Financial Ratio, Good corporate governance and Financial Distress: A Grover Model at a Transportation Firm

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Abstract. This research was conducted to predict the potential for financial stress by using operating capacity, operating cash flow, and good corporate governance mechanisms as part of risk management. the transportation sector listed on the Indonesia Stock Exchange from 2016 to 2020 is the population of this study. This study uses a purposive sampling technique with 100 observations from 20 transportation sector companies. The measure of the study model to prognosticate financial distress uses multiple linnear regresssion with using Z- Score. According to the study's findings, the low mobility of the deceased during the COVID-19 outbreak caused sales at several transportation-related businesses to decline. Additionally, poor operational performance results in financial difficulty because it has a favorable effect on tax torture. Financial distress is unaffected by transaction growth and cash inflows, hence it is unaffected by the value of transaction growth and cash inflows.

Keywords: Operating capacity, sales growth, cash flow, leverage, GCG, financial distress

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Introduction

In order to ascertain whether favorable corporation conditions accurately represent employee performance over an anonymous time period, the financial situation of the corporation, or its performance, is described. ([33],[10]). If the firm's financial situation is good, and vice versa, If the firm's performance is good. The fiscal extremity is also not good if the firm's interpretation isn't good. One of the concussions of the financial extremity isn't good, and the corporation will witness financial distress [46]. A bad financial situation, if left unchecked, will have a destructive impact on the firm.

When a firm experiences financial difficulties, its position transitions through several stages in the process of financial problems within the firm, and it includes the initial period of declining performance to the lowest point, then the recovery phase if the firm can improve its performance. The firm's performance is decreasing due to the COVID-19 virus; this is because the government has imposed a lockdown to limit social and economic activities, which impacts the firm's interpretation [30]. If the performance worsens, the corporation's possibility of going bankrupt is even greater. However, if the firm's interpretation improves, the firm has the opportunity to overcome financialdistress [46].

The transportation sector is one of the sectors experiencing a decline in firm performance. Several transportation companies experienced a decrease in the amount of revenue. The decline in sales means that the corporation cannot optimally pay off its debts. If this happens continuously, the debt increases and with it the possibility of financial problems. If this happens continuously. Below is the percentage of companies in the transport sector that reported experiencing tax abuse between 2016-2020.

According on Table 1, the use of debt to equity in transportation sector companies has a high percentage and is increasing yearly. Even in 2018, the rate of debt usage decreased from the previous year, which was not a good sign because the percentage was still high. This high level of use of debt causes transportation companies to be very vulnerable to experiencing financial distresss problems; this is because the firm is experiencing default problems. After all, it cannot meet the firm's obligations due to the high level of debt usage. Companies experiencing financial distress usually have issues with financial ratios, including the leverage ratio. The leverage ratio value is greater than 1, meaning that the firm's debt is more outstanding than the firm's total equity. The increase in the percentage of transportation companies experiencing financial distress is one of the reasons why the condition of transportation companies in Indonesia can be categorized as

worrying because they are very vulnerable to bankruptcy.
Several factors influence the occurrence of financialdistress, for example, operating capacity, sales growth, cash flow, leverage, board of commissioners, audit committee and managerial ownership. Operating capacity was investigated by ([27]–[14]). Sales growth was researched by ([27],[16],[28]–[2]). Cash flow was studied by ([16]–[28],[38]). Leverage is researched by (11x–[35]). The board of commissioners is scrutinized by ([47]–[19]) the audit committee is scrutinized by ([47],[18],[19]). Managerial ownership researched by ([18],[22],[25],[32]).

Table 1. Transportation Companies Indicated in Financial Distress

Year	Companies with DER >1	Companies with DER < 1	Total firm	Percentage
2016	21 firm	11 firm	32 firm	67%
2017	25 firm	10 firm	35 firm	71%
2018	26 firm	16 firm	42 firm	62%
2019	34 firm	11 firm	45 firm	75%
2020	32 firm	14 firm	46 firm	69%

Literature Review

The theory employed is the signal theory, which states that businesses include signals in their financial reports in the form of both positive and negative signals ([15]). Signals are facts about the operational behavior to implement the wishes of the owner. Due to the fact that this study contains information about the industry's current state as well as its prospects for the future, this data is crucial for investors and business people ([7]). The information provided by this company is crucial because it reveals how equity owners, investors, and other key participants in the industry, including creditors, think about investing.

Operating Capacity and FinancialDistress

Operating capacity is the ratio to measure whether a corporation is effective and efficient or not in managing firm assets (6.26). The more efficient asset management, the greater the chance for the corporation to avoid financial problems. This is consistent with signaling theory, which states that a high operating margin sends a good signal to stakeholders that a corporation can manage

its capital effectively to increase transactions. Research by ([16],[13],[30]) shows that side hustles have a negative impact on financial distress. The more effectively an industry manages its capital, the less likely it is to avoid financial distress.
H1 = Operating Capacity has a negative effect on financialdistress.

Sales Growth and Financial Difficulty

The sales growth is the corporation's ability to survive in situations that bring benefits to profitable growth and its field of activity ([24]). High sales growth means the corporation is in good shape and financial difficulties can be avoided. According to signaling theory, high revenue growth is good for stakeholders because businesses tend to survive. Research by ([27],[14],[2],[26]) shows that revenue growth has a negative impact on financial distress. That is, the higher the revenue growth, the lower the corporation's prospects of avoiding financial difficulties.
H2 = Sales Growth has a negative effect on financial distress.

Cash Flow and Financial Distress

Cash Flow is a report that details the cash flows in and out of each mission, from setting up operations and investments to supporting them over a period of time ([8]). However, the corporation must also avoid financial distress when the cash flow generated by the corporation increases. According to the signaling theory, high cash flow sends a positive signal to creditors as the corporation can service creditors' debts. Studies by ([9],[28],[17]) state that cash inflows have a negative impact on financial distress. This means that the more advanced the cash flow generated, the lower the corporation's ability to avoid financial distress.

Leverage and Financial Distress

Leverage is a metric used to calculate how much of a corporation's funds come from debt (A). Consider a large corporation's debt rating. In this sense, the ability to get into financial trouble is also important and this is consistent with the signaling theory which states that high capital commitments send a negative signal to creditors as these high levels indicate stronger support for indicate the shackles of the creditors. studies ([16],[2]) explains that leverage has a significant impact on financial distress. This means that the lower the corporation's debt support, the lower the corporation's ability to get into financial distress.
H4 = Leverage has a positive effect on financial distress.

Board of Commissioners and Financial distress

The Board of Commissioners is part of the corporate organization which has the responsibility to handle and advise the Directors and ensure that the corporation implements corporate governance (33). The board of commissioners has the responsibility to carry out with due care or serious seriousness in carrying out its place and function in implementing corporate governance [46]. The relationship between the board of commissioners and financial distress is according on signal theory, videlicet that the board supervises, observes, and makes strategic opinions in managing the corporation's operations. So that operational crime can be avoided and the corporation does not experience financialdistress ([15].[6]). According to ([4]), the number of independent commissioners in a corporation has an effect on the condition of the corporation because with a large number of commissioners, the corporation's assessment is running well. The results of the study ([47],[2],[1]) reveal that the board of commissioners has a negative effect on financial distress because the board of commissioners has a significant role in the administrative function.
H5 = Board of Commissioners has a positive effect on financialdistress.

Audit Committee and Financial distress

The Audit Committee was established to streamline the work of the Board of Directors. Optimal control by the Board of Auditors will allow the Internal Control Committee to work effectively and efficiently in accordance with the applicable legislation ([4]). The audit committee plays an important role in the implementation of good corporate governance in companies ([11]). The more audit committees there are, the more motivated they are to fulfill their responsibilities to improve the integrity of's financial reports and ensure effective oversight of business performance ([47],[18]). An adequate number of audit committees will provide a more effective mechanism to oversee and control financial activities, including the management and reporting of the corporation's financial information.
H6= The audit commite has a positive on financial distress.

Managerial Ownership and Financial distress

Manager ownership is a situation where a manager has an interest in the capital structure of a corporation. In other words, a manager has two roles as manager and shareholder in the corporation ([33]). The link between managerial ownership and

financial distress is According on signal theory. Management ownership is expected to balance potential conflicts of interest between outside shareholders and management ([20]). Ownership of major changes or settlements can be an alternative mechanism for implementing corporate governance. A small number of owners find it easier to oversee management than owners who are taken advantage of ([36]). According to research by ([18],[22]), executive ownership was found to have a negative impact on financial distress.
H7 = Management ownership has a positive effect on financial distress.

Research Methods

Quantitative research is a method of studying a specific population or sample, collecting data using research tools, and analyzing quantitative or statistical data to test specific hypotheses ([42]). The type of analysis used in this analysiz is a quantitative analysis. The magnitude of the variables in this study are shown in the table below:

Table 2. Measurement of research variables

No	Variable	Measurement
1	*Financial distress*	*G-Score=1,650 X + 3,404 X + 0,016 X3+ 0,057*
2	Operating Capacity	Sales/total assets
3	Sales Growt	Sales t – Sales t-1 / Sales t-1
4	Cash flow	Operating cash flow/ current liabilities
5	Leverage	Total debt/total assets
6	Bord size	Independent commissioner/board of commissioners
7	Audit Committee	∑ number of the audit committee
8	Managerial ownership	Manager's shares / outstanding shares

The population of this study are transport companies listed on the Indonesian Stock Exchange between 2016 and 2020. Commercial releases are used as the release type. The data analysis used in this study is direct multiple regression. The regression for this study is:

$$FD = \alpha + \beta 1OC + \beta 2SG + \beta 3CF + \beta 4Lev + \beta 5DK + \beta 6KA + \beta 7MO + e \quad (1)$$

Where OC stands for Operating Capacity and FD for Financial Distress. Sales growth is represented by SG, cash flow by CF, leverage by Lev, the board by BO, the audit committee by AC, and managerial ownership by MO, β1, β2, β3, β4, β5, β6, and β7 are the coefficients for each independent variable's in the model, ε it is the error term.

Research Result

The subject of this study are companie's in the transportation sector listed on the Indonesian Stock Exchange (IDX) for the period 2016-2020. Corporation data in the transportation sector is obtained by accessing the official IDX website at www.idx.co.id and other official corporation websites. The sampling technique for this research is the objective sampling method that aims to obtain a sample according to a given draw. According on these criteria, data was collected from 20 companies in the transport sector.

Descriptive statistics

Descriptive statistics give an overview or definition of data observed from a variable's average value (mean), normal deviation, max, or minimum. The ensuing effects of descriptive statistical experiments in this study can be viewed in Table 3. According on the results of the descriptive statistical analysis of Table 3, the average operational capacity value is 0.337, which means that the transport companies listed in the IDX in the period 2016-2020 have an operational capacity index of 0.337. The working capacity has a standard deviation of 0.194. This value is below the average and represents the usual deviation between the maximum and minimum values over the observation period, namely1.22 and 0.03. The revenue growth has an average value of -0.033, which means that the transport companies listed in the IDX have an average revenue ratio of -0 for the period 2016-2020.003. Sales growth has a standard deviation of 0.399. This value is below the average and represents the usual deviation between the max and minimum values over the observation period, which are 1.04 and -0.93.
The cash flows have an mean value of 0.466, which means that the transport companies listed in the IDX from 2016 to 2020 have cash flows of 0.466. The cash flows have a standarts deviation of 0.672. This value is more advanced than the average and shows a large variability between the maximum and minimum values during the observation period, namely 3.85 and -0.28. The leverage has an average value of 0.536, which means that the transport companies listed on the IDX between 2016 and 2020 have an average leverage of 0.536. Leverage has a standard

deviation of 0.274. This value is below the mean and indicates a normal deviation between the maximum and minimum values during the observation period, which are 1.88 and 0.08

Financial Distress averages 0.228, meaning that for carriers listed on the IDX in 2016-2020, the Economic Distress Index is 0.228. This value is lower than the mean and shows that there is a usual variation between the maximum and minimum values, which are 4.58 and -0, over the observation period.99. Financial hardship has a standart deviation of 1.085.

Table 3. Descriptive statistics

Variable	Minimum	Maximum	Mean	Std.Deviation
Sales Growt	-0.93	1.04	-0.003	0.339
Cash flow	-0.28	3.85	0.466	0.672
Leverage	0.08	1.88	0.536	0.274
Bord size	0.33	0.50	0.3020	0.0536
Audit Committee	0.75	3.00	0.818	0.251
Managerial ownership	0.00	0.35	0.946	0.083
Financial Distress	-0.99	4.58	0.228	1.085

Hypothesis testing

Table 4. Hypothesis test results

Variabel	Beta coefficient	T-Statistics	P-Value
Operating Capacity	1.351	5.214	0.000
Sales Growt	0.308	1.357	0.177
Cash flow	0.284	1.395	0.166
Leverage	0.507	1.994	0.049
Bord of commisioners	-0.214	0.336	0.0013
Audit Committee	-0.183	2.711	0.010
Managerial ownership	-16.771	2.465	0.020

Discussion

Effect of operating capacity on financial distress

According on Table 4, the operating capacity variable has a significantly positive effect on financial distress with a multiple regression coefficient of 1.351. There is also a T-count value of 5.214 and a significance value of 0.000 (<0.05). The results of this test prove that the first hypothesis, which states that the operational capacity has a negative impact on financial difficulties, is rejected, since in the data of this study 60% of the companies have a low value of the operational capacity, which means that the Der right sales value is lower. as your fortune, resulting in profit slumps and financial problems. This gives outsiders the impression that the corporation is not managing its assets properly and is detracting from sales value. The outsiders did not receive a positive signal, but referred to a negative signal as the corporation was in financial distress.

This research is in accordance with research by ([29]) who found that complementing business activity has a positive impact on financial difficulties because the corporation does not generate enough sales volume by investing its capital. This indicates that the revocation is invalid. and can have an impact on the tax situation of the corporation and trigger tax problems. financial difficulties. Research by ([12]) shows that the ability to operate significantly affects financial distress, since low operational value-addedentails low financial returns and amounts, resulting in financial distress. Research of ([14],[30]) shows that operational capacity has a positive impact on financial distress, as firms with low operational growth make the firm insecure about the risk of financial distress.

Effect of sales growth on financial distress

According on Table 4, the sales growth variable is unaffected by financial distress with a multiple regression coefficient of 0.308. In addition, a tcount value of 1.357 and a significance value of 0.177 (>0.05). The results of this test suggest that the second hypothesis, that the increase in sales has a positive impact on financial problems, was rejected since, according to the data of this study, 30% of companies experienced a decrease in sales, which led to a drop in sales. A rejection. on offer. Sale. In addition, the data in this study also shows that the value of each corporation's revenue growth fluctuated between 2016 and 2020, which affected the corporation's stability.

According on the experiment results, this study doesn't advocate the signal theory, which states that sales growth gives a positive signal because advanced sales will avoid financial distress. Small sales don't create financial distress, so sales growth doesn't affect financial distress because sales growth has not been suitable to give good information to investors regarding financial distress. In difference, a drop in sales can beget financial distress. The results of this study are advocated by exploration conducted by ([14],[2]) discovered that sales growth doesn't affect financial distress because the high or low position of sales growth doesn't reflect that an increase can follow it in returns deserved by the firm.

The effect of cash flow on financial distress

According on Table 4, the cash inflow variable doesn't affect financialdistress, with a multiple regression measure of0.284. It also attained a t- count value of1.395 and a significance value of0.166(>0.05). The resultants of this experiment validate that the third theory, which states that cash flow has a negative effect on financialdistress, is negatived because, in the exploration data, 80% of companies have smaller cash flows than their current liabilities. There is even a negative cash flow value so that cash flows cannot meet their obligations-short-term debt. In addition, the cash flow in this research data also shows that the value of each firm from 2016-2020 experienced fluctuating changes, which resulted in the firm's stability.

According on the test results, this study does not support the signalling theory, which states that cash flow gives a positive signal because the higher the cash flow, the higher the cash flow will avoid financial distress. Petty cash flows do not cause financial distress, so cash flows do not affect financial distress because cash flows have not been able to provide accurate information to investors regarding financial distress. The effects of this study are advocated by exploration directed by ([10],[38]), formulating that cash flow doesn't affect financial distress because companies that have positive operating cash overflows but have investment cash overflows. Moreover, negative funding can cause the firm's total cash flow to be negative. This negative cash flow of the firm ultimately causes financial difficulties because the firm needs more funds to finance the firm's daily operations.

The effect of leverage on financial distress

According to Table 4, the leverage variable has a significant positive impact on financial hardship with a multiple regression coefficient of 0.507. The tcount is also 1.994 and has a significant value of 0.049 (>0.049).05). The results of this test support the fourth hypothesis, that leverage has a significant positive impact on financial problems, because leverage is an indicator that measures the extent to

which a corporation's assets are funded by debt.
According on the value of the test results, this study supports the signal theory that higher leverage triggers a negative signal because it leads to financial distress. The findings of thisstudy are supported by research from ([16],[2],[23],[37]) showing that leverage has a positive impact on financial crises as high levels of leverage increase leverage. The aim of increasing wealth is also to take over the corporation in order to increase its debt. Unless preparations are made to expand operations, the corporation will face financial distress.

Board of Commissioners on Financial distress

The results of the Good Corporate Governance study of board members on financial difficulties resulted in a significance value of 0.0013 (<0.05) and a regression coefficient of -0.214 for the individual indicators in the significance test. These results suggest that statistical management variables have a significant negative impact on the financial difficulties of firms in the transportation sector. The results of the descriptive analysis show that the Council of Commissioners' commission value is 0.33, which means that the average percentage of transport companies have a 30% share of independent clients, showing that this percentage can play an effective role.
The results of this study are consistent with research ([47],[18],[43]) showing that independent commissioners can play a role in reducing error or fraud affecting corporation finances, so the proportion of commissioners is higher. A corporation's executives prevent the corporation from getting into potential financial problems.

The influence of the audit committee on financial distress

The results of the Corporate Governance Study conducted with the Financial Regulation Audit Committee using various significance test parameters yielded a significance value of 0.010 (<0.05) with a regression value of -0.183. These results indicate that the variable audit committee has a statistically significant negative impact on the financial difficulties of companies in the transport sector. They stated that the audit committee came to a negative conclusion given the financial distresss. This shows that the audit committee can be an effective control tool. The results of this study are consistent with studies ([47],[18],[41],[45]) showing that audit committees have a negative impact on financial distress.

Managerial ownership of Financial distress

The results of the Good Corporate Governance test with the object Financial Distress Management Property in the single parameter significance test yielded a significant value of 0.020 (<0.05) with a regression coefficient of -16.771. This is the result show statistically, management ownership has a significant negative impact on the financial difficulties of companies in the transportation sector. Studies (Jansen and Meckling, 1976) show that management ownership reduces agency problems because the more shares management owns, the greater the motivation to improve the corporation's financial situation. This is consistent with research ([32].[22]) indicating that corporate ownership will encourage firms to achieve the goal of maximizing the interests of the firm's shareholders.

Conclusion

According on the result and discussion, operational capacity has a positive impact on financial distress as third parties can link the increase in value of operational capacity to the corporation's ability to manage assets and grow revenue. The growth in sales does not affect the financial difficulties, as the corporation is experiencing a decline in sales, so profits are falling, which affects the stability of the corporation. Cash flow does not present financial distress the cash flow generated inis less than current debt, leaving them unable to meet their current debt obligations. Leverage positively affects financial distress because leverage is a metric that measures the degree to which a corporation's assets are funded by debt. So you can see how much debt the corporation carries with its assets. Good corporate governance, effectively implemented within a corporation, can reduce or prevent a corporation's financial difficulties. Suggestions for future research are to add variables not used in the study, broaden the research topic, and use other indicators such as Altman's Z-Score, F-Score, or others to measure financial distress.

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