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Assessing Financial Distress: The Role of Financial Ratios & Managerial Ownership

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Abstrack

The aim of this research is to examine the effect of the current ratio, debt-to-asset ratio, and company size on financial distress, with managerial ownership as a moderating variable. The research population consists of infrastructure companies listed on the Indonesia Stock Exchange from 2019 to 2022, while the sample includes 28 companies, totaling 103 observation data points, selected using the purposive sampling method and casewise diagnostics. Data analysis is conducted using descriptive statistics and the moderated regression analysis method. Financial distress is measured using the modified Altman Z-Score. The analysis findings indicate that the current ratio has a negative effect on financial distress, while the debt-to-asset ratio has a positive effect. However, company size has no significant effect on financial distress. Furthermore, managerial ownership does not moderate the effects of the current ratio, debt-to-asset ratio, or company size on financial distress.

Keywords: Current Ratio; Debt-to-Asset Ratio; Company Size; Financial Distress; Managerial Ownership.

Introduction

To sustain and gain a competitive edge in the business landscape, entities (companies) must undergo change and innovation by developing products or services that meet customer expectations and provide added value. Companies must increase sales and generate positive profits to finance their operations, settle liabilities, and avoid financial distress. Financial distress occurs when a company experiences a continuous decline in profits leading to negative earnings and an inability to meet its liabilities on time. Entities with strong short-term liquidity, as reflected in their ability to cover short-term liabilities with current assets, are considered financially healthy and less prone to financial distress (bankruptcy). The Current Ratio (CR) serves as a crucial indicator of an entity's liquidity, measured by comparing current assets to short-term liabilities.

Prior research presents mixed findings regarding CR's impact on financial distress, with some studies suggesting a negative correlation (Khafid, Tusyanah, & Suryanto, 2019) and others finding no significant effect (Jannah, Dhiba, & Safrida, 2021; Azalia & Rahayu, 2019). This study differs by utilizing a modified Altman Z-Score as the financial distress metric,

applicable to both public and private companies. Furthermore, companies must adopt effective debt management policies to handle future loan repayments and interest obligations. A low Debt-to-Asset Ratio (DAR) signifies a lower proportion of assets financed through liabilities, implying higher financial stability, increased investor confidence, and reduced financial distress risk. However, previous studies provide conflicting evidence regarding DAR's effect on financial distress, with Pendegirot, Rate, & Tulung (2019) reporting a significant impact, while Sunaryo (2021) found no effect, and Azalia & Rahayu (2019) indicated a positive correlation. In addition to CR and DAR, company size also plays a role in financial distress.

Company size ranges from small micro-enterprises with limited resources to large multinational corporations with extensive global operations, affecting financing accessibility, strategic decision-making, management complexity, and overall economic impact. Research findings on the relationship between company size and financial distress remain inconsistent—Rachmawati & Retnani (2020) found no significant effect, while Wangsih et al. (2021) suggested a positive correlation, and Azalia & Rahayu (2019) reported a negative impact. This variability in findings underscores the need for further exploration. Additionally, good corporate governance is essential for businesses to maintain profitability and mitigate financial distress risks.

Managerial ownership, a governance mechanism reflecting the proportion of shares owned by management, influences decision-making and financial stability. Companies with significant managerial ownership tend to exhibit more prudent decision-making, prioritizing higher investment returns to sustain superior performance and financial resilience. Research findings on managerial ownership's impact on financial distress remain mixed, with Khafid et al. (2019) indicating a negative effect using the Altman Z-Score, while Rachmawati & Retnani (2020) found a significant relationship using the Interest Coverage Ratio (ICR). These inconsistencies highlight the need for further investigation into the moderating role of managerial ownership in financial distress analysis.

After observing the phenomenon and reviewing previous research, this study formulates the following research problems: How does the current ratio affect financial distress? How does the Debt-to-Asset Ratio affect financial distress? How does company size affect financial distress? Additionally, how does managerial ownership moderate the relationship between the current ratio and financial distress, the Debt-to-Asset Ratio and financial distress, and company size and financial distress?

This study is expected to provide theoretical and practical benefits. Theoretically, it expands academic knowledge on financial distress by examining the influence of financial ratios, firm size, and managerial ownership while providing empirical evidence on managerial ownership as a moderating variable. Practically, it offers insights for company management in making strategic decisions on liquidity, capital structure, and corporate governance to mitigate financial distress risks. Additionally, it helps investors and creditors assess financial health and serves as a reference for regulators in designing policies that support corporate financial stability, particularly in Indonesia's infrastructure sector. Lastly, this research lays a foundation for future studies exploring other factors affecting financial distress and encourages further investigation into financial distress measurement methods, such as the modified Altman Z-Score.

The novelty of this study lies in the use of a modified Altman Z-Score as a financial distress measurement applicable to both public and private companies. Additionally, this research incorporates managerial ownership as a moderating variable, which has been

relatively unexplored in previous studies, to examine its influence on the relationship between Current Ratio (CR), Debt-to-Asset Ratio (DAR), and company size in relation to financial distress. The study specifically focuses on Indonesia's infrastructure companies from 2019 to 2022, which face unique financial challenges, and aims to provide additional evidence to address the diverse and inconsistent findings in prior research regarding the impact of CR, DAR, and company size on financial distress.

Prior studies have produced mixed findings regarding financial distress. Kusumaningrum & Kurnia (2022), who examined food and beverage companies, found that the current ratio (CR) positively influences financial distress, while debt to asset ratio (DAR) and managerial ownership have no significant effect. Jannah et al. (2021), focusing on manufacturing firms, concluded that financial distress is influenced by DAR and institutional ownership but not by CR or managerial ownership.

Sunaryo (2021) studied the retail sector and discovered that gross profit impacts financial distress, whereas CR and DAR do not. Similarly, Wangsih et al. (2021) found that leverage (DAR) has a positive effect, company size has a negative effect, and sales growth does not influence financial distress.

Rahmawati & Retnani (2020), in their study on manufacturing firms, reported that leverage (DAR) positively affects financial distress, while sales growth negatively impacts financial distress, and managerial ownership has no influence. Meanwhile, Azalia & Rahayu (2019) found that liquidity (CR) and profitability (ROE) do not affect financial distress, whereas leverage (DAR) has a positive impact and company size (total assets) has a negative impact.

Khalid et al. (2019) studied mining companies and found that DAR increases financial distress, while managerial ownership and CR reduce financial distress. Chrissentia & Syarief (2018), focusing on non-financial service firms, concluded that CR, company age, and institutional ownership positively influence financial distress, whereas ROA and DAR have negative effects. Lastly, Christine et al. (2019), examining property and real estate firms, found that cash flow and profitability positively impact financial distress, while leverage has a negative effect, and company size is not a determining factor.

Relevant Theories

Agency Theory

Developed by Jensen & Meckling (1976), agency theory describes the relationship between principals (shareholders) and agents (managers). The separation of ownership and control can lead to conflicts of interest, where each party prioritizes its own goals. While both principals and agents seek organizational success, their differing incentives can lead to goal misalignment.

In this context, financial reports play a critical role in agency relationships. According to Khafid et al. (2019), financial reports serve as an accountability tool for agents in managing corporate resources. Shareholders expect management to make sound financial decisions that generate future profits and prevent financial distress or bankruptcy.

Signaling Theory

Introduced by Spence (1973), signaling theory explains how companies convey financial information to external stakeholders, including investors and creditors. The key components of this theory include signals, signal senders, and signal receivers. Signals represent information that influences stakeholders' perceptions, whether intentionally or unintentionally.

In financial distress analysis, signaling theory is crucial because companies use financial reports to communicate their financial health. Management provides signals about the firm's condition—whether strong or weak—which investors and creditors use to assess risk levels. A company with weak financial reports may lose investor confidence, leading to capital flight. Thus, signaling theory helps in evaluating whether a firm is financially stable or at risk of distress.

Understanding Financial Distress (FD)
Financial distress occurs when a company's financial performance deteriorates, increasing the risk of bankruptcy or liquidation (Platt & Platt, 2002, in Pendegrigot et al., 2019). Altman, Hotchkiss, and Wang (2019) define a firm as financially distressed when its total assets are insufficient to cover total liabilities.

Key factors contributing to financial distress include:
1. Poor operational performance and high solvency ratios
2. Lack of technological innovation – Innovation is crucial for business continuity and efficiency.
3. Unforeseen liabilities (contingencies) – Unexpected financial burdens can significantly strain a company's resources.

Key Financial Indicators
Current Ratio (CR)
CR evaluates a company's ability to meet short-term liabilities using current assets. A higher CR indicates better financial health, suggesting the firm is less likely to experience financial distress.

Debt-to-Asset Ratio (DAR)
DAR measures the proportion of a company's assets funded by liabilities. A high DAR signifies a company relies heavily on debt for operations, which increases financial risk. If debt obligations—such as interest payments and principal repayments—are not managed effectively, the company faces a greater risk of financial distress.

Company Size (CS)
Company size can be assessed based on total assets, number of employees, market capitalization, and equity value. Larger companies typically possess greater resources and financial stability, reducing their vulnerability to financial distress.

Managerial Ownership (MO)
Managerial ownership reflects the percentage of shares held by company executives. Khafid et al. (2019) argue that higher managerial ownership enhances information accessibility, enabling managers to take proactive steps in preventing financial distress.

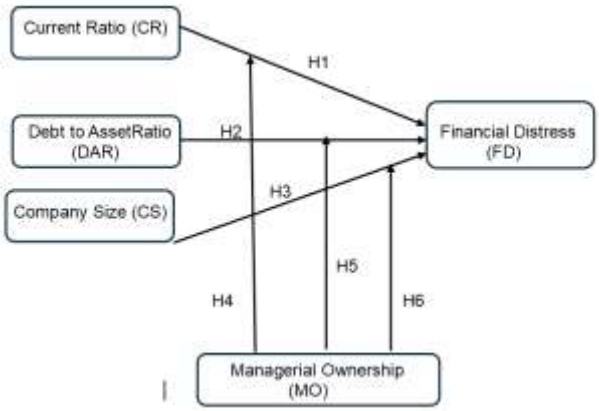

Figure 1. Reaserch Model

Current Ratio and Financial Distress

The Current Ratio (CR) is a crucial indicator that reflects a company's ability to meet its short-term liabilities using its current assets. A higher CR signifies strong liquidity, reassuring investors of the company's financial stability and risk management capabilities. When a company maintains a high current ratio, it demonstrates sufficient liquidity to cover short-term obligations, thereby reducing the likelihood of financial distress and offering a sense of security against financial risks.

Several studies, including those by Chrissentia & Syarief (2018), Kusumaningrum & Kurnia (2022), and Khafid et al. (2019), consistently provide evidence that a higher Current Ratio lowers the probability of financial distress. Based on previous research findings, the hypothesis is formulated as follows:

H1: The Current Ratio negatively affects Financial Distress.

Debt-to-Asset Ratio and Financial Distress

The Debt-to-Asset Ratio (DAR) reflects the proportion of liabilities used to finance a company's assets. A lower DAR indicates that a company has fewer loans relative to its total assets, suggesting that its funding primarily comes from internal capital. This signals strong financial health, reducing the likelihood of experiencing financial distress. Consequently, a well-maintained financial condition is expected to protect a company from financial difficulties. Several studies, including those by Rachmawati & Retnani (2020), Chrissentia & Syarief (2018), and Khafid et al. (2019), have found a positive relationship between the Debt-to-Asset Ratio and Financial Distress. The conceptual hypothesis is proposed as follows:

H2: Debt-to-Asset Ratio positively affects Financial Distress.

Company Size and Financial Distress

A company's total assets serve as an indicator of its size. Larger companies, with greater asset holdings, have higher capacity to generate sales, improve cost efficiency, and achieve higher profits, allowing them to meet their liabilities on time. These factors indicate good financial health, making larger companies more likely to avoid financial distress. Studies by Wangsih et al. (2021) and Azalia & Rahayu (2019) have found that financial distress is negatively influenced by company size, measured by total assets. The conceptual hypothesis is formulated as follows:

H3: Company size negatively affects Financial Distress.

Managerial Ownership as a Moderator of the Relationship Between Current Ratio, Debt-to-Asset Ratio, Company Size, and Financial Distress

Managerial ownership refers to the percentage of company shares held by its management. When managers hold ownership stakes, they are more motivated to actively oversee and drive the company's operational growth. It is expected that managerial ownership will positively impact the company's sustainability by encouraging cautious decision-making in areas such as borrowing and liability payments.

Greater managerial involvement in ownership fosters accountability in maintaining company stability through the implementation of good corporate governance principles. This, in turn, not only enhances the company's value but also strengthens investor and creditor confidence.

The investment of funds by investors and the provision of loans by creditors contribute to the increase in a company's total assets and size, enabling more efficient and effective operations while reducing the risk of financial distress. The conceptual hypotheses are formulated as follows:

H4: Managerial Ownership weakens the relationship between Current Ratio and Financial Distress.
H5: Managerial Ownership strengthens the relationship between Debt-to-Asset Ratio and Financial Distress.
H6: Managerial Ownership weakens the relationship between Company Size and Financial Distress.

Research Methodology

1. Research Design

This study adopts a quantitative research design to analyze the impact of financial ratios and company size on financial distress. The research employs a moderated regression analysis (MRA) approach to examine the moderating effect of managerial ownership on the relationship between independent variables (Current Ratio, Debt-to-Asset Ratio, and Company Size) and financial distress. The analysis is conducted using statistical tools such as SPSS version 25.

2. Population and Sample

The study focuses on infrastructure companies listed on the Indonesia Stock Exchange (IDX). The sample is selected using a purposive sampling technique based on the following criteria:

1. The company must have conducted an Initial Public Offering (IPO) before 2019.
2. The company must be listed on the Main Board of the IDX from 2019 to 2022.
3. The company must have consistently reported financial statements from 2019 to 2022.

3. Data Collection Techniques and Instrument Development

This research relies on secondary data sourced from publicly available financial

reports. The primary data sources include:

1. Annual financial reports obtained from the official IDX website (www.idx.co.id) for the period 2019-2022.

2. Inflation data retrieved from the official website of Bank Indonesia (https://www.bi.go.id).

3. The financial distress variable is measured using a modified version of Altman's Z-score formula, while financial ratios and company size are calculated using established formulas from previous research.

4. Data Analysis Techniques

The study employs descriptive statistics and moderated regression analysis (MRA) with a 95% confidence level (α = 5%). The regression model used is:

$$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X1Z + \beta5X2Z + \beta6X3Z + \varepsilon$$

Where:

Y = Financial Distress; α = Constant; β1–β6 = Regression Coefficients; X1 = Current Ratio; X2 = Debt-to-Asset Ratio; X3 = Company Size; Z = Managerial Ownership (Moderator); ε = Error Term

Model feasibility is tested through:

1. F-test (ANOVA): To assess the overall significance of the model.

2. R^2 (Coefficient of Determination): To measure how well independent variables explain the dependent variable.

3. Classical Assumption Tests: Including Normality Test (One-Sample Kolmogorov-Smirnov), Multicollinearity Test (Tolerance and VIF), Heteroscedasticity Test (Spearman's Rho), and Autocorrelation Test (Durbin-Watson Test).

These tests ensure the regression model is valid, linear, and free from bias, providing reliable results for hypothesis testing.

Result and Discussion

Research Result

The study focuses on infrastructure sector companies listed on the main board of the Indonesia Stock Exchange (BEI) from 2019 to 2022. Using purposive sampling based on specific criteria, 28 companies were selected as the research sample from a total of 51 companies, resulting in 112 observation data points. After conducting a casewise diagnostic analysis, 9 observations were identified as outliers. Consequently, the final sample used in the study consists of 103 observation data points.

Table 1. Sample

Criteria	Number of companies	Number of observation data
Infrastructure companies listed on the IDX from 2019 to 2022 and had an IPO before 2019	51	
Companies not classified under the main board on the IDX	(22)	
Companies that did not present consecutive financial reports from 2019 to 2022	(1)	
Number of companies meeting the criteria from 2019 to 2022	28	112
Number of outliers based on casewise diagnostics		(9)
Total research sample used	28	103

Source: Processed Data by the Author

Descriptive Statistics

The descriptive statistics results for the five research variables are as follows:

Table 2. Results of Descriptive Statistics Processing

Variable	N	Minimum	Maximum	Mean	SD
FD	103	- 1.1580	9.7165	2.8169	2.4804
CR	103	0.1925	7.0332	1.3902	1.1041
DAR	103	0.1514	0.9725	0.5569	0.1977
CS (million Rp)	103	702,230	277,184,000	36,095,719	55,549,920
MO	103	0.0000	0.8742	0.0603	0.1795
CR_MO	103	0.0000	1.8847	0.0743	0.2649
DAR_MO	103	0.0000	0.5167	0.0271	0.0887
CS_MO	103	0.0000	24.5354	1.7052	5.0387
Valid N (listwise)	103				

Source: Output SPSS

Table 4. 2 presents the lowest Financial Distress (FD) value of -1.1580, which falls below 1.10, indicating that the company is in the distress zone, characterized by financial instability. The highest value, reaching 9.7165, suggests that the company is in a safe zone (free from financial difficulties), as an FD score above 2.6 indicates financial stability. The average FD value is 2.8169, implying that most companies are in a safe zone.

The lowest Current Ratio (CR) of 0.1925 indicates that only Rp0.1925 in current assets is available to cover Rp1.00 in short-term liabilities. A CR below 1 reflects insufficient current assets to cover short-term liabilities. Conversely, the highest CR value of 7.0332 demonstrates a high level of liquidity. The average CR value of 1.3902 suggests that most companies have sufficient current assets to meet their short-term liabilities.

The highest Debt-to-Asset Ratio (DAR) of 0.9275 indicates that liabilities finance the majority of the company's assets. On the other hand, the lowest DAR value of 0.1514 implies that only 15.41% of total assets are funded by liabilities, indicating a

predominance of equity financing. The average DAR of 0.5569 suggests that most companies rely more on liabilities to finance their assets.

Comapny Size (CS), measured based on total assets, shows a significantly high maximum value of Rp277,184,000,000,000 and a considerably low minimum value of Rp702,230,672,680.

The lowest value for Managerial Ownership (MO) is 0.0000, indicating that there is no share ownership by the company's board of directors and commissioners. The highest recorded value for this variable is 0.8742, meaning that 87.42% of shares are owned by management. The average MO value of 0.0603 suggests that, overall, management holds a relatively small portion of shares, around 6.03%.

Furthermore, the moderation variable values for Current Ratio and Managerial Ownership (CR_MO) range from 0.0000 to a maximum of 1.884. The moderation variable for Debt-to-Asset Ratio and Managerial Ownership (DAR_MO) has a minimum and maximum value of 0.0000 and 0.5167, respectively. Similarly, for the moderation variable Company Size and Managerial Ownership (CS_MO), the minimum value is 0.0000, while the maximum reaches 24.5354.

In this study, the variables FD, CR, and DAR exhibit data homogeneity (low data dispersion) as their mean values exceed their standard deviations. Meanwhile, the variables CS, MO, CR_MO, DAR_MO, and CS_MO demonstrate data heterogeneity (high data dispersion), as their mean values are lower than their standard deviations.

Classical Assumption Testing

All data used in this study have passed the classical assumption tests. Although the moderation variables DAR_MO and CS_MO have tolerance values of 0.054 and 0.039, respectively—both below 0.1—and VIF values of 18.386 and 25.968, respectively—both exceeding 10, indicating multicollinearity—this condition can be disregarded. This is because studies involving moderation variables tend to exhibit multicollinearity, as explained by Ghozali (2018:235). The results of the classical assumption tests are presented in Table 3 below:

Table 3. Classical Assumption Test Results

Test Name	**Test Result**			**Conclusion**
1.**Normality Test**	Asymp-sig =0,200			Since Sig > 0.05, the residual data follows a normal distribution
2.**Multicollinearity Test**	Variable	TOL	VIF	No multicollinearity detected as TOL > 0.1 and VIF < 10, except for the moderation variables DAR_MO and CS_MO, where multicollinearity can be disregarded.
	CR	0.607	1.647	
	DAR	0.383	2.611	
	CS	0.358	2.790	
	CR_MO	0.122	8.177	
	DAR_MO	0.054	18.386	
	CS_MO	0.039	25.968	
3.**Heteroscedasticity Test**	Variabel	Sig		No heteroscedasticity detected as all Sig values are greater than 0.05
	CR	0.061		
	DAR	0.957		
	CS	0.342		
	CR_MO	0.531		

	DAR_MO	0.563		
	CS_MO	0.604		
4. **Autocorrelation Test**	Nilai DW = 1,900 (1.5580< 1,900<2,1963)			No autocorrelation detected, as the DW value falls between du and 4-du.

Source: Output SPSS and processed by the researcher

Table 4. F Test Results

ANOVA[a]					
Model	Sum of Squares	Df	Mean Square	F	Sif
1 Regression	547.844	6	91.307	101.086	.000[b]
Residual	86.714	96	0.903		
Total	634.558	102			
a. Dependent Variable: FD					
b. Predictors: (Constant),CS_MO, CR, DAR, CS, CR_MO, DAR_MO					

Source: Output SPSS

Table 5. R Square

Model Summary [b]				
Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.929[a]	0.863	0.8550.9504	
a. Predictors: (Constant), CS_MO, CR,DAR,CS, CR_MO, DAR_MO				
b. Dependent Variable : FD				

Source: Output SPSS

The significance value of the F-test shown in Table 4 is 0.000, which is below the 0.05 threshold. This indicates that the variables Current Ratio, Debt-To-Asset Ratio, Company Size, CR_Management Ownership, DAR_Management Ownership, and CS_Management Ownership collectively influence Financial Distress. Therefore, the model used is considered effective and appropriate. Furthermore, the adjusted R-squared value is 0.855, indicating that the combination of these variables explains 85.5% of the variability in Financial Distress, while the remaining 14.5% is explained by other variables not included in this study.

Table 6. Hypothesis Test Results

Coefficients[a]						
Model		Unstandarized Coefficients		Standarized Coefficients	T	Sig
		B	Std Error	Beta		
1	(Constant)	-5.849	2.615		-2.236	0.028
	CR	-1.116	0.109	-0.494	-10.204	0.000
	DAR	7.414	0.769	0.588	9.641	0.000
	CS	0.015	0.092	0.011	0.167	0.867
	CR_MO	0.301	1.016	0.032	0.296	0.768
	DAR_MO	5.245	4.545	0.187	1.154	0.251
	CS_MO	-0.073	0.095	-0.147	-0.763	0.448
a. Dependent Variable: FD						

Source: Output SPSS

Discussion

Table 5 presents the significance value (sig) obtained for the Current Ratio (CR) variable, which is 0.000, below the 0.05 threshold. The regression coefficient (B) is negative at -1.116, aligning with the direction proposed in the conceptual hypothesis H1. This finding confirms that the Current Ratio has a negative influence on Financial Distress (FD). A negative effect indicates that as the CR increases, FD decreases, and vice versa. CR can be used as a benchmark for assessing how well current assets serve as collateral for settling short-term liabilities. A higher CR enhances a company's capability to repay its current liabilities, thereby reducing the risk of FD. Hence, a high CR is a positive and essential indicator for evaluating financial security and investment risk for potential investors and creditors, ensuring that the company remains free from FD.

Findings from Chrissentia & Syarief (2018), Kusumaningrum & Kurnia (2022), Feanie & Dillak (2021), and Khafid et al. (2019) confirm that the Current Ratio significantly affects financial distress in a negative direction. Conversely, studies by Jannah et al. (2021), Sunaryo (2021), and Azalia & Rahayu (2019) found that financial distress is not influenced by the Current Ratio.

The impact of the Current Ratio on financial distress may vary across industries. In the manufacturing industry, for instance, a high liquidity level is often seen as a positive indicator, as companies generally require substantial working capital to support operations. However, in the technology or service industries, a high CR may indicate inefficiencies in utilizing current assets. Therefore, investors and creditors should consider industry-specific differences when assessing a company's financial risk.

The Debt-to-Asset Ratio (DAR) influences Financial Distress in a positive direction. This is indicated by the significance value of DAR = 0.000, which is below 0.05, and a positive regression coefficient (Beta), aligning with the direction of the conceptual hypothesis H2. A positive effect suggests that a higher DAR increases the likelihood of Financial Distress, as indicated by a lower z-score. Conversely, a lower DAR is associated with a reduced risk of Financial Distress, reflected in a higher z-score. DAR provides insight into the proportion of assets financed by liabilities and serves as a crucial indicator influencing investment decisions by investors and creditors. The higher the liabilities used for financing, the greater the risk a company faces when its financial obligations reach maturity. This phenomenon illustrates that a higher DAR raises the likelihood of Financial Distress. Additionally, a high DAR may serve as a negative signal for investors and creditors when evaluating a company's financing process. In contrast, a lower liability level indicates a higher equity proportion, which can be a factor in ensuring investment security.

The study results confirming the positive effect of DAR on FD are supported by prior research from Rachmawati & Retnani (2020), Azalia & Rahayu (2018), Khafid et al. (2019), and Chrissentia & Syarief (2018). However, these findings contradict those of Kusumaningrum & Kurnia (2022) and Sunaryo (2021), who found that financial distress is not influenced by the DAR.

From a regulatory perspective, these findings highlight the importance of monitoring corporate capital structures, particularly the Debt-To-Asset Ratio (DAR). Regulators may consider implementing leverage restrictions or enhancing transparency in financial

reporting to mitigate financial distress risks in specific sectors. Furthermore, policies related to managerial ownership should be reviewed, as low ownership proportions do not significantly impact financial distress. Alternative strategies, such as strengthening corporate governance, may serve as viable policy options.

The significance value of 0.867 obtained for the Company Size (CS) variable exceeds the 0.05 threshold, indicating that company size does not affect financial distress, leading to the rejection of H3. The lack of an effect of company size on financial fistress, measured using the natural logarithm of total assets, reinforces the notion that campany size is not an effective indicator for identifying financial distress. Regardless of whether a company is large or small, and whether it is funded through debt or equity, firms continually strive to sustain long-term business operations. They manage their business activities efficiently, effectively, and economically to maximize profits and avoid financial distress.

Analysis of the data shows that 18 companies, or 64.29%, experienced changes in UP values that corresponded with fluctuations in the z-score, representing financial distress, with an inconsistent pattern. Christine et al. (2019) support this finding, demonstrating that financial distress is not influenced by company size. However, this contradicts the findings of Wangsih et al. (2021) and Azalia & Rahayu (2019), who argue that financial distress is negatively affected by company size.

Furthermore, table 5 shows that the significance values for CR_MO, DAR_MO, and CS_MO are 0.768, 0.251, and 0.448, respectively, all exceeding the 0.05 threshold. This indicates that Managerial Ownership does not moderate the influence of the Current Ratio on Financial Distress (H4), the Debt-to-Asset Ratio on Financial Distress (H5), or Company Size on Financial Distress (H6).

This finding suggests that whether or not management owns company shares does not affect financial distress. The research data confirm that managerial ownership fails to moderate the effects of the current ratio, debt-to-asset ratio, and company size on financial distress. Within the context of agency theory, managerial ownership should ideally reduce conflicts between managers (agents) and shareholders (principals), as managers have a vested interest in the company's performance. However, this study reveals that managerial ownership does not play a moderating role in financial distress. This may be due to the low proportion of managerial ownership in most companies examined. With minimal managerial ownership, managers have limited incentives to act in the company's long-term interest, necessitating alternative mechanisms such as corporate governance and external oversight to mitigate financial distress risks.

The study found that a significant number of companies had minimal managerial ownership. Analysis revealed that out of the total observations, 34 units (33%) had no managerial ownership (0%), while 53 units (51%) had managerial ownership below 0.01%. The remaining 16 observations had varying degrees of managerial ownership, with 4 units ranging between 85.85% and 87.36%, and 12 units having ownership between 0.01% and 14.36%.

Table 7. Managerial Ownership Data

Managerial Ownership(%)	Number of Companies	Persentase
0%	34	33%
<0,01%	53	51%
0,01% - 14,36%	12	12%
85,85% - 87,36%	4	4%

Source: Processed by Author

The findings of this study are consistent with agency theory, which suggests that agents are responsible for managing the company effectively on behalf of the principal, with the primary goal of generating profit and implementing effective funding strategies to minimize the risk of financial distress.

Conclusion and Suggestion

This study examines the impact of the Current Ratio, Debt-to-Asset Ratio, and Company Size on Financial Distress, with Managerial Ownership as a moderating variable. The findings indicate that [summarize key results, e.g., "the Current Ratio negatively correlates with financial distress, while the Debt-to-Asset Ratio shows a significant positive relationship"]. Additionally, Managerial Ownership moderates the relationship between [mention specific variables] and financial distress.

This research contributes to financial distress prediction models by integrating managerial ownership as a moderating factor. The findings provide insights for investors, policymakers, and corporate managers in assessing company financial health and making informed decisions. Additionally, the study enhances the understanding of financial ratios in predicting distress, which is crucial for financial risk management and corporate governance.

Despite its contributions, this study has limitations, including [mention limitations, e.g., "a limited sample of infrastructure companies and the exclusion of external economic factors"]. Future research could explore additional moderating variables, expand the industry scope, or employ alternative financial distress models to improve accuracy. Researchers are encouraged to refine financial distress prediction models by incorporating macroeconomic variables or industry-specific factors.

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