

Determinants Of Financial Distress: The Role Of Receivable Turnover, Audit Committee Size, Operating Capacity, And Real Interest Rate In The Indonesian Industrial Sector

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Article Info	Abstract
Keywords: ○ Receivable Turnover; ○ Audit Committee Size; ○ Operating Capacity; ○ Real Interest Rate; ○ Financial Distress	Purpose – This study aims to examine and analyze the influence of Receivable Turnover, Audit Committee Size, Operating Capacity, and Real Interest Rate on Financial Distress in industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Design/methodology/approach – This research employs quantitative panel data obtained from industrial sector companies listed on the Indonesia Stock Exchange (IDX) over the 2022–2024 period. Hypothesis testing is conducted using multiple regression analysis with the Random Effects Model. Findings – The results indicate that receivable turnover, audit committee size, and the real interest rate do not significantly explain variations in financial distress during the observation period. In contrast, operating capacity has a positive and statistically significant effect on financial distress. Research limitations/implications – This study is limited to a three-year observation period and selected financial and governance variables. Practically, the findings provide an important signal for investors and managers to focus not only on sales activity but also on the efficiency and profitability quality of asset utilization when assessing financial distress risk
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https://doi.org/10.65440/aasf.v2i2.171  Copyright: © 2026 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY SA) license (https://creativecommons.org/licenses/by-sa/4.0/)	JEL : G33, G34, E43.

INTRODUCTION

The Industrial sector encompasses activities related to the provision of capital goods, industrial equipment, logistics services, and various supporting services required in the

production process. In the Indonesian economy, the Industrial sector plays a strategic role due to its contribution to the supply of industrial inputs and capital goods, the expansion of production capacity, efficiency improvements through logistics services, and employment generation. Various government reports indicate that industrial activities and their supporting services consistently make a significant contribution to national economic growth.

The substantial increase in industrial investment over recent years reflects growing demand for capital goods and supporting infrastructure in response to accelerated economic activity and national development (Hidranto, 2021). In addition to supplying capital goods and production necessities, the Industrial sector plays a crucial role in maintaining the smooth functioning of economic activities through productivity enhancement and the strengthening of the national industrial structure. Firms within this sector serve as key intermediaries linking upstream industries, such as raw material and component suppliers, with downstream industries that produce finished goods.

The Industrial sector remains a major pillar of Indonesia's economy, despite exhibiting a declining contribution trend. This condition indicates a gradual reduction in the sector's role in the national economy. According to data from the Central Statistics Agency (BPS), the Gross Domestic Product (GDP) of the Industrial sector at current prices reached IDR 877.8 trillion in the second quarter of 2022, accounting for 17.84% of total GDP amounting to IDR 2.82 quadrillion. Although this contribution remained the highest among all sectors, it declined compared to the first quarter of 2018, when the Industrial sector contributed 20.24%. Thus, over the past five years, the contribution of the Industrial sector to the national economy decreased by 3.73% (Kusnandar, 2022).

Overall, the Industrial sector functions as a supporting driver that sustains productivity across various economic sectors, facilitates distribution activities, and strengthens the national industrial structure. Its contribution is reflected not only in increased output but also in improved cost efficiency, supply stability, and Indonesia's ability to compete in both domestic and international markets.

Despite its important role in supporting national economic activities, firms within the Industrial sector face relatively high risks, particularly related to financial conditions. High capital requirements, substantial operating costs, and dependence on demand from other industries make this sector vulnerable to economic pressures. When demand slows, raw material costs increase, or operational expenses rise, financial pressure may emerge and adversely affect corporate performance. Under more severe conditions, such pressures may escalate into financial distress, a condition in which a firm's financial position deteriorates or enters a state of crisis, primarily due to difficulties in meeting both short-term and long-term obligations. This situation is typically characterized by declining profitability, weakened cash flows, increasing debt burdens, and disruptions in the firm's ability to finance daily operations (Suryani et al., 2023).

The following section presents Z-score data, which serve as one of the indicators for assessing the potential level of financial distress among Industrial sector firms during the 2022–2024 period:

Table 1. Z-Score Values of Industrial Sector Companies

Company Name	Year	Z"-score	Status
Cahayaputra Asa Keramik Tbk.	2022	1.07	Distress Zone
	2023	-0.29	
	2024	-1.61	
Citatah Tbk.	2022	-1.62	Distress Zone
	2023	0.36	
	2024	0.00	
Intikeraamk Alamasri Industri Tbk.	2022	-1.54	Distress Zone
	2023	-0.71	
	2024	-1.63	
Kokoh Inti Arebama Tbk	2022	-1.41	Distress Zone
	2023	-2.09	
	2024	-2.37	
Modern Internasional Tbk.	2022	-25.27	Distress Zone
	2023	-29.26	
	2024	-34.25	

Source: Processed Data (2025)

Based on the Z-Score data presented in Table 1.1, several companies in the Industrial sector experienced persistent financial distress during the 2022–2024 period. Z-Score values that remained in the distress zone for three consecutive years indicate that the financial conditions of these firms were under severe pressure and showed no signs of recovery in their financial performance. Cahayaputra Asa Keramik Tbk. recorded a significant decline in its Z-Score over the three-year period, shifting from a positive value in 2022 to a negative value in 2024, thereby illustrating a deterioration in financial stability over time. Citatah Tbk. exhibited fluctuating movements; however, it remained within the risk category as its final value weakened again. Intikeraamk Alamasri Industri Tbk. and Kokoh Inti Arebama Tbk. consistently reported negative Z-Score values throughout the period, with a continuing downward trend, reflecting sustained financial pressure. Meanwhile, Modern Internasional Tbk. was in the most severe condition, as indicated by extremely low and continuously declining Z-Score values through 2024, signaling an increasingly high risk of financial distress.

These conditions indicate that financial pressure among firms in the Industrial sector is not merely temporary but has persisted over a relatively long period. This situation suggests the presence of certain factors influencing corporate financial health, including asset management capability, operational effectiveness, internal monitoring mechanisms, and macroeconomic pressures. Therefore, it is important to understand the variables that explain why some firms experience financial distress while others are able to survive.

Previous studies have identified several variables that influence financial distress. These include receivable turnover (Kurniawati et al., 2025; Muna & Sari, 2023; Suryani et al., 2023), current ratio (Suryani et al., 2023), debt to equity ratio (Suryani et al., 2023), return on equity (Suryani et al., 2023), liquidity (Akbar et al., 2024; Alethe Delfina, 2022; Firmansyah et al., 2024; Hanny & Marlinah, 2023; Kurniawati et al., 2025; Muna & Sari, 2023; Putri et al., 2021; Utami et al., 2023), profitability (Akbar et al., 2024; Fahrissa & Afandi, 2022; Firmansyah et al., 2024;

Hanny & Marlinah, 2023; Kurniawati et al., 2025; Muna & Sari, 2023; Putri et al., 2021; Utami et al., 2023), leverage (Alethe Delfina, 2022; Firmansyah et al., 2024; Hanny & Marlinah, 2023; Kurniawati et al., 2025; Moleong, 2018; Putri et al., 2021; Susanti et al., 2024; Tameti et al., 2025; Utami et al., 2023), solvability (Muna & Sari, 2023), growth (Muna & Sari, 2023), capital intensity (Muna & Sari, 2023), audit committee size (Alethe Delfina, 2022; Fahriza & Afandi, 2022; Firmansyah et al., 2024; Hanny & Marlinah, 2023; Khoirony & Nazar, 2023), managerial ownership (Fahriza & Afandi, 2022; Hanny & Marlinah, 2023; Khoirony & Nazar, 2023; Puspasari et al., 2023), institutional shareholding (Fahriza & Afandi, 2022), sales growth (Hanny & Marlinah, 2023; Pratitasari & Kusumawati, 2025; Puspasari et al., 2023), operating capacity (Akbar et al., 2024; Hanny & Marlinah, 2023; Pratitasari & Kusumawati, 2025; Puspasari et al., 2023; Susanti et al., 2024; Tameti et al., 2025; Utami et al., 2023), proportion of independent commissioners (Hanny & Marlinah, 2023), frequency of audit committee meetings (Hanny & Marlinah, 2023), intellectual capital (Khoirony & Nazar, 2023), cash flow (Susanti et al., 2024), firm size (Susanti et al., 2024; Utami et al., 2023), institutional ownership (Pratitasari & Kusumawati, 2025; Puspasari et al., 2023), firm growth (Tameti et al., 2025), real interest rate (Moleong, 2018; Pratitasari & Kusumawati, 2025; Putri et al., 2021), dan operating cash flow (Pratitasari & Kusumawati, 2025). This study focuses specifically on Receivable Turnover, Audit Committee Size, Operating Capacity, and Real Interest Rate.

In this study, the first variable affecting financial distress is Receivable Turnover, which measures how quickly a company collects its receivables. Suryani et al. (2023), in their study on the energy sector, found that receivable turnover has a positive and significant effect on financial distress, implying that higher receivable turnover increases the likelihood of financial distress. Conversely, a lower receivable turnover reduces the probability of financial distress. However, these findings contradict those of Kurniawati et al. (2025), Muna & Sari (2023), whose studies on banking firms and companies in the basic and chemical industry sector found that receivable turnover has no effect on financial distress.

The next variable influencing financial distress is Audit Committee Size, which refers to the number of audit committee members within a firm. Studies by Alethe Delfina (2022), Fahriza & Afandi (2022), Khoirony & Nazar (2023), conducted on manufacturing firms in the property and real estate subsector, consumer goods manufacturing firms, and service firms in the hotel, restaurant, and tourism sector, found that audit committee size has a negative effect on financial distress. This implies that having a larger audit committee provides greater diversity in skills and experience, enabling more effective monitoring and problem resolution. Such diversity helps firms anticipate and address various issues, including potential financial distress. In contrast, Firmansyah et al. (2024), Hanny & Marlinah (2023) found that audit committee size has no effect on financial distress in manufacturing firms and manufacturing subsectors.

Operating Capacity is also a factor influencing financial distress. Operating capacity reflects a firm's ability to utilize its operating assets to generate revenue. Susanti et al. (2024), in their study on the energy sector, found that operating capacity has a positive effect on financial distress, meaning that higher operating capacity increases the likelihood of financial distress. This condition may raise investor concerns as it reflects financial instability, thereby reducing investment interest. Conversely, studies by Akbar et al. (2024), Puspasari et al. (2023), Tameti et al. (2025), Utami et al. (2023), conducted on manufacturing firms and companies in the transportation and logistics sector, found that operating capacity has a negative effect on

financial distress. This suggests that higher operating capacity reduces the likelihood of financial distress. This condition indicates that a firm's ability to maximize asset utilization to generate sales plays a critical role in maintaining financial stability. An increase in the Total Asset Turnover (TATO) ratio reflects more effective and efficient operations, as firms are better able to convert assets into revenue. Conversely, a low TATO value indicates inefficient asset utilization, weakening financial performance and increasing the likelihood of financial distress.

In addition, the Real Interest Rate, which is the interest rate adjusted for inflation, also affects financial distress. Pratitasari & Kusumawati (2025), in their study on the consumer non-cyclicals sector, found that the real interest rate has a positive effect on financial distress, meaning that higher real interest rates increase the likelihood of firms experiencing financial pressure. Rising real interest rates increase interest expenses, thereby adding to firms' financial burdens. This condition can weaken cash flows, reduce liquidity capacity, and ultimately increase the probability of financial distress.

However, Putri et al. (2021), in their study on the miscellaneous industry sector, found that the real interest rate has a negative effect on financial distress. This implies that when interest rates increase, firms can still maintain performance by implementing business strategies that sustain consumer demand and profitability. Firms may also reduce borrowing to limit interest expenses, thereby maintaining profitability and controlling debt levels. Consequently, higher real interest rates may also play a role in reducing the risk of financial distress. Meanwhile, Moleong (2018), in a study on manufacturing firms, found that the real interest rate has no effect on financial distress.

Given the inconsistencies in prior research findings and the limited number of studies examining the factors influencing financial distress, this study is important for addressing these research gaps and enriching the literature on financial distress. Therefore, this study aims to examine the effect of Receivable Turnover, Audit Committee Size, Operating Capacity, and Real Interest Rate on Financial Distress in the Industrial sector, particularly during the 2022–2024 period, as no previous studies have specifically addressed this context.

LITERATUR REVIEW

Signaling Theory

Spence (1973) explains that information asymmetry exists between a company's internal and external parties, where management possesses superior information regarding the firm's condition and future prospects. To reduce this information asymmetry, management conveys signals to investors through corporate policies and financial information that reflect operational performance. Receivables management, as reflected by receivable turnover, and the company's ability to utilize assets to generate sales, as reflected by operating capacity proxied by total asset turnover, serve as signals of operational efficiency and the firm's financial condition. This information becomes a basis for investors in assessing the company's prospects and the potential risk of financial distress. Therefore, higher receivable turnover and efficient asset utilization are expected to signal better financial performance and lower the probability of financial distress.

Agency Theory

Jensen & Meckling (1976) explains that the relationship between shareholders (principals) and management (agents) involves potential conflicts of interest arising from differing objectives and information asymmetry. To mitigate agency problems, effective monitoring mechanisms are required. The existence and size of the audit committee reflect the supervisory function within corporate governance, which aims to ensure managerial accountability and the reliability of financial reporting. Accordingly, audit committee size functions as a control mechanism associated with a company's financial stability and the risk of financial distress. Effective monitoring through an adequate audit committee is expected to reduce managerial opportunistic behavior and minimize the likelihood of financial distress.

Pecking Order Theory

Myres dan Majiuf (1984) explains that firms follow a hierarchy of financing preferences. Companies tend to prioritize internal financing, followed by debt, while equity issuance is considered a last resort due to its potential to generate negative market perceptions. A firm's financing structure is influenced by its financial condition and external factors related to financing costs, one of which is the real interest rate. The real interest rate is associated with financing decisions and a firm's financial condition, which in turn relates to the risk of financial distress. Changes in the real interest rate affect borrowing costs and financial obligations, which may influence corporate financial stability and the potential risk of financial distress.

Financial Distress

Financial distress is a condition in which a company's cash flows are no longer sufficient to meet its debt payment obligations. In this situation, the company faces the risk of violating debt covenants, which may subsequently trigger a restructuring process Jostarndt (2007).

Receivable Turnover

Receivable Turnover is a ratio that indicates how many times a company's accounts receivable are successfully converted into cash within one year. This ratio reflects the company's effectiveness in collecting receivables from customers who make purchases on credit (Warren et al., 2018). Inefficient receivable collection may weaken liquidity and increase the risk of financial distress.

Audit Committee Size

Audit committee size is determined by the number of members serving on the audit committee. Audit committee members are required to possess financial literacy, be chaired by an independent commissioner, and consist of at least three members who may come from independent commissioners and/or external parties (Sinaga, 2023). An effective audit committee is expected to strengthen governance quality and reduce financial risk.

Operating Capacity

Operating Capacity is used to assess how efficiently a company utilizes all of its assets to generate sales. Operating capacity is measured by total asset turnover. This ratio functions to evaluate whether the company's assets are optimally employed in supporting operational activities (Pratiwi & Sasongko, 2023). However, excessively high asset utilization without proportional profitability may also increase operational pressure and financial risk.

Real Interest Rate

Real interest rate is an interest rate that reflects the actual return received by lenders or investors after adjusting for changes in the price level (inflation or deflation). When prices increase (inflation), the purchasing power of the interest earned may decline, thereby reducing its real value. Conversely, during deflation, the purchasing power of money increases, causing the real interest rate to be higher than the nominal interest rate Fisher (1930). Fluctuations in the real interest rate may affect firms' borrowing costs and financial sustainability.

Hypotheses development

Receivable Turnover (RT) is an activity ratio that indicates how frequently a company's accounts receivable are converted into cash within one year. A higher turnover is considered favorable, as it reflects a faster recovery of working capital tied up in receivables. This condition helps companies avoid financial pressure because the need for working capital to meet obligations becomes lower (Kurniawati et al., 2025). A higher receivable turnover ratio also indicates more efficient receivables management by the company (Astuti et al., 2021). Muna & Sari (2023) further explain that companies facing stagnant or deteriorating credit conditions are more likely to experience an increased risk of financial distress. Therefore, a higher Receivable Turnover (RT) is expected to reduce the risk of Financial Distress (FD). Efficient receivable collection improves liquidity and reduces dependence on external financing, enabling firms to meet short-term obligations more effectively and lowering the potential risk of financial distress.

The above argument is supported by Signaling Theory, which suggests that companies attempt to convey positive signals to stakeholders through their financial performance. A high Receivable Turnover (RT) serves as a signal that the company is capable of managing its receivables effectively, possesses good credit quality, and maintains strong operating cash flows. This positive signal indicates that the company is in a healthy financial condition and has adequate capacity to meet its short-term obligations. Conversely, a low receivable turnover may act as a negative signal, indicating weak credit management, declining customer repayment ability, and an increased likelihood of financial distress.

Previous studies support the negative relationship between Receivable Turnover (RT) and Financial Distress (FD). For instance, Kurniawati et al. (2025) found that receivable turnover had a negative but insignificant effect on financial distress in banking companies listed on the Indonesia Stock Exchange during the 2021–2024 period.

H₁: Receivable Turnover has a negative effect on Financial Distress.

In accordance with the Financial Services Authority Regulation Number 55/POJK.04/2015, the audit committee is a committee established by and accountable to the Board of Commissioners to assist in carrying out its duties and responsibilities. The audit committee must consist of at least three members, comprising independent commissioners and external parties who are not part of the issuer or public company (Otoritas Jasa Keuangan, 2015). Audit committee size is determined by the number of members serving on the audit committee. This number is considered important because a larger audit committee is expected to contribute more effectively to supervisory activities and provide recommendations to the board of commissioners (Hapsari & Ariefiara, 2024; Sinaga, 2023). Alethe Delfina (2022) explains that a larger audit committee size can enhance the effectiveness of audit committee performance. A greater number of members allows for a diversity of skills and professional experience, which helps the committee address various corporate issues, including the potential occurrence of financial distress. Therefore, an increase in Audit Committee Size (ACS) is expected to reduce the risk of Financial Distress (FD). A larger audit committee enhances monitoring effectiveness and strengthens internal control, which may reduce managerial opportunistic behavior and minimize financial reporting risk that could trigger financial distress.

The above argument is supported by Agency Theory, which posits that a larger audit committee functions as a monitoring mechanism to reduce conflicts of interest between management (agents) and owners or shareholders (principals). From an agency perspective, information asymmetry provides management with opportunities to act in ways that may not align with shareholders' interests. A larger audit committee strengthens managerial oversight due to the presence of more members with diverse expertise and experience. This condition enhances the committee's ability to detect financial reporting errors, monitor managerial policies, and limit opportunistic behavior. Consequently, a larger audit committee can strengthen internal control and corporate governance, thereby reducing the risk of financial distress.

Several previous studies support the negative relationship between Audit Committee Size (ACS) and Financial Distress (FD). Fahrissa & Afandi (2022) found that audit committee size had a significant negative effect on financial distress in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange during the 2016–2020 period. Similarly, Hanny & Marlinah (2023) reported that audit committee size had a negative but insignificant effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021. Alethe Delfina (2022) found that audit committee size had a significant negative effect on financial distress in manufacturing companies in the property and real estate sector listed on the Indonesia Stock Exchange during the 2018–2020 period. Additionally, Khoirony & Nazar (2023) found that audit committee size had a significant negative effect on financial distress in service companies in the hotel, restaurant, and tourism sector listed on the Indonesia Stock Exchange during the 2018–2022 period.

H₂: Audit Committee Size has a negative effect on Financial Distress.

Operating Capacity is used to assess the efficiency with which a company utilizes all of its assets to generate sales. Measured by Total Asset Turnover (TATO), this indicator reflects the extent to which assets are optimally employed to support operational activities. If assets

are not managed effectively, the company's revenue will not reach its maximum potential (Pratiwi & Sasongko, 2023). A high total asset turnover indicates that the company is able to utilize its assets efficiently to generate sales. This condition serves as a positive signal, as effective asset utilization can enhance profitability and reflect improved financial performance, thereby reducing the risk of financial distress (Puspasari et al., 2023). Therefore, an increase in Operating Capacity (OC) is expected to reduce the risk of Financial Distress (FD). Efficient asset utilization allows firms to generate higher sales without excessive additional resources, thereby supporting operational sustainability and reducing financial pressure that may lead to financial distress.

This argument is supported by Signaling Theory, which suggests that companies attempt to convey positive signals to investors, creditors, and other stakeholders through financial performance information that reflects effective asset management. A high Total Asset Turnover (TATO) signals that the company is capable of managing its assets efficiently to generate sales, indicating that the firm is in a healthy operational and financial condition. This signal suggests that management is effective in utilizing the company's asset resources and has favorable performance prospects. Conversely, a low TATO sends a negative signal, indicating that assets are not being used optimally, which may lead to declining revenue and an increased risk of financial distress.

Several previous studies support the negative relationship between Operating Capacity (OC) and Financial Distress (FD). Akbar et al. (2024) found that operating capacity had a significant negative effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2022 period. Similarly, Puspasari et al. (2023) reported that operating capacity had a significant negative effect on financial distress in transportation and logistics service companies listed on the Indonesia Stock Exchange from 2017 to 2021. Utami et al. (2023) found that operating capacity had a negative but insignificant effect on financial distress in 37 logistics and transportation companies listed on the Indonesia Stock Exchange during the 2018–2022 period. Additionally, Tameti et al. (2025) found that operating capacity had a significant negative effect on financial distress in manufacturing companies in the industrial sector listed on the Indonesia Stock Exchange during the 2020–2023 period.

H₃: Operating Capacity has a negative effect on Financial Distress.

Moleong (2018) explains that there are two types of interest rates, namely the real interest rate and the nominal interest rate. Economists refer to the interest rate charged by banks as the nominal interest rate, while the increase in purchasing power generated by that interest rate is known as the real interest rate. The real interest rate reflects the actual return received by lenders or investors after adjusting for changes in the price level (inflation or deflation) (Fisher, 1930). An increase in interest rates can slow down economic activity. When interest rates rise, the interest charges borne by borrowers also increase, causing firms to face higher interest expenses and potentially experience financial distress. A higher real interest rate increases a firm's interest burden, which may lead to declining income and the emergence of additional costs. Therefore, the higher the interest rate, the greater the interest expense borne by the company (Pratitasari & Kusumawati, 2025). Putri et al. (2021) further explain that an increase in the real interest rate raises interest expenses, thereby increasing the likelihood that a firm

will experience financial distress. Accordingly, a higher Real Interest Rate (RIR) increases the probability of Financial Distress (FD). Rising real interest rates increase financing costs and interest burdens, which may weaken cash flow stability and elevate the likelihood of financial difficulty.

The above argument is supported by Pecking Order Theory, which posits that firms prefer to use internal financing to fund operations and investments before resorting to external financing. When the real interest rate increases, the cost of external borrowing becomes more expensive, leading firms to be more cautious in taking on new debt. However, when internal funds are insufficient to meet financing needs, firms are forced to borrow at higher interest rates, thereby increasing financial burdens and the risk of financial distress. Thus, an increase in the real interest rate places greater pressure on a firm's financing structure and elevates the likelihood of financial difficulty, consistent with the principles of Pecking Order Theory.

Previous empirical studies support the positive relationship between the Real Interest Rate (RIR) and Financial Distress (FD). Pratitasari & Kusumawati (2025) found that the real interest rate had a significant positive effect on financial distress in primary consumer goods sector companies listed on the Indonesia Stock Exchange during the 2021–2023 period.

H₄: Real Interest Rate has a positive effect on Financial Distress.

RESEARCH METHOD

This study aims to examine the relationship between the independent variables, namely Receivable Turnover, Audit Committee Size, Operating Capacity, and Real Interest Rate, and Financial Distress. The primary focus of this research is to test hypotheses that explain the relationships among several variables within a specific context. The study is conducted in a natural setting, where the operational activities of the research subjects continue as usual without any direct intervention by the researcher. The unit of analysis in this study is organizations, specifically industrial sector companies listed on the Indonesia Stock Exchange. The level of researcher involvement is minimal, as the researcher does not directly participate in the activities of the research objects but conducts observations using secondary data to support the analytical process. The sampling technique employed is non-probability sampling with a purposive sampling approach, whereby samples are selected based on specific criteria relevant to the research objectives. The data used in this study are panel data, which combine cross-sectional and time-series data, and are analyzed using a quantitative approach to test the proposed hypotheses. This method is consistent with data analysis guidelines as outlined by Ghazali (2016).

Table 2. Operationalization of Research Variable

Variable	Dimension / Formula	Source
Receivable Turnover	RT= Sales / Average Accounts Receivable	(Suryani et al., 2023)

Variable	Dimension / Formula	Source
Audit Committee Size	ACS = Number of audit committee members	(Hanny & Marlinah, 2023)
Operating Capacity	TATO = Sales / Total Assets	(Akbar et al., 2024)
Real Interest Rate	RIR = Nominal Interest Rate – Inflation Rate	(Putri et al., 2021)
Financial Distress	$FD = 6,56 X1 + 3,26 X2 + 6,72 X3 + 1,05 X4$ Description: X1 = Working Capital/Total Assets X2 = Retained Earnings/Total Assets X3 = Earnings Before Interest and Taxes (EBIT)/Total Assets X4 = Book Value of Equity/Book Value of Total Liabilities	(Susanti et al., 2024)

Population

The population of this study consists of industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Population identification was conducted based on data collected in September 2025 to ensure the timeliness and relevance of the information used in the analysis. Based on this process, a total population of 65 industrial sector companies was identified.

Sample

The research sample was selected using a purposive sampling technique. The criteria for sample selection included industrial sector companies listed on the IDX during the 2022–2024 period, companies that published complete financial statements or annual reports containing data relevant to this study, companies whose financial statements are presented in Indonesian Rupiah (IDR), and the availability of financial data and information related to the research variables. Based on these criteria, 43 companies met the requirements to be included as research samples. Observations were conducted over a three-year period, resulting in a total of 129 firm-year observations.

Data Sources

This study employs secondary data. The data sources consist of annual reports of industrial sector companies listed on the Indonesia Stock Exchange for the 2022–2024 period, obtained from the official websites of the respective companies and the official website of the Indonesia Stock Exchange (www.idx.co.id).

RESULTS

Descriptive Analysis

Table 3. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev
RT	129	1.269	20.033	6.448	3.881
ACS	129	1.000	4.000	3.007	0.318
OC	129	0.132	4.427	0.843	0.718
RIR	129	-0.015	0.045	0.020	0.026
FD	129	-34.250	20.996	4.200	7.270

Description:

RT (Receivable Turnover), ACS (Audit Committee Size), OC (Operating Capacity), RIR (Real Interest Rate), FD (Financial Distress).

Source: Processed Data (2025)

The table above shows that there are 129 balanced observations during the research period from 2022 to 2024. Based on the descriptive statistics, the Receivable Turnover variable in industrial sector companies ranges from a minimum value of 1.269 to a maximum value of 20.033, with an average value of 6.448. The highest receivable turnover was recorded by PT Multifiling Mitra Indonesia Tbk. in 2022, while the lowest value was found at PT Citatah Tbk. in 2023. The standard deviation of 3.881, which is lower than the mean, indicates that the data dispersion is relatively low, suggesting limited variation among observations.

The Audit Committee Size variable in industrial sector companies ranges from a minimum value of 1.000 to a maximum value of 4.000, with an average value of 3.007. The highest values were observed at PT Voksel Electric Tbk. in 2024, PT Green Power Group Tbk. in 2022, and PT Astra International Tbk. in 2022, 2023, and 2024, while the lowest value was

found at PT Modern Internasional Tbk. in 2022. The standard deviation of 0.318, which is smaller than the mean, indicates that the level of data variation is relatively low.

Furthermore, the Operating Capacity variable in industrial sector companies ranges from a minimum value of 0.132 to a maximum value of 4.427, with an average value of 0.843. The highest operating capacity was recorded by PT Shield On Service Tbk. in 2022, while the lowest value was found at PT Citatah Tbk. in 2023. The standard deviation of 0.718, which is lower than the mean, indicates relatively low data variability.

In addition, the Real Interest Rate variable in industrial sector companies ranges from a minimum value of -0.015 to a maximum value of 0.045, with an average value of 0.020. The highest real interest rate was observed across all sample companies in 2024, while the lowest value occurred across all sample companies in 2022. The standard deviation of 0.026, which is higher than the mean, indicates that the data are more dispersed and provide more comprehensive information.

Finally, the Financial Distress variable in the industrial sector ranges from a minimum value of -34.250 to a maximum value of 20.996, with an average value of 4.200. The highest financial distress value was recorded by PT Supreme Cable Manufacturing & Commerce Tbk. in 2024, while the lowest value was found at PT Modern Internasional Tbk. in 2024. The standard deviation of 7.270, which is higher than the mean, indicates that the data are highly dispersed and provide a more comprehensive representation of financial distress conditions.

Panel Data Regression Model Selection Chow Test

Table 4. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	37.084246	(42,82)	0.0000
Cross-section Chi-square	386.413145	42	0.0000

Source: Processed Data (2025)

Based on the results of the Chow test using EViews 9, the probability value of the cross-section F statistic is 0.00. This value is lower than the significance level ($\alpha = 0.05$). Therefore, the Fixed Effect Model (FEM) is the most appropriate model to be used. Consequently, the Hausman test is required to determine the most suitable model between the Fixed Effect Model and the Random Effect Model.

Hausman Test

Table 5. Hausman Test

Test Summary	Chi-Sq.	Chi-Sq. d.f.	Prob.
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Statistic

Cross-section random	7.237960	4	0.1238
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Source: Processed Data (2025)

Based on the results of the Hausman test, the probability value is 0.1238. This value is greater than the significance level ($\alpha = 0.05$). Therefore, the Random Effect Model (REM) is the most appropriate model to be used. Consequently, the Lagrange Multiplier test is required to determine the most suitable model between the Common Effect Model and the Random Effect Model.

Lagrange Multiplier Test

Table 6. Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	98.33252 (0.0000)	1.505173 (0.2199)	99.83769 (0.0000)

Source: Processed Data (2025)

Based on the results of the Lagrange Multiplier test, the significance value of the Both Breusch-Pagan statistic is 0.000. This value is lower than the significance level ($\alpha = 0.05$). Therefore, the Random Effect Model (REM) is the most appropriate model to be used.

Hypothesis Test

The best regression model after estimation and model selection in this study is the Random Effect Model (REM). The following are the results of the panel data regression estimation using the Random Effect Model (REM):

Table 7. Partial Test (Random Effect Model)

$$FD = 4.0961 + 0.1524*RT - 1.1035*ACS + 2.9260*OC - 1.2921*RIR + \varepsilon$$

Variable	Prediction	Coefficient	T-Statistic	Prob
C		4.0961	1.4865	0.0699
RT	-	0.1524	1.0704	0.1432

Variable	Prediction	Coefficient	T-Statistic	Prob
ACS	-	-1.1035	-1.4269	0.0780
OC	-	2.9260	2.7885	0.0031*
RIR	+	-1.2921	-0.1813	0.4282
<i>R-Squared</i>				0.1008
<i>Adjusted R-Squared</i>				0.0718
<i>F-statistic</i>				3.4767
<i>Prob(F-Statistic)</i>				0.0099*

Description:

*= 5% significance level

RT (Receivable Turnover), ACS (Audit Committee Size), OC (Operating Capacity), RIR (Real Interest Rate), FD (Financial Distress).

Source: Processed Data (2025)

Partial Test (t-test)

The partial test is used to determine whether each independent variable individually has a significant effect on the dependent variable. Based on the results of hypothesis testing using the Random Effect Model (REM), the findings can be summarized as follows:

1. Receivable Turnover has no significant effect on Financial Distress.

The first hypothesis (H1) in this study states that Receivable Turnover has an effect on Financial Distress. The t-test result for the Receivable Turnover (RT) variable shows a t-statistic of -1.0704 , which is smaller than the t-table value of 1.6572 . Since this study applies a one-tailed hypothesis test, the probability value is divided by two, resulting in $0.2865/2 = 0.1432$. This value is greater than the 5% significance level (0.05), indicating that Receivable Turnover does not have a significant effect on Financial Distress. Therefore, H_0 is accepted and H_a is rejected. This result suggests that receivable turnover has not become a primary factor in reducing the likelihood of financial distress.

2. Audit Committee Size has no significant effect on Financial Distress.

The second hypothesis (H2) states that Audit Committee Size has an effect on Financial Distress. The t-test result for the Audit Committee Size (ACS) variable shows a t-statistic of -1.4269 , which is smaller than the t-table value of 1.6572 . Using a one-tailed test, the probability value is divided by two, resulting in $0.1561/2 = 0.0780$. This value exceeds the 5% significance level, indicating that Audit Committee Size does not have a significant effect on Financial Distress. Thus, H_0 is accepted and H_a is rejected. This finding indicates that the size of the audit committee has not yet played a major role in reducing the risk of financial distress.

3. Operating Capacity has a significant effect on Financial Distress.

The third hypothesis (H3) states that Operating Capacity affects Financial Distress. The t-test result for the Operating Capacity (OC) variable shows a t-statistic of 2.7885, which is greater than the t-table value of 1.6572. Since the probability value of 0.0031 is smaller than the 5% significance level, Operating Capacity is found to have a significant effect on Financial Distress. Therefore, H0 is rejected and Ha is accepted. This result indicates that operating capacity is one of the factors that increases the likelihood of financial distress.

4. Real Interest Rate has no significant effect on Financial Distress.

The fourth hypothesis (H4) states that the Real Interest Rate affects Financial Distress. The t-test result for the Real Interest Rate (RIR) variable shows a t-statistic of -0.1813, which is smaller than the t-table value of 1.6572. Applying a one-tailed test, the probability value is divided by two, resulting in $0.8564/2 = 0.4282$. This value is greater than the 5% significance level, indicating that the Real Interest Rate does not have a significant effect on Financial Distress. Therefore, H0 is accepted and Ha is rejected. This finding suggests that the real interest rate has not been a significant factor influencing the likelihood of financial distress.

Coefficient of Determination Test (Adjusted R-Squared)

Based on Table, the Adjusted R-squared value of 0.0718 indicates that 7.18% of the variation in the Financial Distress variable can be explained by Receivable Turnover, Audit Committee Size, Operating Capacity, and Real Interest Rate. Meanwhile, the remaining 92.82% is influenced by other factors not included in this model. These factors include current ratio (Suryani et al., 2023), debt to equity ratio (Suryani et al., 2023), return on equity (Suryani et al., 2023), liquidity (Akbar et al., 2024; Alethe Delfina, 2022; Firmansyah et al., 2024; Hanny & Marlinah, 2023; Kurniawati et al., 2025; Muna & Sari, 2023; Putri et al., 2021; Utami et al., 2023), profitability (Akbar et al., 2024; Fahrissa & Afandi, 2022; Firmansyah et al., 2024; Hanny & Marlinah, 2023; Kurniawati et al., 2025; Muna & Sari, 2023; Putri et al., 2021; Utami et al., 2023), leverage (Alethe Delfina, 2022; Firmansyah et al., 2024; Hanny & Marlinah, 2023; Kurniawati et al., 2025; Moleong, 2018; Putri et al., 2021; Susanti et al., 2024; Tameti et al., 2025; Utami et al., 2023), solvability (Muna & Sari, 2023), growth (Muna & Sari, 2023), capital intensity (Muna & Sari, 2023), managerial ownership (Fahrissa & Afandi, 2022; Hanny & Marlinah, 2023; Khoirony & Nazar, 2023; Puspasari et al., 2023), institutional shareholding (Fahrissa & Afandi, 2022), sales growth (Hanny & Marlinah, 2023; Pratitasari & Kusumawati, 2025; Puspasari et al., 2023), proportion of independent commissioners (Hanny & Marlinah, 2023), frequency of audit committee meetings (Hanny & Marlinah, 2023), intellectual capital (Khoirony & Nazar, 2023), cash flow (Susanti et al., 2024), firm size (Susanti et al., 2024; Utami et al., 2023), institutional ownership (Pratitasari & Kusumawati, 2025; Puspasari et al., 2023), firm growth (Tameti et al., 2025), dan operating cash flow (Pratitasari & Kusumawati, 2025).

DISCUSSIONS

The Effect of Receivable Turnover on Financial Distress.

The results of testing the first hypothesis (H1) indicate that the Receivable Turnover (RT) variable has a positive effect on Financial Distress (FD). This finding contradicts the first

hypothesis (H1), which states that Receivable Turnover (RT) has a negative effect on Financial Distress (FD).

Receivable Turnover (RT) is an activity ratio that reflects a company's ability to accelerate the collection of accounts receivable into cash. In general, a high receivable turnover indicates effective receivables management and a smooth working capital cycle, reducing the company's reliance on short-term financing. Such efficiency is expected to alleviate financial pressure and lower the risk of financial distress. Conversely, deteriorating credit quality or a low receivable turnover may increase the risk of financial difficulties (Muna & Sari, 2023).

Based on signaling theory, a high Receivable Turnover (RT) serves as a positive signal indicating effective receivables management, good credit quality, and adequate operating cash flows. This condition reflects sound financial health and the company's ability to meet short-term obligations, thereby reducing the likelihood of financial distress. However, the results of this study show that Receivable Turnover has a positive relationship with Financial Distress, indicating that an increase in receivable turnover is not always followed by a decrease in the risk of financial distress.

The findings of this study are consistent with those of Suryani et al. (2023), who examined energy sector companies listed on the Indonesia Stock Exchange during the 2017–2021 period, and Muna & Sari (2023), who studied companies in the basic and chemical industry sector during the 2019–2021 period. Both studies found that Receivable Turnover has a positive effect on Financial Distress, suggesting that an increase in Receivable Turnover (RT) is accompanied by an increase in Financial Distress (FD). This similarity in results may be attributed to the characteristics of the sectors studied, which are highly dependent on credit sales and operating cash flows. In such sectors, companies tend to implement stricter receivables collection policies or limit credit sales to maintain short-term liquidity. As a result, an increase in receivable turnover does not necessarily reflect operational efficiency but rather represents a managerial strategy to sustain short-term performance.

This result can be explained by agency theory. From the agency theory perspective, managers (agents) may have interests that are not fully aligned with those of shareholders (principals), leading to opportunistic behavior. An increase in receivable turnover may reflect overly strict collection policies, reduced credit sales, or accelerated receivables collection implemented by management to improve short-term cash flows and present favorable financial performance, even when the firm's fundamental condition is weakening. Such strategies may harm long-term relationships with customers, hinder sales growth, and suppress future profitability. Consequently, a high receivable turnover may serve as an indication of financial pressure and an increased risk of financial distress.

The Effect of Audit Committee Size on Financial Distress.

The results of testing the second hypothesis (H2) indicate that Audit Committee Size (ACS) has a negative effect on Financial Distress (FD). This finding is consistent with the second hypothesis (H2), which states that Audit Committee Size (ACS) negatively affects Financial Distress (FD).

Audit Committee Size (ACS) reflects the number of audit committee members established by the Board of Commissioners to assist in carrying out the company's oversight function. A

larger audit committee strengthens the monitoring role due to the diversity of competencies and experiences of its members in overseeing financial reporting processes and management policies (Alethe Delfina, 2022).

Theoretically, this result is in line with agency theory. From this perspective, the audit committee is viewed as a control mechanism designed to reduce conflicts of interest between management as agents and owners or shareholders as principals. A larger audit committee enhances supervision over managerial actions, reduces information asymmetry, and limits opportunistic behavior, thereby contributing to a lower risk of financial distress. The findings of this study show that Audit Committee Size has a negative relationship with Financial Distress, which is consistent with theoretical expectations. This negative relationship indicates that a larger audit committee strengthens managerial oversight, thereby reducing the likelihood of financial distress.

The results of this study are consistent with prior research conducted by Khoirony & Nazar (2023) on hotel, restaurant, and tourism service companies during the 2018–2022 period, which found that Audit Committee Size has a negative effect on Financial Distress. Similar findings were also reported by Hanny & Marlinah (2023) in manufacturing companies for the 2019–2021 period, as well as by Alethe Delfina (2022), all of which concluded that Audit Committee Size negatively affects Financial Distress. This suggests that an increase in audit committee size is associated with a lower risk of financial distress.

The consistency between this study and previous research can be attributed to the relatively similar role and function of audit committees across different industry sectors, namely as a mechanism for monitoring management. A larger audit committee enhances oversight of financial reporting processes and internal controls, thereby reducing the likelihood of errors, manipulation, and high-risk decision-making. Consequently, the risk of financial distress tends to decline, leading Audit Committee Size to consistently exhibit a negative relationship with Financial Distress despite differences in research periods and industry sectors.

The Effect of Operating Capacity on Financial Distress.

The results of testing the third hypothesis (H3) indicate that Operating Capacity (OC) has a positive effect on Financial Distress (FD). This finding contradicts the third hypothesis (H3), which states that Operating Capacity (OC) has a negative effect on Financial Distress (FD).

Operating Capacity (OC) is used to assess the efficiency of a company in utilizing its total assets to generate sales. In this study, operating capacity is measured using Total Asset Turnover (TATO). A high TATO value indicates that company assets are optimally utilized to support operational activities, thereby increasing revenue and improving financial performance. Such conditions are expected to reduce the risk of financial distress (Puspasari et al., 2023).

According to signaling theory, a high Total Asset Turnover (TATO) sends a positive signal to investors and stakeholders regarding effective asset management and healthy operational conditions. Conversely, a low TATO reflects inefficient asset utilization, which may suppress revenue and increase the risk of financial distress. Thus, higher operating capacity is generally associated with a lower likelihood of financial distress. However, the results of this study indicate that Operating Capacity has a positive effect on Financial Distress,

suggesting that an increase in operating capacity is instead accompanied by a higher risk of financial distress. This finding indicates that higher operating capacity in industrial sector companies does not always reflect improved financial conditions. Industrial companies generally require large asset investments and high operational intensity. Increased asset utilization to generate sales is often accompanied by rising production costs, maintenance expenses, and working capital needs. As a result, although sales increase, cash flow pressure may also increase, which can elevate the risk of financial distress. Therefore, in the context of industrial sector companies, high operating capacity may signal operational expansion that is not fully supported by financial stability.

This finding is consistent with the study conducted by Susanti et al. (2024) on energy sector companies listed in the Indonesian Sharia Stock Index (ISSI) during the 2020–2023 period, which found that Operating Capacity has a positive effect on Financial Distress. This implies that the higher the operating capacity of a company, the greater the likelihood of experiencing financial distress. The similarity in results can be attributed to comparable operational characteristics of the sectors examined, where Operating Capacity proxied by Total Asset Turnover (TATO) reflects the intensity of asset utilization in operational activities. Increased operational intensity is often accompanied by higher costs, greater working capital requirements, and cash flow pressure. Under such conditions, although companies may maximize asset utilization, the associated operational and financial burdens can increase the risk of financial distress.

This result is better explained by agency theory, which suggests that high operating capacity, as reflected by Total Asset Turnover, indicates that industrial sector companies intensively utilize their assets to increase production volume and sales. In practice, increased operational activity requires continuous use of machinery, factories, and labor, which is accompanied by rising operational costs, asset maintenance expenses, and greater financing needs. As a result, increased sales are not always followed by improvements in financial conditions, leaving companies under financial pressure. Therefore, higher operating capacity in the industrial sector may actually increase the risk of financial distress.

The Effect of Real Interest Rate on Financial Distress.

The results of testing the fourth hypothesis (H4) indicate that Real Interest Rate (RIR) has a negative effect on Financial Distress (FD). Thus, this finding contradicts the fourth hypothesis (H4), which states that Real Interest Rate (RIR) has a positive effect on Financial Distress (FD).

Real Interest Rate (RIR) reflects the real cost of borrowing borne by companies after accounting for inflation. An increase in RIR raises interest expenses and external financing costs, which can suppress cash flows and increase the risk of financial distress (Pratitasari & Kusumawati, 2025).

According to pecking order theory, when real interest rates increase and internal funding is insufficient, companies are forced to rely on higher-cost debt, thereby intensifying financial pressure and increasing the likelihood of financial distress. However, the results of this study show that Real Interest Rate has a negative effect on Financial Distress, indicating that an increase in real interest rates is instead associated with a lower risk of financial distress.

This finding is consistent with the study conducted by Moleong (2018) on manufacturing companies during the 2004–2016 period, which found that Real Interest Rate has a negative effect on Financial Distress. Similar results were also reported by Putri et al. (2021) in companies from the miscellaneous industry sector listed on the Indonesia Stock Exchange during the 2017–2019 period, which also found that interest rates negatively affect Financial Distress. These findings suggest that an increase in the Real Interest Rate reduces the likelihood of financial distress. The consistency of these results can be explained by similarities in macroeconomic conditions and corporate financing characteristics during the study periods. Under higher interest rate conditions, companies tend to adjust their business strategies to maintain consumer demand and sustain sales performance, thereby preserving profitability. Such strategic adjustments help companies maintain cash flow stability and their ability to meet financial obligations.

This result is supported by trade-off theory, which explains that companies balance the benefits and costs of using debt. When real interest rates rise and debt becomes more expensive, companies tend to reduce their reliance on debt and adjust their capital structure to mitigate financial risk. As a result, the likelihood of financial distress tends to decrease.

CONCLUSIONS

Based on the results of the analysis and discussion presented in the previous chapter, this study concludes that Receivable Turnover does not have a significant effect on Financial Distress, indicating that the level of receivables turnover cannot be considered a primary factor in explaining a company's financial distress condition. Similarly, Audit Committee Size is found to have no significant effect on Financial Distress, suggesting that the number of audit committee members is not a key determinant in explaining corporate financial distress. In contrast, Operating Capacity has a significant effect on Financial Distress, this finding implies that operating capacity, as proxied by Total Asset Turnover, represents one of the key operational factors influencing the likelihood of financial distress among industrial sector companies. Furthermore, Real Interest Rate does not have a significant effect on Financial Distress, indicating that changes in real interest rates are not a primary determinant of corporate financial distress.

Suggestions

Future researchers are encouraged to include additional variables that may influence financial distress, such as leverage, liquidity, profitability, operating cash flow, firm size, and sales growth, as these variables reflect a company's ability to manage its capital structure, meet short-term obligations, generate profits, and sustain cash flow and business growth. In addition, future studies are recommended to conduct comparisons between the industrial sector and other sectors or to expand the scope of analysis by including multiple sectors in order to examine whether the direction and magnitude of the effects of the examined variables differ across industries, considering variations in operational characteristics, asset structures, and financing patterns. Furthermore, future researchers are advised to employ or compare alternative financial distress measurement models, such as the Zmijewski model, Springate model, or Interest Coverage Ratio (ICR), to assess the consistency of results across different

measurement approaches, as differences in model components may lead to varying classifications of financial conditions. Lastly, extending the observation period is suggested to better capture changes in economic conditions and business cycles, thereby producing more stable, robust, and generalizable findings related to financial distress.

Implications

Based on the conclusions presented previously, this study provides several implications for academics, companies, and regulators.

For Academics

This study is expected to enrich the literature in accounting and financial management, particularly in the area of financial distress in industrial sector companies. By examining the effects of receivable turnover, audit committee size, operating capacity, and real interest rate, this study offers a more comprehensive understanding of financial, governance, and macroeconomic factors influencing corporate financial distress and may serve as a reference for future research.

For Companies

This study provides practical implications for industrial sector companies, particularly regarding asset utilization and operational efficiency. The finding that Operating Capacity has a significant positive effect on Financial Distress indicates that increasing asset utilization and sales volume does not always improve financial health. Therefore, companies should focus not only on maximizing production and sales but also on ensuring that asset usage generates sufficient profitability and stable operating cash flows. Industrial firms are encouraged to evaluate the efficiency of asset management by monitoring the balance between production intensity, operational costs, and cash flow generation. Management should avoid excessive expansion of operational activities that is not supported by adequate financial capacity, as over-utilization of assets may increase maintenance costs, financing needs, and liquidity pressure. In addition, companies should prioritize strategies that enhance profit quality and operational efficiency rather than solely increasing sales volume.

For Regulators

The findings of this study offer valuable input for regulators, particularly the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), in enhancing supervision of the financial condition of industrial sector companies. This study may support the development of more effective monitoring policies and encourage greater transparency and quality of financial and operational disclosures to assist investors and other stakeholders in assessing corporate risk.

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