

# The Effect of Managerial Ownership and Leverage on Financial Distress in Bumn Companies Listed at Indonesia Exchange In 2017-2022

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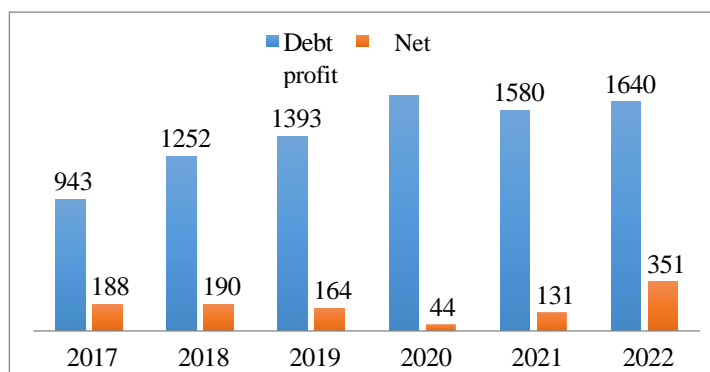
## ABSTRACT

Researching The Effects Of Managerial Ownership And Leverage On Financial Distress In BUMN Listed On The Indonesia Stock Exchange In 2017–2022 was the purpose of this research. Purposive sampling strategies were employed to get samples for the quantitative associative investigation. The research data reviewed in this study totaled 54 observations, with the sample consisting of 9 firms out of 25 BUMN companies registered on the Indonesia Stock Exchange between 2017 until 2022. Multiple linear regression analysis utilizing Eviews 12 software is the panel data analysis method used in this study. The study's findings indicate that while ownership has a negative and significant impact on financial hardship, leverage as determined by the debt to equity ratio also has a negative and significant.

**Keywords:** *Ownership, leverage and financial distress*

## 1. INTRODUCTION

At the beginning of 2020, the whole world was shocked by the COVID-19 pandemic, including Indonesia. This caused significant change in small aspects of life, one of which was the economic sector which experienced negative economic growth in the first and second quarters of 2020 (Septiyani et al., 2020). State-owned companies (BUMN) are one of the factors that maintain and promote economic growth in Indonesia itself (Sumiyati, 2013). According to Law Number 19 of 2003, "business entities whose capital is partly or wholly owned by the State through direct participation originating from separated State assets" are classified as state-held firms. Businesses classified as state-owned have capital that is either fully or partially held by the state through direct involvement derived from distinct state assets. Being a commercial entity "in government clothes" with the adaptability and initiative of a private enterprise, BUMN possesses unique qualities that other business entities lack. This causes BUMN as a business unit to be able to take advantage of business opportunities, apart from that BUMN is expected to make a better contribution to the Indonesian economy. Financial difficulties that occur in BUMN companies are caused by increasing debt every year.



**Figure 1** Debt and Net Profit of BUMN Companies for the 2017-2022 Period (In trillion Rupiah)

Based on Figure 1 above, it shows that the debt of state-owned companies in the last six consecutive years has changed from 943 (Trillion Rupiah) to 1,640 (Trillion Rupiah). Apart from that, the company's net profit has changed from 188 (Trillion Rupiah) to 351 (Trillion Rupiah) state-owned companies in 2018 reached 1,252 (Trillion Rupiah), this figure is an increase from BUMN debt in 2017 of 943 (Trillion Rupiah). In 2019 to 2020 BUMN debt increased from 1,393 (Trillion Rupiah) to 1,682 (Trillion Rupiah) which is the highest increase in debt over the last 6 years. Then

consolidated BUMN debt in 2022 will reach 1,640 (trillion Rupiah) (unaudited). This figure is an increase from BUMN debt in 2021 of 1,580 (Trillion Rupiah). A company's risk of financial distress increases with its liabilities.

The total net profit of BUMN was 188 (Trillion Rupiah) in 2017 and increased 1.11 percent in 2018 to 190 (Trillion Rupiah). In 2019, the net profit of 164 (Trillion Rupiah) decreased by 9.63 percent compared to 2018. The net profit of state-owned companies in 2020 amounted to 44 (Trillion Rupiah), a decrease of 73.60 percent compared to 2019 and was the highest decrease for the last six years. In 2021 the net profit will be 131(Trillion Rupiah)and in2022 the net profit will be 351(Trillion Rupiah).This condition will cause the company's financial performance to be disrupted or decreased, which can lead to this happening Financial distress. To predict conditions financial distress Companies need to carry out financial ratio analysis.This is because financial ratios can be used as a measuring tool financial distresss a company (Kholidah, Gumanti & Mufidah, 2016).

## **2. RESEARCH METHODS**

### ***2.1 Research Types***

This research is a quantitative research and is associative in nature.In this associative research it is used to test the of managerial ownership and leverage to financial distress.

### ***2.2 Research Objects and Time***

The location of this research was carried out at BUMN listed on the Indonesia Stock Exchange (BEI) for the 2017-2022 period. The time of the research was carried out from September to December 2023, which was carried out by first collecting the financial reports of BUMN companies for the 2017-2022 period listed on the stock exchange Indonesian (BEI).

### ***2.3. Data Collection Methods***

This research used a sample survey approach for data collecting, observing multiple elements or samples. Data from specific natural (not artificial) locations were gathered using a method survey (Sugiyono, 2019).

### ***2.4 Research Population and Sample***

All of BUMN companies that are registered on the IDX for the years 2017 until 2022 hold the population of the research.Twenty-four BUMN companies made up the research population. Purposive sampling was the method employed for sampling in this investigation. Nine BUMN companies served as the research's samples.

### ***2.5 Data Collection Procedures***

Documentation serves as both the research instrument and data collection method in this research.The process of collecting data and information from books, archives, papers, written numbers, and photos to create reports and information that might aid in study is known as documentation (Sugiyono, 2015). Data from the company's historical records, including annual reports and financial reports for BUMN companies that are listed on the IDX from 2017 until 2022, was used as documentation for this research.

### ***2.6 Data Analysis***

Multiple linear regression data analysis techniques and panel data quantitative research methods were employed in this research data analysis process.Data is processed using software Eviews 12.

## **3. RESULTS AND DISCUSSIONS**

### ***3.1 The Impact Of Managerial Ownership On Financial Distress***

Based on the results of research, it was found that managerial ownership variables have a negative and significant influence on managing ownership, as seen from descriptive statistical tables where the data is normal and the values can be spread evenly. This means that the larger the management's ownership, the less likely financial distress will occur. When management has more shares, it can reduce the likelihood of financial problems. A larger number of managers' shares suggests that management will boost the company's performance better because managers act as

owners and shareholders of the company. This study is in line with the theory of agency because increased ownership of shares by managers can provide benefits, which can reconcile the interests of management and shareholders.

### **3.2 The Effect Of Leverage On Financial Distress**

Based on the results of the test of leverage variables, statistical analysis shows that the variable leverage has a significant influence. It depicts that even though the company has experienced an increase in debt, it is still able to repay the debt and interest on that debt. This study is also in line with the trade-off theory; the high leverage value of the company suggests that the company's assets use more debt than equity. The company has a high debt rate but is able to pay its debt obligations well. In addition, the study is also in line with the theory of signals. The ability of a company to repay its debt can be regarded as a signal that the company has the ability to manage financial risks associated with high debt levels. General ownership of financial distress.

## **4. CONCLUSION**

Based on the results of the analysis and discussion, this research can conclude, The managerial ownership variable has a negative and significant effect on financial distress in BUMN businesses that registered on the IDX between 2017 until 2022. This has shown that the likelihood of financial distress decreasing with increasing managerial ownership. The variable element has a negative and significant impact on financial distress in BUMN listed companies on the IDX is the leverage for the years 2017–2022. This demonstrates that even as a company's debt grows, it is still able to pay off the loan and accrued interest.

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