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Research Paper

The Influence of Profitability, RETA, Liquidity, Leverage, Firm Size and Good Corporate Governance on Financial Distress

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Abstract
This research aims to see how financial distress is affected by profitability, liquidity, leverage, retained earnings to total assets, company size, and good corporate governance. The population in this study are real estate companies listed on the Indonesia Stock Exchange between 2014-2018. This research relies on secondary data. The sample for this research which includes 17 firms, was selected using purposive sampling. Panel Data Analysis is used with the Eviews application to analyze data. According to research, leverage and profitability positively and significantly affect financial distress. The liquidity ratio to total assets has a positive but insignificant effect on financial distress. Meanwhile, company size and good corporate governance have a negative and insignificant effect on financial distress. At the same time (simultaneously), all variables have a significant influence on financial distress.

Keywords: Financial Distress, Profitability, Liquidity, Leverage, Retained Earning to Total Assets, Company Size, Good Corporate Governance

Abstrak
Tujuan dari penelitian ini adalah untuk melihat bagaimana financial distress dipengaruhi oleh profitabilitas, likuiditas, leverage, laba ditahan terhadap total aset, ukuran perusahaan, dan tata kelola perusahaan yang baik. Populasi pada penelitian ini yaitu perusahaan real estate yang terdaftar di Bursa Efek Indonesia antara tahun 2014-2018. Penelitian ini mengandalkan data sekunder. Sampel untuk penelitian ini yang meliputi 17 perusahaan dipilih dengan menggunakan purposive sampling. Analisis Data Panel digunakan dengan aplikasi Eviews untuk menganalisis data. Menurut penelitian, leverage dan profitabilitas berpengaruh positif dan signifikan terhadap financial distress. Rasio likuiditas terhadap total aset berpengaruh positif namun tidak signifikan terhadap financial distress. Sedangkan ukuran perusahaan dan good corporate governance berpengaruh negatif dan tidak signifikan terhadap financial distress. Pada saat yang sama (simultan), semua variabel memiliki pengaruh yang signifikan terhadap financial distress.

Kata Kunci: Financial Distress, Profitabilitas, Likuiditas, Leverage, Retained Earning to Total Assets, Ukuran Perusahaan, Good Corporate Governance

JEL Classification: G33

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1. Introduction

Property and real estate investments are typically long-term, will increase in value in tandem with economic growth, and are regarded as one of the most promising investments. According to Michael C. Thomsett, there are many different types of investments in real estate and property, which can generally be divided into three categories: residential property, which includes homes, apartments, and multi-unit buildings; commercial property, which includes land and property designed for businesses like parking lots and storage facilities; and industrial property, which includes investments in real estate made for industrial purposes like factories.

According to data from the Central Statistics Agency, the Indonesian economy, as measured by Gross Domestic Product (GDP) at current prices, reached IDR15,833.9 trillion in 2019, and GDP totaled Rp. 59.1 million, or USD 4,174.9. (BPS). In 2019, the Indonesian economy grew by 5.02 percent, compared to 5.17 percent in 2018. In the fourth quarter of 2019, compared to the fourth quarter of 2018, the Indonesian economy expanded by 4.97 percent (y-on-y). All business sectors contributed to the growth in production, with Other Service Business Fields experiencing the highest growth at 10.78 percent. The Household Consumption Expenditure Component (PK-RT), which represents expenditures, experienced the highest growth, at 4.97 percent. The Indonesian economy shrank by 1.74 percent in the fourth quarter of 2019 compared to the third quarter of 2019. (q-to-q). The Agriculture, Forestry, and Fishery Business Fields saw a decrease of 20.52 percent in production as a result of seasonal effects. From an expenditure perspective, it was brought on by the Export of Goods and Services component, which fell by 2.55 percent.

Hasan Fawzi, the development director of the Indonesia Stock Exchange (IDX), revealed that property companies would undoubtedly incur higher costs if they use bank funds for operations. Therefore, according to Hasan Fawzi, this year is the ideal time for real estate companies to list on the stock exchange (Detik finance, 2020). The Indonesian economy, including the country's property market, has been impacted by Covid-19. Andy K. Nathanael, marketing director of Repower Asia Indonesia Tbk, said all businesses had a difficult year. He must, however, overcome this challenge and dynamic for himself. When almost everyone chooses to stay at home to practice Social Distancing, business actors are forced to get even more creative to deliver and offer their products by relying on current infrastructure and technological advancements. Repower is preparing to roll out new products and rebrand existing ones as the Covid-19 outbreak continues (Liputan6.com, 2020).

Financial issues with a company can arise for several reasons, such as ongoing losses, asset damage from natural disasters, a weak corporate governance system, or unstable economic conditions that lead to a financial crisis. Economic conditions frequently impact the financial performance of small, medium-sized, and large businesses. If management cannot manage it properly, the company will be threatened by a decline in financial performance and even the possibility of bankruptcy (Liana & Sutrisno, 2014).

The exchange delisted company shares following the provisions of this regulation if the listed company experiences at least one condition or event that has a material adverse effect on the listed company's ability to continue conducting business, either financially or legally, or on the continuity of the listed company's status, under Exchange Rules Number I-I, Provision III3.1.1. Public traded and listed companies cannot demonstrate sufficient signs of recovery (BEJ, 2018).
Financial distress is a condition where a company's operating cash flow is insufficient to pay off current liabilities (like trade payables or interest expenses), forcing the company to take corrective action, according to Hapsari (2012). A variety of variables can cause financial distress. There are three circumstances in which someone may experience financial distress, according to Ahmad & Herni (2010). These three factors are a lack of additional capital, excessive debt, and a history of losses for the company.

Agency costs are business factors that can contribute to financially troubled companies. The relationship between the principal (shareholders) and the agent is known as agency cost (management). Good corporate governance is used to lessen this issue. Good corporate governance

is recognized as a system used by big businesses to boost their value and productivity. The company's performance is improving, indirectly increasing the likelihood of its survival (Ellen & Juniarti, 2013). A company typically goes through several stages before declaring bankruptcy. The stages of bankruptcy (stages of bankruptcy), according to Kordestani *et al.* (2011), are Latency, Shortage of Cash, Financial Distress, and Bankruptcy.

The study, in this instance, employs both a microeconomic and macroeconomic perspective to forecast the company's financial distress. As a micro approach outside of financial ratios, the microeconomic approach includes some financial ratios, including profitability, liquidity, leverage, RETA, and firm Size.

2. Literature Review and Hypothesis

The profitability ratio assesses a company's capacity to make money from routine operations. Most businesses operate intending to maximize both short- and long-term profits. Profitability is another name for profitability. This ratio aims to control the level of management effectiveness in overseeing the company's operations in addition to determining the company's capacity to generate profits over a specific period. Profitability has a negative and significant impact on financial distress, according to the findings of the studies by Moch *et al.* (2019), Masdupi *et al*. (2018), and Listiana (2013).
H1: Profitability ratios have a negative and significant effect on financial distress.

Sutrisno (2009: 215) defines liquidity as the ability of the company to pay obligations that must be satisfied immediately. Short-term debts are obligations that must be met immediately. However, Sulindawati *et al.* (2017) also stated that, in this instance, the liquidity ratio is essential when analyzing a company's financial statements as it demonstrates the company's capacity to meet immediate short-term obligations. According to Ardiyanto & Prasetiono (2011) and Asfali (2019), liquidity significantly influences financial distress.
H2: Liquidity ratio has a positive and significant effect on financial distress.

Leverage is a ratio that gauges the amount of debt financing a business has (Fahmi, 2012). According to Kasmir (2012), the leverage ratio is used to assess a company's capacity to meet all of its long- and short-term obligations in the event of an acquisition. According to Sartono (2008: 259), when discussing leverage, it is stated that there is an operation with two (two) categories of operating costs: fixed costs and variable costs. According to the findings of research by Listiana (2013) and Asfali (2019), leverage significantly and favorably affects financial distress.
H3: Leverage ratio has a positive and significant effect on financial distress.

The retained earnings to total assets (RETA) ratio assesses a company's ability to generate retained earnings from its total assets. Retained earnings are profits that are not distributed to shareholders. In other words, retained earnings are a company's earnings that are not distributed to shareholders as dividends. Common stockholders permit the company to reinvest profits that are not paid out as dividends, which results in retained earnings. Financial distress is negatively impacted by the variable retained earnings to total assets (RETA), according to research by Ardiyanto & Prasetiono (2011) and Rahmawati & Hadiprajitno (2015).
H4: Retained Earning to Total Assets ratio has a negative effect on financial distress.

According to Brigham & Houston (2010:4), a company's Size can be determined by its total assets, sales, profits, tax expenses, and other factors. Because the cash flow at this point is positive and is thought to have good prospects in the relatively long term, the higher the value of the company's total assets, the more mature the company is (Rahayu & Sopian, 2017). However, the long-term interaction of market risk with company size has a negative and insignificant effect on financial distress, according to research by Gichaiya *et al*. (2019) and Mappadang *et al*. (2019). However, company size has an insignificant and positive effect on financial distress.
H5: Firm Size has a positive and insignificant effect on financial distress.

According to laws, regulations, and moral principles, good corporate governance is a procedure and organizational structure used by corporate organs (shareholders/equity owners, commissioners/supervisory board, and directors) to increase business success and corporate accountability (Sutedi, 2012). Corporate governance demonstrates that institutional ownership has a negative impact on financial distribution, according to Fatonah (2016).
H6: Good Corporate Governance has a negative effect on financial distress.

According to Simanjuntak *et al*. (2017), financial distress in transportation companies listed on the Indonesia Stock Exchange is influenced by liquidity, leverage, profitability, and growth ratios. Meanwhile, Vionita & Lusmeida (2019) demonstrate that good corporate governance and financial performance variables (leverage, profitability, and liquidity) positively impact financial distress.
H7: Profitability, Profit, Liquidity, Leverage, Company Size, and GCG have a simultaneous effect on financial distress.

3. Data and Method

This study employed a quantitative research methodology. The information used in this study is secondary data, which is information obtained from government-issued websites like those for the Indonesia Stock Exchange (www.bps.go.id) and the Central Statistics Agency (www.idx.co.id). All companies in the property sector listed on IDX for 2014 to 2018 made up the study's population, from which a sample of 17 companies was drawn. Purposive sampling was the method of sampling that was used. Panel data analysis using the statistical data management software E-Views 10 is the method of data analysis employed. The following equation was used as the estimation method in this study's panel data regression model:

$$\boldsymbol{EPSit} = \alpha + \beta_1\boldsymbol{ROAit} + \beta_2\boldsymbol{CRit} + \beta_3\boldsymbol{DERit} + \beta_4\boldsymbol{RETAit} + \beta_5\boldsymbol{SIZEit} + \beta_6\boldsymbol{GCGit} + \boldsymbol{\varepsilon}$$

Where:

EPSit	= Earning per Share or Financial Distress
α	= Intercept coefficient
β1 ..., β6	= Slope coefficient
ROA	= Return on Assets or Profitability
C.R.	= Current Ratio or Liquidity
DER	= Debt to Equity Ratio or Leverage
RETA	= Retained Earnings to Total Assets
SIZE	= company Size
CGC	= Good Corporate Governance
t	= research period
i	= Number of studies
ε	= error term

4. Results

Descriptive statistical analysis

Table 1 Results of Descriptive Statistical Analysis

VARIABLE	N	MEAN	MAX	MIN	Std. Dev
DISTRESS	85	90.32499	995.9673	-16.68748	220.9685
ROA	85	0.048154	0.200403	-0.049301	0.048906
CR	85	2.626580	8.800967	0.603279	2.067623
DER	85	0.818808	2.798828	0.065768	0.649417
RETA	85	0.277595	1.109333	0.001131	0.235619
SIZE	85	29.66391	31.58421	26.71921	1.195689
GCG	85	0.447059	1.000000	0.000000	0.50014

Source: Processed Data, 2020

Based on Table 1, the dependent variable (Y) or financial distress as measured by EPS has a minimum value of -16.68748 and a maximum of 995.9673. While the standard deviation value is 220.9685 and the mean is 90.32499.

Pearson Correlation

Table 2 Results of Pearson Correlation Analysis test

	FD	ROA	CR	DER	RETA	SIZE	GCG
FD	1.000000	0.516002	0.015583	-0.260441	-0.257115	0.597882	-0.166863
ROA	0.516002	1.000000	-0.127642	-0.152812	0.033217	0.436045	0.189482
CR	0.015583	-0.127642	1.000000	-0.326983	-0.066769	0.212109	0.097953
DER	-0.260441	-0.152812	-0.326983	1.000000	0.550702	-0.308900	0.167085
RETA	-0.257115	0.033217	-0.066769	0.550702	1.000000	-0.159893	0.266289
SIZE	0.597882	0.436045	0.212109	-0.308900	-0.159893	1.000000	0.075065
GCG	-0.166863	0.189482	0.097953	0.167085	0.266289	0.075065	1.000000

Source: Processed Data, 2020

According to the Pearson correlation test results, profitability (ROA) has a moderate relationship with an interpretation of 0.516002 and is in line with financial distress. Liquidity has a one-way and weak relationship with financial distress with an interpretation of 0.015583. Leverage (DER) has a weak and opposite correlation of -0.260441 with financial distress. Retained Earning to Total Assets (RETA) has a weak relationship of -0.257115 with financial distress. Firm Size (SIZE) has a moderate relationship with an interpretation of 0.597882 with financial distress. Good Corporate Governance (GCG) has a very weak relationship and is opposite from the interpretation of -0.166863 to Financial Distress.

Panel Data Analysis Model Estimation
Common Effect Model (CEM)

Table 3 Results of Common Effect Model Method test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	882.2738	512.1262	1.722767	0.0889
ROA	1752.191	421.8100	4.153981	0.0001
CR	0.832963	9.517184	0.087522	0.9305
DER	25.30601	35.57529	0.711337	0.4790
RETA	412.5486	86.78875	4.753480	0.0000
SIZE	-32.57923	17.95155	-1.814842	0.0734
GCG	-105.8639	37.00065	-2.861136	0.0054
R-squared	0.529178	Mean dependent var		90.32499
Adjusted R-squared	0.492961	S.D. dependent var		220.9685
S.E. of regression	157.3443	Akaike info criterion		13.03351
Sum squared resid	1931065.	Schwarz criterion		13.23467
Log likelihood	-546.9243	Hannan-Quinn criter.		13.11443
F-statistic	14.61127	Durbin-Watson stat		0.257923
Prob(F-statistic)	0.000000			

Source: Processed Data, 2020

Table 3 shows that the independent variables in this study simultaneously have an effect of 52.91% on the dependent variable Financial distress, with an R-squared value of 0.529178. The independent variables simultaneously have no effect of 49.30% in explaining the dependent

variable Financial distress, when the standard error is taken into account, according to the Adjusted R-squared value of 0.492961. In addition, the liquidity and leverage variables have a significant level > 0.05, indicating that they do not significantly affect the dependent variable of financial distress.

Fixed Effect Model (FEM)

Table 4 Results of Fixed Effect Model Method test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	486.8305	503.6146	0.966673	0.3375
ROA	927.2334	142.6992	6.497819	0.0000
CR	6.098904	5.247956	1.162148	0.2496
DER	93.76643	34.83814	2.691488	0.0091
RETA	-18.30416	17.00018	-1.076704	0.2858
SIZE	54.48700	36.81146	1.480164	0.1439
GCG	-13.65458	38.61835	-0.353577	0.7249
R-squared	0.980192	Mean dependent var		90.32499
Adjusted R-squared	0.973164	S.D. dependent var		220.9685
S.E. of regression	36.19868	Akaike info criterion		10.24158
Sum squared resid	81241.35	Schwarz criterion		10.90253
Log likelihood	-412.2672	Hannan-Quinn criter.		10.50744
F-statistic	139.4579	Durbin-Watson stat		1.796015
Prob(F-statistic)	0.000000			

Source: Processed Data, 2020

The independent variable in this study has an influence of 98.01% on the dependent variable Financial distress, according to Table 4. The R-squared value in the estimation results of the fixed effect model is 0.980192. The independent variable simultaneously has an influence of 97.31% on the dependent variable Financial distress, taking into account the standard error, according to the adjusted R-squared value of 0.973164.

Chow Test (Likelihood Test)

Table 5 Results of Chow Test (Likelihood Test)

Redundant Fixed Effects Tests Equation: Untitled Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	88.231748	(16,62)	0.0000
Cross-section Chi-square	269.314216	16	0.0000

Source: Processed Data, 2020

The Likelihood Test results in table 5 show that H0 is rejected because the probability value for the Chi-square Cross Section is 0.0000, which is less than 0.05. As a result, the Fixed Effect Model is the best estimation model to use.

Random Effect Model (REM)

Table 6 Results of Random Effect Model (REM) Method test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	774.3577	453.7681	1.706505	0.0919
ROA	907.0670	137.6582	6.589271	0.0000
CR	5.815934	5.071768	1.146727	0.2550
DER	68.15039	31.28960	2.178052	0.0324
RETA	79.04630	35.76390	2.210226	0.0300
SIZE	-27.33073	15.37720	-1.777354	0.0794
GCG	-22.36106	35.65766	-0.627104	0.5324
R-squared	0.420797	Mean dependent var		8.339230
Adjusted R-squared	0.376243	S.D. dependent var		47.31983
S.E. of regression	37.37238	Sum squared resid		108942.2
F-statistic	9.444650	Durbin-Watson stat		1.327383
Prob(F-statistic)	0.000000			

Source: Processed Data, 2020

Based on Table 6, the R-squared value for REM is 42.08% > 37.62% of the Adjusted R-squared value that has been determined previously. However, the liquidity variable still shows a significance level of > 0.05 with a positive coefficient. While liquidity still shows similar results to FEM, a positive and insignificant effect, good corporate governance shows negative and insignificant results.

Hausman Test

Table 7 Results of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.140138	6	0.0841

Source: Processed Data, 2020

Based on Table 7, H0 is accepted, and H1 is rejected because the random cross-section probability value is 0.0841, which is greater than 0.05. Thus, the random effect model is the estimated model that was selected for use.

L-M Test (Lagrange Multiplier)

Table 8 Results of L-M Test (Lagrange Multiplier)

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	111.7172 (0.0000)	2.361347 (0.1244)	114.0785 (0.0000)

Source: Processed Data, 2020

Table 8's probability value for the Breusch pagan indicates that H0 is rejected and H1 is accepted, supporting the conclusion that the Random Effect Model is the best data panel estimation model based on the Lagrange Multiplier-test results (REM).

Hypothesis Test Results

Partial Test (t-test)

1. Based on Table 6, profitability has a coefficient of 907.0670, and T-count 6.589271 > T-table 1.664, with a significance level of 0.0000 <0.05. This finding shows that profitability positively and significantly affects Financial Distress.
2. Liquidity has a coefficient value of 5.815934 and T-count 1.146727 < T-table 1.664, with a significance level of 0.2550 > 0.05. This shows that positive liquidity is not significant to financial distress.
3. Leverage has a T-count of 2.178052 > T-table of 1.664 with a coefficient value of 68.15039 and a significant value of 0.0324 <0.05. This shows that leverage has a significant positive effect on financial distress.
4. Retained Earning to Total Assets (RETA) has a coefficient value of 79.04630, and Tcount 2.210226 > Ttable 1.664 with a significant level value of 0.0300 <0.05. This shows that RETA has a significant positive effect on financial distress.
5. Firm Size has a coefficient of -27.33073 and T-count of 1.777354 > T-table of 1.664 with a significant level value of 0.0794 > 0.05. This result shows that Size has no significant negative effect on Financial Distress.
6. GCG has a coefficient value of -22.36106 and a T-count of -0.627104 < -1.664. With a significant level value of 0.5324> 0.05. This finding illustrates that GCG has no significant negative effect on Financial Distress.

Simultaneous Test (F-Test)

The probability value (F-statistic), which is based on Table 7, is 0.000000, which is less than the predetermined significance level of <0.05. Therefore, it can be concluded that H7 states that variables such as profitability, liquidity, leverage, retained earnings to total assets, company size, and good corporate governance simultaneously have a significant impact on the prediction of financial distress, is accepted.

Results of Multiple Regression Analysis

The Random Effects Model should be applied, according to the findings of the panel data testing. As a result, using Table 7, the equation for the multiple regression model is:

$$FDit = 774.3577 + 907.0670ROA_{it} + 5.815934CR_{it} + 68.15934DERIt + 79.04630RETA_{it} - 27.33073SIZE_{it} - 22.36106GCG_{it}$$

Where:

FDit	= Financial Distress
α	= Intercept coefficient
β1 ..., β6	= Slope coefficient
ROA	= Return on Assets or Profitability
C.R.	= Current Ratio or Liquidity
DER	= Debt to Equity Ratio or Leverage
RETA	= Retained Earning to Total Assets
SIZE	= company Size
CGC	= Good Corporate Governance
t	= research period
i	= Number of studies
ε	= error term

5. Discussion

Effect of Profitability on Financial Distress

Probability has a significant positive effect on financial distress. The findings of this study support Asfali's research (2019) which found that profitability has a positive and significant effect on financial distress. This result shows the company's ability to increase efficiency in maximizing its assets to generate profits, preventing it from experiencing financial distress as expected.

Effect of Liquidity on Financial Distress

Liquidity has no significant positive effect on Financial Distress. The findings of this study are consistent with the research of Fahlevi & Mukhibad (2018). The more liquidity a company has, the better able it is to meet its short-term obligations and prevent predictions of financial distress. Using current assets to measure liquidity will result in a high liquidity value, indicating that the cooperative is in good health. High current assets indicate that funds could be used more effectively and turn into hidden funds in the form of accounts receivable, which can turn into uncollectible accounts.

Effect of Leverage (DER) on Financial Distress

Leverage (DER) has a significant positive effect on financial distress. This study's findings support Listiana (2014) and Asfali (2019) research. This study aims to determine whether a company's total debt can be covered by its total debt equity by using the debt-to-equity ratio as a proxy for this variable. This result shows that the company can still use other assets to pay off its total debt, and its equity ownership can still serve as collateral for this debt.

Effect of Retained Earning to Total Assets (RETA) on Financial Distress

Retained Earnings to Total Assets (RETA) has no significant positive effect on Financial Distress. The findings of this study concur with Supriyanto & Darmawan (2018). This result shows that the company's retained earnings can generate good dividends. As a result, the company can streamline management to manage production, sales administration, and other activities to reduce the possibility of the company experiencing financial difficulties.

The Effect of Firm Size on Financial Distress

Firm Size has no significant negative effect on Financial Distress. This study's findings align with Setyowati & Sari (2019). It has been proven that increasing the Size of a company can reduce the likelihood of financial difficulties. This finding is based on the idea that larger companies will be more complex, producing a variety of assets that can be pledged as collateral or at least sold to help solve financial difficulties. Because they have sufficient potential resources and good management resources, large companies usually have better financial management skills. It is argued that because mature firms and emerging firms are separated, there is no clear relationship between firm Size and financial distress. Despite its small Size, a mature company already has many business partners, which increases consumer and outsider recommendations and the level of trust that financial institutions have in the company.

The Effect of Good Corporate Governance on Financial Distress

Good Corporate Governance has a negative and insignificant effect on Financial Distress. The findings of this study are consistent with Ananto et al. (2017). This result shows the possibility of an Independent Commissioner in a company being observed only as a formality to comply with regulations, indicating his presence is not to carry out a good oversight function and is not

independent in supervising the policies of the Board of Directors. The Audit Committee sometimes even makes it difficult to agree on performance-related decisions.

According to the findings, there is a significant correlation between financial prediction distress and the variables Profitability, Liquidity, Leverage, RETA, Firm Size, and Good Corporate Governance. According to Simanjuntak *et al.* (2017), financial distress is influenced simultaneously by liquidity, leverage, profitability, and growth ratios. Meanwhile, it is demonstrated by Vionita & Lusmeida (2019).

6. Conclusion

Profitability has a significant positive effect on financial distress. A company's capacity to maximize assets that generate profits grows, reducing the possibility that it will eventually experience financial difficulties. Liquidity has a significant positive effect on Financial Distress. This reduces the possibility of a company experiencing financial distress because the company's current assets can be used to pay off maturing debts. Leverage (DER) has a significant positive effect on financial distress; this indicates that the company can still use other assets to pay off its total debt, and its total equity ownership can still be collateral for this debt. The RETA significantly positively affects financial distress, indicating that a company's retained earnings can generate good dividends. It allows it to streamline management by controlling production, administrative sales, and other activities to reduce the possibility of businesses experiencing financial difficulties. Firm Size has no significant negative effect on financial distress; business diversification is more common among large and small companies. Good corporate governance has no significant negative effect on financial distress. This result indicates the possibility of an Independent Commissioner in a company being observed only as a formality to comply with regulations, indicating its presence is not to carry out a good oversight function and is not independent in supervising the Directors' policies and Directors. The Audit Committee sometimes even makes it difficult to agree on performance-related decisions. Profitability, liquidity, leverage, retained earnings on total assets, company size, and sound corporate governance simultaneously affect financial distress.

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