of Financial Distress because the company has a stronger internal source of funds. However, the results of this study show a positive relationship, which indicates that increased profitability is not always followed by a decrease in the risk of financial distress in property and real estate companies. This can be due to the characteristics of the property industry that have a long project cycle as well as the difference between accounting profit and actual cash flow, so profitability does not always reflect the company's liquidity capabilities. Companies may report accounting profits while experiencing cash flow shortages due to the timing difference between revenue recognition and actual cash collections from property sales.

4.5.3 The Effect of Current Ratio on Financial Distress

The results of the t-test showed that the Current Ratio (X_3) had a positive and significant effect on Financial Distress with a significance value of 0.000 (< 0.05), so the third hypothesis was accepted. The current ratio reflects the company's ability to meet short-term obligations. According to Horne and Wachowicz (2013), high liquidity should indicate healthy financial conditions and reduce the risk of Financial Distress. However, the results of this study show a positive relationship, which indicates that the high current ratio in property companies does not necessarily reflect the efficiency of the use of current assets. In some cases, high current assets may reflect an accumulation of unsold property inventory or projects under construction that have not yet generated cash, thereby increasing the risk of Financial Distress. This finding suggests that liquidity measures should be interpreted with caution in capital-intensive industries where high current assets may indicate slow inventory turnover rather than strong financial health.

4.5.4 The Effect of Corporate Governance on Financial Distress

The results of the t-test showed that Corporate Governance (X_4) had no significant effect on Financial Distress with a significance value of 0.243 (> 0.05), so the fourth hypothesis was rejected. Theoretically, according to Jensen and Meckling (1976),

corporate governance functions to reduce agency conflicts and increase management supervision so as to reduce the risk of financial distress. However, in this study, the implementation of corporate governance in property and real estate companies for the 2020–2024 period has not been able to have a direct influence on financial distress conditions. This can happen because the implementation of corporate governance is still formality (compliance-oriented) and has not been fully effective in making strategic financial decisions. Companies may comply with minimum regulatory requirements for independent commissioners without actively utilizing their expertise and oversight capabilities to influence financial risk management.

4.5.5 The Simultaneous Effect of Leverage, Profitability, Current Ratio, and Corporate Governance on Financial Distress (F-Test)

The results of the F test showed a significance value of 0.000 (< 0.05) with an F value of 52.761, so it can be concluded that Leverage, Profitability, Current Ratio, and Corporate Governance simultaneously have a significant effect on Financial Distress. Thus, the fifth hypothesis is accepted. Theoretically, these results support the concept that Financial Distress is a complex condition that is influenced by multiple financial factors simultaneously, rather than just one single variable. According to Ross, Westerfield, and Jordan (2015), a company's financial decisions are the result of an interaction of various variables such as capital structure, profitability, and liquidity that together determine the company's financial stability.

In the context of property and real estate companies, these results are particularly relevant because the sector is characterized by large capital requirements, long-term project cycles, and dependence on external financing. Leverage plays a role in the funding structure, profitability reflects the ability to generate profits, and the current ratio indicates the liquidity ability of the company. These three variables, if analyzed simultaneously, will provide a more comprehensive picture of the company's financial distress condition. Although corporate governance is partially insignificant, in the simultaneous model it still plays a role as part of the company's control system.

Thus, the results of the F test prove that this research model is suitable for use (goodness of fit) and all independent variables are able to explain the condition of Financial Distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

5. Conclusion

Based on the results of the study, it can be concluded that leverage, profitability, and liquidity have a significant effect on financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period. Leverage has a negative and significant effect, indicating that the use of debt in property companies does not necessarily increase financial distress due to the sector's large tangible asset base that can be used as collateral. Profitability has a positive and significant effect, suggesting that increased accounting profits do not always reduce financial distress risk because of the timing differences between revenue recognition and actual cash flows from property sales. Liquidity, proxied by the current ratio, also shows a positive and significant effect, reflecting that high current assets may indicate an accumulation of unsold property inventory rather than strong financial health. Corporate governance, measured by the proportion of independent commissioners, does not have a significant effect on financial distress, indicating that governance implementation in the property sector remains

compliance-oriented rather than strategically effective in influencing financial risk management decisions. Simultaneously, leverage, profitability, liquidity, and corporate governance have a significant effect on financial distress. The research model has an explanatory ability of 43.5% based on the Adjusted R Square value, while the remaining 56.5% is influenced by other variables outside the study. These findings confirm that financial distress is a complex condition influenced by a combination of financial performance factors and corporate governance mechanisms together. Future research is recommended to include additional variables such as firm size, sales growth, cash flow, and macroeconomic conditions to improve the model's explanatory power, and to extend the observation period to capture long-term trends in the property sector's financial resilience.

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