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Linking Ownership Structure and Liquidity to Financial Distress: The Moderating Role of Profitability

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ABSTRACT

Financial distress is a critical issue that can threaten corporate sustainability, making it essential to identify the factors that may influence its occurrence. This study analyzes the impact of institutional ownership, managerial ownership, and liquidity on financial distress, with profitability as a moderating variable. The research focuses on non-primary consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024 and employs a quantitative method using panel data regression with the Random Effect Model (REM). The findings show that managerial ownership, institutional ownership, and liquidity do not significantly influence financial distress. In contrast, profitability has a positive and significant effect, indicating that higher profitability may increase financial distress risk, possibly due to overexpansion or aggressive investment strategies. Profitability does not strengthen the effect of managerial or institutional ownership on financial distress, but it significantly moderates the relationship between liquidity and financial distress. This suggests that companies with strong profitability can utilize liquidity more effectively to ease financial pressure. The study highlights that ownership structure alone is insufficient to prevent financial distress without solid financial performance. Companies are advised to maintain healthy profitability and manage liquidity effectively to enhance financial stability.

INTRODUCTION

The pursuit of profit is essential for a companies ability to sustain its going-concern status and achieve long-term growth. To achieve this goal, companies strive to maintain their financial health from various aspects. However, not all plans proceed as expected, as there are several factors that may trigger financial crises, whether originating from internal or external sources.

The COVID-19 Pandemic, which began spreading in Indonesia in early 2020, became one of the biggest challenges. This pandemic disrupted the economic cycle because all activities had to be conducted under new procedures, including mobility restrictions and partial shutdowns of industrial operations (Nicola et al., 2020) . Such conditions led to a significant decline in public purchasing power, which in turn caused company revenues to fall. When a company fails to generate sufficient income to cover its operational costs, the risk of bankruptcy inevitably increases.

Non-primary consumer goods companies operate in a sector that provides secondary products, meaning that consumption levels are highly influenced by the purchasing power of consumers. During the pandemic, when fulfilling basic needs had already become difficult, demand for non-essential goods tended to decrease. This situation

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directly affected the performance of non-primary consumer goods companies, many of which experienced declining sales due to diminished consumer demand.

To assess bankruptcy risk more comprehensively, many prior have employed the Springate model as a method for predicting financial distress (Matejić et al., 2022) . The creation of the Springate model first included 19 financial ratios that had been extensively utilized in previous studies. After numerous tests, Springate finally chose four essential financial ratios to assess if a company is deemed healthy or possibly insolvent. The Springate model serves as a preliminary alert system for bankruptcy (Anwar & Utami, 2022).

As shown in previous research (Nurhayati et al., 2022) , predicting financial distress with the Springate model achieved an accuracy rate of 91%. The Springate model classifies companies into two categories: distress and healthy (Fauzi et al., 2021) . According to this model, a company is considered to be experiencing financial distress, or is categorized as distress, if its S-Score is less than 0.862. Conversely, companies with an S-Score greater than 0.862 are classified as healthy.

Financial distress among non-primary consumer goods companies in Indonesia can be observed in the case of PT Sepatu Bata Tbk (Bata Indonesia).

Table 1. The S-Score of PT Sepatu Bata Tbk (Bata Indonesia)

Year	S-Score	Category
2020	-1.1249	Distress
2021	-0.0880	Distress
2022	-0.0510	Distress
2023	-0.7843	Distress
2024	-1.3301	Distress

Source: *Author's compilation*

The table shows that the company experienced financial distress continuously from 2020 to 2024, with the lowest S-Score reaching -1.3301. The company needs to monitor potential market or industry changes that may affect its solvency (Sufiriyani et al., 2024).

To prevent financial distress, companies need to regularly monitor their financial conditions and identify factors that may influence the occurrence of financial distress. By understanding these contributing factors, companies are expected to formulate appropriate policies and take preventive measures to avoid potential adverse outcomes. The variables used in this research to forecast financial distress include Managerial Ownership, Institutional Ownership, and Liquidity, while Profitability acts as a moderating variable.

Managerial ownership denotes the proportion of company ownership stock held by management individuals, like directors or managers, who actively participate in the organization's decision-making activities (Ogabo et al., 2021). Several previous studies have shown that the effect of managerial ownership on financial distress is not always consistent. For example, the research by Santoso et al. (2022) found that managerial ownership has a

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significant negative effect on financial distress. However, this result differs from the findings of Humairoh & Nurulita (2022), which indicate that managerial ownership has no significant effect on financial distress.

Institutional ownership represents the proportion of a company's equity held by professional financial organizations such as banks, insurance companies, pension funds, and investment institutions (Franks, 2020). These entities generally possess advanced analytical capabilities and greater access to information, which enable them to exercise more effective oversight of managerial actions. Prior empirical research, however, yields inconsistent evidence regarding the influence of institutional ownership on financial distress. Natalia & Rudiawarni (2022) reported that institutional investors help lower distress probability through enhanced monitoring mechanisms, while Annither et al. (2020) documented a contrasting positive relationship, implying that institutional involvement might also exert short-term performance pressure. Conversely, Sembiring (2022) found no statistically significant association, suggesting that institutional control is not always strong enough to alter a companies financial condition materially.

Liquidity reflects a companies ability to convert current assets into cash for meeting short-term obligations, thereby reducing the likelihood of financial strain. Theoretically, higher liquidity is expected to strengthen financial stability, yet previous findings remain inconclusive. Kebede et al. (2024) demonstrated that liquidity negatively affects financial distress, implying that well-maintained liquid assets provide resilience during downturns. In contrast, Ayinaddis & Tegegne (2023) discovered a positive linkage, suggesting that excessive liquidity may signal inefficient asset utilization. Meanwhile, (Isayas, 2021) identified no significant relationship between liquidity and financial distress, indicating that other internal or macroeconomic factors might dominate in explaining corporate vulnerability.

Profitability indicates the extent to which a company can generate earnings relative to its assets or equity, serving as a key measure of operational efficiency (Pawitri & Alteza, 2020) . Companies with high profitability are generally perceived as financially sound; however, elevated profits may also encourage aggressive expansion or leverage decisions that heighten financial risk. The empirical evidence remains diverse: Kalbuana et al. (2022) observed a negative relationship between profitability and financial distress, implying that improved earnings enhance financial stability, whereas Desta Wijaya et al. (2024) revealed the opposite, where increased profitability coincided with rising distress risk. On the other hand, Pawitri & Alteza (2020) documented no significant association, highlighting that profitability alone may not fully capture the complexity of financial distress dynamics.

This research presents a novelty in two main aspects. First, it focuses on non-primary consumer goods sector companies listed on the IDX, which have rarely been examined in the context of financial distress analysis. Most previous studies have concentrated on manufacturing or primary consumer goods sectors. Second, this research introduces

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profitability as a moderating variable, which plays a role in strengthening or weakening the relationship between managerial ownership, institutional ownership, and liquidity toward financial distress conditions. Therefore, this research is expected to provide both empirical and theoretical contributions by broadening the understanding of factors influencing financial distress in a relatively underexplored sector.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory

Agency theory describes a contractual framework that governs the interaction between shareholders, acting as principals, and managers, functioning as agents (Aluchna & Kuszewski, 2020) . Within this framework, principals entrust decision-making authority to managers to operate the company on their behalf and align managerial actions with shareholders' objectives (Squires & Elnahla, 2020).

The Effect of Managerial Ownership on Financial Distress

A higher proportion of managerial ownership motivates executives to behave more prudently, as they directly experience the financial outcomes of their strategic decisions. This ownership alignment fosters a commitment to sustain company performance and strengthen financial stability, thereby mitigating the probability of distress (Vijayakumaran, 2021) . In line with Agency Theory, equity participation by managers harmonizes their objectives with those of shareholders, effectively minimizing agency conflicts and lowering the companies exposure to financial strain. As research conducted by Santoso et al. (2022) and Patriandari et al. (2023) shows that managerial ownership has a significant negative effect on financial distress.

H1: Managerial Ownership has a negative effect on Financial Distress

The Effect of Institutional Ownership on Financial Distress

High institutional ownership indicates that institutional investors have stronger control and oversight over management, thereby supporting the company in preserving financial stability and reducing the probability of financial distress (Boubaker et al., 2020). From the perspective of Agency Theory, the involvement of institutional investors helps align the interests of owners and management, thereby reducing potential conflicts and the risk of financial difficulties. As research conducted by Natalia & Rudiawarni (2022) and Santoso et al. (2022) indicates that institutional ownership has a significantly adverse effect on the occurrence of financial distress

H2: Institutional Ownership has a negative effect on Financial Distress

The Effect of Liquidity on Financial Distress

An increase in current assets enhances the companies liquidity position, thereby improving its ability to discharge short-term liabilities and subsequently decreasing the risk of financial distress (Isayas, 2021). Within the framework of Agency Theory, liquidity reflects the manager's ability to fulfill short-term liability in accordance with the interests of the

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principal. As research conducted by Kebede et al. (2024) and Reina Candradewi & Rahyuda (2021) shows that liquidity has a significant negative effect on financial distress.

H3: Liquidity has a negative effect on Financial Distress

The Effect of Profitability on Financial Distress

As the company's profits increase, the potential risk of experiencing financial distress may also rise. This may occur because companies that are highly focused on achieving profits might take high-risk decisions to maintain or increase earnings, thereby threatening financial stability (Myšková & Hájek, 2020) . From the perspective of Agency Theory, this situation reflects the possibility that management pursues personal interests or short-term targets that are not fully aligned with shareholders' interests, thus increasing the potential for financial distress. As research conducted by Ayinaddis & Tegegne (2023) and Kalbuana et al. (2022) shows that profitability has a significant positive effect on financial distress.

H4: Profitability has a positive effect on Financial Distress

The Role of Profitability in Moderating The Effect of Managerial Ownership, Institutional Ownership, and Liquidity on Financial Distress

Profitability is employed as a moderating variable because it reflects the companies internal capacity to generate earnings that strengthen its financial position (Dahmash et al., 2021). From the perspective of Agency Theory, higher profitability reduces the potential for agency conflicts, as managers have stronger incentives to maintain company performance and uphold shareholder trust. Under this condition, governance mechanisms such as managerial ownership and institutional ownership become more effective in mitigating financial distress, since managers who also act as owners and institutional investors as monitoring agents are supported by strong financial performance in directing more conservative and risk-disciplined decision-making. Furthermore, higher profitability enhances the effectiveness of liquidity in meeting short-term liabilities, thereby reducing financial pressure that may lead to financial distress (Jaworzyńska, 2021). Thus, profitability functions as a financial buffer that not only strengthens the companies financial stability but also amplifies the influence of corporate governance and liquidity variables in minimizing the likelihood of financial distress, consistent with agency control mechanisms.

H5: Profitability strengthens the effect of Managerial Ownership on Financial Distress

H6: Profitability strengthens the effect of Institutional Ownership on Financial Distress

H7: Profitability strengthens the effect of Liquidity on Financial Distress

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METHODS

This research adopts a quantitative methodological approach. The analysis encompasses independent, dependent, and moderating constructs. Managerial ownership, institutional ownership, and liquidity are treated as independent variables, while financial distress is positioned as the dependent construct, with profitability incorporated as the moderating element influencing these relationships.

The focus of this research is on non-primary consumer goods companies that consistently release their financial reports on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The sample was chosen through a purposive sampling approach, a technique that relies on particular criteria:

Table 2. Population and Sample

Description	Amount
The population of non-primary consumer goods sector companies listed on the Indonesia Stock Exchange for the 2020-2024 period	48
Companies that do not publish annual reports and financial statements for the 2020-2024 period	(18)
Companies that do not use the Indonesian Rupiah (IDR) as their reporting currency	(10)
Total sample	20
Research period	5
Total observations	100

Source: *Author's compilation*

The operationalization of this research's variables is explained in the following table:

Table 3. Operationalization of Variables

Variable	Indicator	Scale
Financial Distress	S = 1.03X1 + 3.07X2 + 0.66X3 + 0.4X4	Ratio
Managerial Ownership	$\frac{Number\ of\ Shared\ Owned\ by\ Management}{Total\ Outstanding\ Share} \times 100\%$	Ratio
Institutional Ownership	$\frac{Number\ of\ Shared\ Owned\ by\ Institutional}{Total\ Outstanding\ Share} \times 100\%$	Ratio
Liquidity	$\frac{Current\ Asset}{Current\ Liabilities}$	Ratio
Profitability	$\frac{Net\ Income}{Total\ Asset}$	Ratio

Source: *Author's compilation*

Data Testing Method

In this research, Econometric Views (EViews) 13 is used for data processing and analysis.

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Descriptive Statistic Test

Descriptive statistical analysis is used to present the collected data in order to provide a comprehensive overview, allowing the information to be easily understood and utilized (Puspita Maharani & Dura, 2022).

Model Specification Test

According to Sugiyanto et al. (2022), panel data analysis refers to the examination of individual (cross-section) data across several time dimensions (time series). There are three models used in panel data estimation, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). To determine the most appropriate model to use, three tests are required, namely the Chow Test, the Hausman Test, and the Lagrange Multiplier Test.

Classical Assumption Test

The purpose of the multicollinearity test is to verify that the independent variables are free from multicollinearity. Multicollinearity arises when independent variables are highly correlated with each other, which can be identified through significant correlations between those variables (Nugraha, 2021).

Data Analysis Methods and Hypothesis Testing

Multiple linear regression analysis is used as a statistical method for model development and to explore the influence of the independent variables on the dependent variable (Ruan, 2024).

Equation before interacting with moderating variables:

$$FD = ß_o + ß_1MO + ß_2IO + ß_3LK + ß_4PF + ε \quad (1)$$

Equation after interacting with moderating variables:

$$FD = ß_o + ß_1MO + ß_2IO + ß_3LK + ß_4PF + ß_5MO \times PF + ß_6IO \times PF + ß_7LK \times PF + ε \quad (2)$$

Notes:

FD = Financial Distress

$ß_o$ = Constant

$ß_{1-7}$ = Regression Coefficient

MO = Managerial Ownership

IO = Institutional Ownership

LK = Liquidity

PF = Profitability

ε = Error

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t-Test

The partial t-test assesses the influence of each independent variable on the dependent variable within the linear regression model (Wondola et al., 2020).

Coefficient of Determination (R^2)

The coefficient determination serves to evaluate how strongly and in what direction the independent variables influence the dependent variable in the regression framework (Du et al., 2021).

RESULTS

A descriptive statistical analysis was conducted to find the minimum, maximum, mean, and standard deviation values for each research variable. The findings from the descriptive analysis are presented in the table below:

Table 4. Results of Statistical Descriptive Analysis

Research Variable	Mean	Med	Max	Min	Standard Deviation	N
FD	3855.058	0.556450	32601.00	-19485.00	10145.05	100
MO	0.053385	0.002269	0.682759	0.000000	0.153661	100
IO	0.845924	0.898226	1.000000	0.517873	0.137168	100
LK	2.421924	1.623934	12.75718	0.017475	2.260297	100
PF	-0.001014	0.006143	32601.00	-0.365244	0.099035	100

Source: *Data Processed by EViews13*

The Managerial Ownership (MO) variable ranges from 0.000000 to 0.682579, with a mean of 0.053385 and a standard deviation of 0.153661. This demonstrates that executive shareholding within the sampled companies is generally sparse and exhibits substantial heterogeneity. Meanwhile, the Institutional Ownership (IO) variable averages 0.845924, with observed values spanning from 0.517873 to 1.000000 and a standard deviation of 0.137168, implying a predominant influence of institutional investors across the majority of sampled entities. For the Liquidity (LK) variable, the data indicate a minimum of 0.017475 and a maximum of 12.75718, accompanied by a mean of 2.421924 and a standard deviation of 2.260297, reflecting pronounced disparities in short-term financial flexibility among the companies.

The Financial Distress (FD) metric exhibits extreme variability, ranging from -19,485.00 to 32,601.00, with a mean of 3,855.058 and a standard deviation of 10,145.05, signaling a wide spectrum of fiscal strain, including both acute financial setbacks and notably favorable positions. Finally, the Profitability (PF) variable has an average of -0.001014, with a minimum of -0.365244 and a maximum of 0.226575, and a standard deviation of 0.099035. This indicates that, on average, the companies demonstrate marginal profitability, with several entities incurring losses during the observation period.

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The estimation method is used to determine the most appropriate model for panel data regression. This process aims to determine whether CEM, FEM, or REM is the most suitable model for analyzing the relationship among variables in this research

Table 5. Conclusion of Panel Data Regression Test

	Results	Conclusion of The Right Model
Chow Test	0.0000	Fixed Effect Model
Hausman Test	0.1380	Random Effect Model
Lagrange Multiplier Test	0.0000	Random Effect Model

Source: *Data Processed by EViews13*

The findings from the model selection tests show that the Random Effect Model (REM) is the best-suited model for this research. As a result, classical assumption tests are conducted to ensure that the regression model is devoid of assumption violations and appropriate for further examination

Table 6. Multicollinearity Test

	MO	IO	LK	PF
MO	1.000000	0.061622	-0.130732	-0.017534
IO	0.061622	1.000000	0.029936	-0.068286
LK	-0.130732	0.029936	1.000000	0.348910
PF	-0.17534	-0.68286	0.348910	1.000000

Source: *Data Processed by EViews13*

According to the multicollinearity test results, all correlation coefficients between the independent variables fall under 0.85. This result suggests that the independent variables do not exhibit a strong linear correlation, indicating that the regression model is free from multicollinearity issues.

Table 7. Results of GLS Panel Data Regression

Hypothesis	Coefficient	t-Statistic	Probability	Conclusion	Adjusted R-Squared
MO → FD	-781.5118	-0.113578	0.9098	H1 Rejected	0.461363
IO → FD	-341.2058	-0.057583	0.9542	H2 Rejected	
LK → FD	599.6443	1.978033	0.0508	H3 Rejected	
PF → FD	65164.28	9.272568	0.0000	H4 Accepted	
MO*PF → FD	74277.79	0.729136	0.4733	H5 Rejected	0.561130
IO*PF → FD	7149.014	0.118576	0.9059	H6 Rejected	
LK*PF → FD	14852.17	4.936664	0.0000	H7 Accepted	

Source: *Data Processed by EViews13*

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Managerial ownership shows a probability value of 0.0908, which exceeds the 0.05 significance level, indicating that it does not significantly influence financial distress. Although the coefficient has a negative sign, its impact is insufficient to lessen distress risk. Hence, the hypothesis is rejected. These findings align with the studies by Humairoh & Nurulita (2022) as well as Sembiring (2022), which found that managerial ownership has no meaningful influence on financial distress.

Institutional ownership records a probability value of 0.9542, higher than 0.05, signifying no significant relationship with financial distress. Even though the coefficient is positive, it lacks a substantial effect on lowering distress risk. Consequently, the hypothesis is rejected. These outcomes are consistent with the findings of Sembiring (2022) , who reported that institutional ownership does not influence financial distress.

Liquidity yields a probability value of 0.0508, which surpasses the 0.05 threshold, implying that it has no significant impact on financial distress. The positive coefficient suggests that higher liquidity does not automatically minimize the likelihood of distress. Therefore, the hypothesis is rejected. These findings correspond with the studies of Pawitri & Alteza (2020) and Desta Wijaya et al. (2024) , who observed that liquidity has no significant effect on financial distress.

Profitability exhibits a significant positive influence, indicated by a probability value of 0.0000 (< 0.05). This suggests that greater profitability may elevate the risk of financial distress, possibly due to companies pursuing expansion or increasing leverage when profits rise. Hence, the hypothesis is accepted. These results are in line with Ayinaddis & Tegegne (2023) as well as Kalbuana et al. (2022) , who found that profitability positively affects financial distress.

The interaction between managerial ownership and profitability yields a probability of 0.4733, exceeding 0.05, indicating an insignificant effect. Profitability fails to enhance the ability of managerial ownership to mitigate financial distress. Thus, the hypothesis is rejected.

The interaction between institutional ownership and profitability results in a probability of 0.9059, greater than 0.05, suggesting a lack of significant influence. Therefore, profitability does not amplify the monitoring role of institutional investors in minimizing financial distress. Accordingly, the hypothesis is rejected.

The interaction between profitability and liquidity produces a probability value of 0.0000 (< 0.05), demonstrating a significant association. With a negative coefficient, profitability enhances liquidity's capacity to lower the likelihood of financial distress. Therefore, the hypothesis is accepted.

DISCUSSION

Explanation of Discussion 1

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The results show that managerial ownership has no significant effect on financial distress. This finding suggests that the level of shares owned by management does not necessarily translate into stronger financial discipline or better company stability. In the context of Agency Theory, managerial ownership is expected to align the interests of managers and shareholders, thereby reducing the likelihood of financial distress. However, in practice, this alignment may not occur effectively when managerial ownership is too small or when managerial control is limited. The insignificant effect found in this study supports the results of Humairoh & Nurulita (2022) and Sembiring (2022) , who also reported that managerial ownership does not significantly influence the probability of financial distress. This indicates that ownership participation among managers in non-primary consumer goods companies remains insufficient to serve as an effective governance mechanism for preventing distress.

Explanation of Discussion 2

Institutional ownership is also found to have no significant impact on financial distress. Theoretically, institutional investors possess the capacity to monitor management actions and ensure sound corporate governance, thereby reducing the likelihood of financial distress. However, this study reveals that such monitoring roles may not be effectively executed. Institutional investors may adopt a passive investment approach, focusing on portfolio diversification rather than active involvement in managerial decision-making. Consequently, their presence does not necessarily reduce distress probability. These findings are consistent with Sembiring (2022)), who found that institutional ownership did not significantly affect financial distress. This implies that the presence of institutional shareholders alone does not guarantee stronger governance or improved financial resilience.

Explanation of Discussion 3

Liquidity in this study also does not significantly affect financial distress. Although liquidity is theoretically expected to reduce financial pressure by enabling companies to meet short-term obligations, the findings suggest that an excess or imbalance in current assets may not automatically translate into financial stability. High liquidity can reflect inefficient asset utilization or idle cash that is not optimally allocated to productive investments. Similar results were found by Pawitri & Alteza (2020) and Desta Wijaya et al. (2024), indicating that liquidity alone cannot serve as a determinant of financial health. This implies that liquidity management must be accompanied by efficient operational and strategic financial decisions to effectively prevent distress.

Explanation of Discussion 4

Profitability has a significant positive effect on financial distress, indicating that higher profitability is associated with greater financial distress risk. This result is somewhat

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counterintuitive but can be explained by the possibility that companies with rising profits often pursue aggressive expansion, high-risk investments, or increased leverage to maximize returns. Such behavior may heighten financial vulnerability if not managed carefully. From the Agency Theory perspective, this reflects managerial tendencies to exploit short-term profit opportunities that may conflict with shareholders' long-term interests. The finding aligns with Ayinaddis & Tegegne (2023) and Kalbuana et al. (2022) , who found that profitability may elevate distress risk through overconfidence and risk-taking behaviors.

Explanation of Discussion 5

The moderating effect of profitability on the relationship between managerial ownership and financial distress is found to be insignificant. This suggests that even under conditions of high profitability, managerial ownership does not become more effective in reducing financial distress. One possible reason is that the portion of shares owned by managers remains too small to influence strategic financial decisions significantly. Thus, profitability fails to strengthen the governance function of managerial ownership. This supports the notion that ownership concentration and managerial involvement must reach a critical threshold before yielding meaningful effects on financial stability.

Explanation of Discussion 6

Similarly, profitability does not moderate the relationship between institutional ownership and financial distress. This indicates that profitability does not enhance institutional investors' ability to monitor or influence management in ways that reduce distress. Institutional investors may focus more on short-term returns rather than on long-term sustainability, causing their monitoring role to remain weak even when companies perform well financially. This finding further supports the argument that institutional ownership alone is not a sufficient governance mechanism to mitigate financial distress risk in the sector studied.

Explanation of Discussion 7

Profitability significantly moderates the relationship between liquidity and financial distress. The interaction indicates that profitability strengthens the ability of liquidity to reduce financial pressure. This suggests that when companies maintain healthy profitability, they can utilize their liquid assets more effectively to manage obligations, finance operations, and prevent insolvency. In contrast, companies with low profitability may struggle to convert liquidity into financial stability. This finding confirms that profitability acts as a financial buffer, improving the efficiency of liquidity management and minimizing the likelihood of distress. The result is consistent with Jaworzyńska (2021), who emphasized that strong internal performance enhances liquidity's protective effect against financial difficulties.

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CONCLUSION

This research focused on analyzing the influence of managerial ownership, institutional ownership, and liquidity on financial distress, while considering profitability as a moderating factor in non-primary consumer goods companies listed on the IDX from 2020 to 2024. From the outcomes of the panel data regression employing the Random Effect Model (REM), various significant conclusions were drawn.

First, managerial ownership was found to have no significant influence on financial distress. This indicates that the proportion of shares held by managers does not necessarily guarantee lower financial distress risk, as managerial decisions may still prioritize individual or short-term interests instead of the company's long-term financial health. This result differs from the findings of Santoso et al. (2022) and Patriandari et al. (2023), who found a significant negative effect, but is consistent with Humairoh & Nurulita (2022) and Sembiring (2022) , which reported no significant impact. Hence, the result of this study confirms that managerial ownership in this sector may still be too limited to influence financial stability effectively.

Second, institutional ownership likewise shows no significant relationship with financial distress. Despite the assumption that institutional investors can enhance monitoring quality, their participation often remains limited or passive, particularly when investment goals emphasize short-term gains. This finding contradicts Natalia & Rudiawarni (2022) and Santoso et al. (2022),who documented that institutional ownership helps reduce distress probability, but supports Sembiring (2022) , who also found an insignificant relationship. This comparison suggests that institutional investors in non-primary consumer goods companies may not exercise strong governance control.

Third, liquidity was found to be insignificantly related to financial distress. This suggests that a companies capacity to meet its short-term obligations does not necessarily translate into overall financial stability, as other internal or external factors may exert a stronger influence. This finding aligns with Pawitri & Alteza (2020) and Desta Wijaya et al. (2024) who also observed no significant relationship, but differs from Kebede et al. (2024) and Reina Candradewi & Rahyuda (2021) , who found that higher liquidity decreases the probability of financial distress.

Fourth, profitability has a significant positive effect on financial distress. This finding suggests that higher profitability can increase the likelihood of financial distress, possibly due to aggressive expansion or excessive risk-taking behavior when profit levels rise, supporting the idea that companies may overleverage in pursuit of greater returns. This result is consistent with Ayinaddis & Tegegne (2023) and Kalbuana et al. (2022) , who also found a positive relationship, but contrasts with Pawitri & Alteza (2020) and Myšková & Hájek (2020), who reported an insignificant or negative effect.

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Fifth, profitability does not strengthen the relationship between managerial ownership and financial distress, nor between institutional ownership and financial distress. This implies that profitability does not enhance the governance mechanisms related to ownership structures in mitigating financial difficulties. These findings are in line with the idea proposed by Dahmash et al. (2021) that profitability does not always enhance corporate governance effectiveness unless ownership control is substantial. However, profitability is found to strengthen the effect of liquidity on financial distress, indicating that when companies have high profitability, liquidity management becomes more effective in reducing financial pressure and minimizing bankruptcy risks. This is consistent with Jaworzyńska (2021), who stated that profitability enhances the capacity of liquidity to buffer against financial distress.

In conclusion, profitability plays a dual role in financial distress dynamics. On one hand, it may increase risk when associated with high-risk strategies; on the other hand, it enhances liquidity's ability to reduce financial distress. Compared with previous studies, this research provides new empirical evidence showing that ownership structures alone are insufficient to prevent financial distress without strong financial performance. These findings broaden the understanding of how ownership, liquidity, and profitability interact in shaping financial health, particularly in the non-primary consumer goods sector in Indonesia.

IMPLICATIONS

From a theoretical perspective, this research enriches the understanding of Agency Theory by demonstrating that ownership mechanisms alone are not sufficiently effective in controlling financial distress without being supported by strong profitability management.

From a managerial perspective, company leaders should not rely solely on ownership structure as a control mechanism but must also ensure that profitability is managed efficiently to strengthen liquidity and minimize the risk of financial distress.

From a policy perspective, regulators and investors need to consider the interaction between profitability and liquidity when assessing a company's financial stability, particularly in sectors that are vulnerable to changes in economic conditions.

LIMITATIONS

This research has two main limitations that should be acknowledged. First, the research period is limited to 2020–2024, so the results mainly represent recent conditions within a specific timeframe. Nevertheless, this period remains relevant as it includes the post-pandemic economic recovery phase, which provides a meaningful context for non-primary consumer goods companies. Second, this research focuses on non-primary consumer goods companies listed on the IDX. This focus allows for in-depth sectoral analysis while also opening opportunities for future studies to conduct cross-sector comparisons to achieve more general and comprehensive results.

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SUGGESTIONS

Future research is recommended to extend the observation period to capture corporate financial dynamics over different economic cycles. In addition, future studies may include other industrial sectors to provide a broader understanding of financial distress patterns across various corporate contexts in Indonesia.

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