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The Influence of Institutional Ownership, Liquidity, and Company Size on Financial Distress

(Empirical Study on Property & Real Estate Sub Sector Companies Listed on The Indonesia Stock Exchange 2015 - 2018)

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Abstract: This study aims to determine the effect of institutional ownership, liquidity, and company size on financial distress in property & real estate sub-sector companies listed on the Indonesia Stock Exchange in the period 2015 - 2018. This research was conducted using quantitative methods. The research population was 48 companies and a sample of 32 companies was taken using purposive sampling. This research was conducted from June to September 2019. Data were obtained from the Indonesia Stock Exchange website and the website of each company which was the object of research and analyzed with SPSS version 25. Based on the results of the study it was concluded that: 1) there was no significant influence between institutional ownership and financial distress, 2) there is a significant influence between liquidity and financial distress, and 3) there is no significant effect between company size and financial distress.

Keywords: financial distress, institutional ownership, liquidity, company size

1. Introduction

This phenomenon that occurred near the end of the third quarter of 2018, caused many companies to experience financial difficulties and not a few who went bankrupt. At that time the world economy was faced with a state of collapse of global economic stability, in line with the spread of the financial crisis to various countries. The cause of this crisis is not only due to the weak economic structure but because private foreign debt has reached a quite large amount, as a result, interest rates and inflation have risen sharply and investment has decreased and it is possible have an impact on the stability of companies in Indonesia including companies that move in the property & real estate sector. Here are the companies that experienced the largest bankruptcy in the United States due to the 2008 crisis.

Table 1
Companies that went bankrupt as a result of the 2008 crisis

Perusahaan	Tanggal *Bankruptcy*	Total Aset sebelum *Bankruptcy*
Lehman Brothers Holding Inc.	15 September 2008	$ 639.063.000.000
Washington Mutual	26 September 2009	$ 327.913.000.000
Worldcom Inc.	21 Juli 2002	$ 103.914.000.000
Enron Corp	12 Februari 2001	$ 63.392.000.000
Conseco, Inc.	18 Desember 2002	$ 61.392.000.000
Chrysler	30 April 2009	$ 39.300.000.000
Texaco, Inc.	12 April 1987	$ 35.892.000.000
Financial Corp. Of America	9 September 1988	$ 33.864.000.000
Refco Inc.	17 Oktober 2005	$ 33.333.172.000

Source: Data processed from various sources

The company is a business entity that runs its business to make a profit (Anthony & Govindarajan, 2008). Every company is founded with the hope that it will generate profits so that it can survive or develop in the long term. However, in reality, these assumptions do not always turn out well as expected. Increasingly competitive competition makes some companies that are unable to compete will experience losses or experience financial distress, which in turn makes these companies unable to continue their business activities or until they go bankrupt.

Financial distress is a condition in which a company is in financial difficulty so that it cannot provide funds to meet its current debt (Helena and Saifi, 2018). Financial distress has a close relationship with bankruptcy in a company because financial distress is a stage where the company's financial condition has decreased before the occurrence of bankruptcy (Yustika, 2015). Indonesia itself experienced a crisis in 1998 which was the worst crisis that Indonesia has ever experienced, as a result of which there was inflation in the Indonesian economy. Many property projects stop immediately and the result is a wave of layoffs. One of the causes of the economic crisis in Indonesia is allegedly the result of weak corporate governance and the underlying ethics.

Good corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of directors, shareholders, and other stakeholders (OECD, 1999). The issue of corporate governance is motivated by agency theory which states that agency problems arise when the management of a company is separated from its ownership (Triwahyuningtyas and Muharram, 2012). The institutional ownership structure is the ownership of company shares by institutions or institutions such as insurance companies, banks, investment companies, and ownership. other institutions.

Institutional ownership usually constitutes the majority of company owners because the source of institutional funds is greater than other shareholders. Low institutional ownership means the monitoring function of management policies is low. Low institutional ownership can increase the opportunistic nature of management to act to maximize self-interest and no longer attempt to maximize company profits which can increase agency conflicts and make the company experience financial distress. The results of research conducted by Budiarso (2014) show that institutional ownership has a significant effect on financial distress. This shows that high institutional ownership can reduce agency conflicts and companies avoid financial distress. Different results were obtained in research conducted by Ananto, Mustika, and Andayani (2017) which stated that institutional ownership had no significant effect on financial distress.

Measurement of financial distress conditions (financial distress) can also be done from the financial aspect, namely by using financial ratios. The liquidity ratio or often referred to as the working capital ratio is the ability of a company to meet its short-term obligations promptly (Fitriyah and Hariyati, 2013). Triwahyuningtiasdan Muharam (2012) states that the more liquid a company is, the greater the probability that the company will avoid financial stress. In general, a company is said to be liquid if its value reaches 2 or 200% so that it can give a good signal to shareholders or owners of company capital. This study uses the measurement of the current ratio. Companies with high current ratios are not guaranteed to be able to pay debts that are due. This is because the proportion or distribution of current assets is not profitable. The results of research conducted by Budiarso (2014) show that company size has a significant effect on financial distress. Different results were obtained in research conducted by Triwahyuningtias and Muharam (2012) which states that company size has no significant effect on financial distress.

Financial distress measurement can also be done using company size. The size of the company describes how many assets the company owns. Companies with positive growth give a sign that the size of the company is growing and reduces the tendency towards bankruptcy. This study uses Ln total assets as its measurement. The company will be in a more stable state, in the sense that it is stronger in facing the threat of financial distress if the company has a large number of assets. Putri and Merkusiwati (2014) suggest that the greater the total assets owned by the company will have an impact on the increased ability to pay off company liabilities in the future so that financial distress can be avoided. Putri and Merkusiwati's research results (2014) differ from the results of research conducted by Apriliani (2018) and Nuryani (2016) which state that company size has no significant effect on financial distress.

Many factors influence financial distress, and research on financial distress has been carried out by researchers from year to year with very diverse independent variables and different research results. Based on the above phenomena, the measurement of financial distress that will be used in this research is institutional ownership, liquidity. and company size. Financial distress can be used as a signal or a sign that a company is being threatened with bankruptcy, therefore, a warning system model to anticipate financial distress needs to be developed because it can be used as a means to identify and even improve the company's condition.

This research was conducted at the property & real estate sub-sector company because this sector is difficult to predict and the most vulnerable in the macro industry to exchange rates, inflation, and interest rates. Besides, the property & real estate sector in its operational activities uses capital which generally comes from bank credit, so there is a high probability that this sector will be affected by financial distress problems.

Based on the matters described above, researchers are interested in researching the effects of institutional ownership, liquidity, and company size. Based on this, the researchers conducted a study entitled "The Effect of Institutional Ownership, Liquidity, and Company

Size on Financial Distress (Empirical Study of Property & Real Estate Sub Sector Companies Listed on the Indonesia Stock Exchange 2015 - 2018)".

Agency theory is a theory that explains the separation of interests between company owners and company managers (Bodroastuti, 2009). According to Scott (2012) in Helena and Saifi (2018) agency theory is a contractual relationship between the principal and agent, where the principal is the party who hires the agent to perform tasks for the interests of the principal, while the agent is the party who carries out the interests of the principal. Agency theory arises because of their existence. conflict of interest within the company between the principal and the agent for self-benefit, conflict can occur because of information asymmetry, that is, only one party knows more about the information in the company. To ensure that managers work with the aim of the welfare of shareholders, shareholders must pay a fee called agency cost.

Signal theory is a theory that states that companies provide signals to users of financial statements, either in the form of positive signals (good news) or negative signals (bad news). Signal theory explains the reasons for firms presenting information to capital markets. The information presented and disclosed by the company is important because it influences the investment decisions of capital owners or investors or other business actors such as creditors. This information is important for investors and business people because information essentially provides information, notes, or descriptions, both for the past, present, and future conditions for the survival of the company and how it will affect the company (Apriliani. 2018).

Financial distress is a condition in which a company is in financial trouble so that it cannot provide funds to meet its current debt (Helena and Saifi, 2018). According to Wahyunigtyas (2010), financial distress is a broad concept consisting of several situations in which a company faces financial difficulties. Common terms to describe the situation are bankruptcy, failure, inability to pay off debts, and default.

Financial distress has a close relationship with bankruptcy in a company because financial distress is a stage where the company's financial condition has decreased before bankruptcy occurs (Yustika, 2015).

Some of the causes of financial distress according to Lizal in Aprilani (2018) are as follows:

1. **Neoclassical model**
   Financial distress occurs when the allocation of resources is not appropriate. Estimating difficulties is done with balance sheet data and income statements.
2. **Financial model**
   Financial distress is characterized by the existence of a wrong financial structure that causes liquidity constraints. This means that although the company can survive in the long term, it must also go bankrupt in the short term.
3. **Corporate governance model**
   Financial distress according to the corporate governance model is when a company has the right asset structure and good financial structure but is poorly managed.

Financial Distress in this study is measured using the Springate model. This model was developed in 1978 by Gorgon L.V. Springate by following a procedure developed by Altman, Springate uses step-wise multiple discriminate analysis to select four of 19 popular financial ratios so that it can distinguish companies that are in a Bankrupt Zone or a safe zone.

$$S = 1{,}03\ A + 3{,}07B + 0{,}66C + 0{,}4\ D$$

Information :

$$A = \frac{\textit{Working Capital}}{\textit{Total Assets}}$$

$$B = \frac{\textit{Net Profit Before Interest and Taxes}}{\textit{Total Assets}}$$

$$C = \frac{\textit{Net Profit Before Tax}}{\textit{Current Liabilities}}$$

$$D = \frac{\textit{Sales}}{\textit{Total Assets}}$$

The cut-off point applicable to the Springate S-score of this model is 0.862; that is, if the value of S <0.862 then the company is predicted to experience financial distress and if the value of S> 0.862 then the company is classified as healthy (non-financial distress). The accuracy level of the Springate model in predicting financial distress is 84.21%, followed by Grover 78.94%, Altman 76.31%, and 76.10% Zmijewski.

Institutional ownership is the percentage of shares owned by the institution of the total outstanding shares of the company (Ananto, Mustika, and Handayani, 2017). According to Dewidan Jati (2014), Institutional ownership is share ownership owned by the government, insurance companies, foreign investors, or banks, except for individual ownership of investors.

Large institutional ownership (more than 5%) indicates the ability to monitor the company. The existence of institutional investors is considered capable of being an effective monitoring mechanic in every decision taken by managers. This is because institutional investors are involved in strategic decision making so that it can hinder the opportunistic behavior of managers. Institutional ownership can reduce agency costs by activating supervision through institutional investors. Institutional ownership is measured by the proportion of shares owned by the institution divided by the total shares outstanding at the end of the year and expressed as a percentage.

Institutional Ownership = (Number of Shares owned by the Institution /Total Outstanding Shares) x100%

Liquidity is the ability of a company to meet its short-term obligations on time (Fitriyah and Hariyati, 2013). Triwahyuningtias and Muharamah's research (2012) states that the more liquid a company is, the greater the probability that the company will avoid financial stress. In general, a company is said to be liquid if its value reaches 2 or 200% (Martono, 2002). A liquid company usually has good performance and will prevent the company from the possibility of financial distress. From the point of view of short-term creditors, the higher the current ratio of the company, the greater the protection.

Liquidity in this study is measured using the Current Ratio (Budiarso, 2014), which is the company's ability to meet short-term debt using its current assets.

$$\textbf{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liability}}$$

Company size is a scale that shows the size of a company which is calculated in various ways including total assets, log size, market value, and others (Putri and Merkusiwati, 2014). Companies with positive growth provide a sign that the size of the company is getting bigger. develop and reduce the tendency towards bankruptcy. Companies with larger total assets will be better able to generate higher profits so that they avoid financial distress and give good signals to shareholders. Companies with large sizes have greater access to sources of funding from various sources because companies of their size large companies have greater profitability to win the competition or stay in the industry. In this study, company size is calculated using the logarithm of total assets.

Size = Ln (total asset)

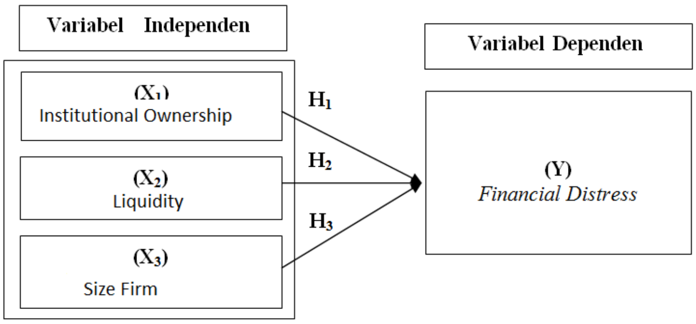

Figure 1. Framework Research Hypothesis

H1: Institutional ownership has a significant effect on financial distress

H2: Liquidity has a significant effect on financial distress

H3: Company size has a significant effect on financial distress

2. Research Method

2.1. Research design

The research design used in this study is associated with the form of a causal relationship. This means that the research focuses on the effect of the use of institutional ownership, liquidity, and company size as independent variables on financial distress as the dependent variable. The type of data used in this research is quantitative data and the data source used is secondary data. Data is obtained indirectly through access to the Indonesia Stock Exchange website (www.IDX.co.id) and the website of each company being studied, in the form of information on financial reports for the period 2015 - 2018.

2.2. Sample Determination

The sample selection in this study was carried out using a purposive sampling method to obtain a representative sample according to the specified criteria (Sekaran, 2011: 137). The population in this study were all property & real estate companies listed on the Indonesian Stock Exchange (BEI) for the 2015-2018 period, totaling 48 companies. The criteria used to select samples are as follows:

1) Companies included in the property & real estate group listed on the Indonesian Stock Exchange (IDX) for the period 2015-2018.
2) Companies that publish financial reports for the period 2015 - 2018.
3) Companies that provide the required data and information regarding the observed variables during the 2015 - 2018 period.

3. Results and Discussion

3.1. Results

Analysis Technique

The data analysis method used in this research is a quantitative analysis using parametric statistical analysis techniques. The analysis was carried out on the reports of the companies studied using multiple linear regression models and the calculation of data analysis was assisted by using statistical software, namely the SPSSver program. 25. The quantitative analysis process consists of descriptive statistical analysis, Classical Assumption Test (Normality Test, Multicollinearity Test, Autocorrelation Test, and Heteroscedasticity Test), Multiple Linear Regression Test, t-test (Partial), and Determination Coefficient Test.

Table 1 t-test results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-,251	1,388		-,181	,857
	Kepemilikan Institusional	,146	,219	,054	,668	,506
	Likuiditas	,298	,048	,506	6,254	,000
	Ukuran Perusahaan	,108	,250	,035	,433	,666

3.2. Discussion

The Effect of Institutional Ownership on Company Financial Distress

Based on table 4.1, institutional ownership has t-value of 0.668 with t-table value of 1.98063 so that -1.98063 <0.668 <1.98063 (-t table <t-value <t table) with a significance value of 0.506 which means that the significant value is greater than the 5% significance level (0.506> 0.05), which means that institutional ownership has no and insignificant effect on financial distress. This study rejects the first hypothesis (H1) which states that institutional ownership has a significant effect on financial distress.

The results of this study are supported by research conducted by Bodroastuti (2009) and Kusanti (2015). The largest percentage of share ownership is the majority and centralized owner, which causes a lack of transparency in the use of company funds. As a result of centralized ownership, it makes institutional investors play a passive role, which causes institutional investors not to have the ability to exercise management control so that shareholder control of management tends to be weak and management can make decisions that benefit itself.

The Effect of Liquidity on the Company's Financial Distress

Based on table 4.1, it is obtained that the t-value is 6.254 and the t-table value is 1.98063 so that 6.254> 1.98063 (t count> t table) is where the beta coefficient is positive. The significance value is 0.000 <0.05, which means that liquidity has a significant positive effect. This study accepts the second hypothesis (H2) which states that liquidity has a significant effect on financial distress.

The results of this study are consistent with the results of research by Apriliani (2018), Nuryani (2016). Signal theory supports the effect of liquidity on financial distress. The higher the liquidity value of the company, the better the company is in paying off its short-term debt, so that the company will avoid financial distress problems and be able to provide good signals to members or owners of capital in the company.

The Effect of Company Size on the Company's Financial Distress

Based on table 4.1, it is obtained t count of 0.433 and t table value of 1.98063 so that -1.98063 <0.433 <1.98063 (-t table <t count <t table) with a significance value of 0.666> 0.05, which means that company size does not have a significant effect on financial distress. This study rejects the third hypothesis (H3) which states that company size has a significant effect on financial distress.

These results are in line with the research of Sastriana and Fuad (2013), Nora (2016), and Rahayu and Sopian (2017). Companies with positive growth provide a sign that the size of the company is growing and reduces the possibility of financial distress. Large companies with a lot of total assets will be more willing to use capital from loans to spend on all assets, compared to companies that are smaller in size. This is because the bigger the company is, the higher the credit rating it gets so that the use of debt tends to be higher. Many of the smaller companies naturally have low credit ratings. Thus, the larger the size of the company, the greater the tendency to use the debt (Sastriana and Fuad, 2013).

4. Conclusion

This study aims to determine the effect of institutional ownership, liquidity, and company size in the property & real estate sub-sector companies listed on the Indonesia Stock Exchange (BEI) during 2015-2018. Based on the data analysis that has been done, the researcher will provide the following conclusions:

1. Institutional ownership has no and insignificant effect on financial distress. Ownership that tends to be centralized and does not spread evenly causes shareholder control of management to be weak so that management can make decisions that benefit itself. This study is under the results of research by Bodroastuti (2009) and Kusanti (2015).
2. Liquidity has a significant effect on financial distress. The higher the liquidity value of the company, the better the company is in paying off its short-term debt, so that the company will avoid financial distress problems and be able to give good signals to members or owners of capital in the company. This research is under the results of research by Apriliani (2018) and Nuryani (2016).
3. Company size has no and insignificant effect on financial distress. The size of the company is getting bigger, indicating the higher credit rating is obtained, so that the use of debt will tend to be more and the level of debt is largely causing the company to fail to pay its obligations and experience financial distress. This study is under the results of research by Rahayu and Sopian (2016) and Cinantya and Merkusiwati (2015).

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