

## Effect of Liquidity, Leverage, Company Size, Audit Committee on Financial Distress

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### ARTICLE INFO

### ABSTRACT

#### Keywords:

Liquidity, Leverage,  
Company Size, Audit  
Committee, Financial  
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**Introduction/Objectives:** This paper discusses the effect of liquidity, leverage, company size, and audit committee on financial distress in the hospitality, restaurant and tourism sectors. This research is important to understand the factors that influence a company's potential financial distress. **Background to the Problem:** Does liquidity, leverage, company size, and audit committee contribute to financial distress? **Novelty:** Previous research on this topic in the hospitality, restaurant and tourism sectors in Indonesia has been limited. **Research Method:** This study uses multiple linear regression analysis with a sample of 90 financial statement data from 18 companies for the 2016-2020 period selected by purposive sampling techniques. **Findings/Results:** Simultaneously, all four independent variables had a significant effect on financial distress. Partially, only liquidity, leverage and company size have a significant effect. **Conclusion:** Liquidity, leverage, and company size are important factors influencing potential financial distress in the sector. The implication is that companies need to manage these three factors optimally to mitigate the risk of financial difficulties.

**Pendahuluan/Tujuan:** Penelitian ini membahas pengaruh likuiditas, leverage, ukuran perusahaan, dan komite audit terhadap financial distress pada sektor perhotelan, restoran dan pariwisata. Penelitian ini penting untuk memahami faktor-faktor yang memengaruhi potensi kesulitan keuangan perusahaan. **Latar Belakang Masalah:** Apakah likuiditas, leverage, ukuran perusahaan, dan komite audit berpengaruh terhadap financial distress? **Kebaruan:** Penelitian sebelumnya mengenai topik ini di sektor perhotelan, restoran dan pariwisata di Indonesia masih terbatas. **Metode Penelitian:** Penelitian ini menggunakan analisis regresi linier berganda dengan sampel 90 data laporan keuangan dari 18 perusahaan periode 2016-2020 yang dipilih dengan teknik purposive sampling. **Temuan/Hasil:** Secara simultan, keempat variabel independen berpengaruh signifikan terhadap financial distress. Secara parsial, hanya likuiditas, leverage dan ukuran perusahaan yang berpengaruh signifikan. **Kesimpulan:** Likuiditas, leverage, dan ukuran perusahaan merupakan faktor penting yang memengaruhi potensi financial distress pada sektor ini. Implikasinya, perusahaan perlu mengelola ketiga faktor tersebut secara optimal untuk memitigasi risiko kesulitan keuangan.

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## INTRODUCTION

There are several sectors that contribute to Gross Domestic Product (GDP). One of them is the Hotel, Restaurant and Tourism sub-sector which is part of the Trade, Services and Investment sector. The tourism sector is one of the government's priority sectors in the 2015-2019 National Medium-Term Government Plan (RPJMN). The tourism sector can also influence the tourism supporting segments themselves, such as hotels and restaurants (Sudjiman & Sudjiman, 2020). With the establishment of the tourism sector as a priority sector of the government in the 2015-2019 RPJMN, parties related to the sector are motivated to develop their businesses by attracting the attention of investors to invest in this world.

But over the past few years there have been various events that can affect investor interest, such as natural disasters and political issues. In 2017 there was an eruption of Mount Agung, in 2018 there was a Sunda Strait tsunami and at that time the number of foreign tourists decreased drastically, in 2019 there were demonstrations carried out by certain organizations. Then in 2020 there was a Covid-19 pandemic that shook the economy. According to the minister of tourism, the impact caused by natural disasters has more influence on the tourism sector than political issues (Novita, 2019). Events like this make investors feel worried about the occurrence of financial difficulties (Financial Distress) faced by the company.

Financial Distress is a condition experienced by companies before bankruptcy (Budhijana & Nelmidia, 2018). A company can be categorized as experiencing Financial Distress or financial difficulties if the company shows negative results in operating income figures, net income and book value of equity and company mergers (Simanjuntak & Hutabarat, 2019). Financial Distress conditions in companies can be predicted by analyzing the company's financial statements using financial ratios such as Liquidity, Leverage, Company Size which are part of the ratios used in analyzing finances.

Research conducted by Yanuar (2018) states that Liquidity negatively affects Financial Distress, this is because the company has sufficient current assets to finance its short-term obligations, while Ayu Pertiwi's research (2018) states that Liquidity does not affect Financial Distress. Because one of the constituent components of current assets is accounts receivable and inventory, if these two components are used to pay current liabilities, the company will need a time that is sometimes not a short time. Each company has a different way and time to convert accounts receivable and inventory into cash which will be used to pay company obligations. Then in a study conducted by Septyanto & Welandasari (2020) stated that Liquidity has a positive effect on Financial Distress, this is because even though the company has a large enough inventory, it turns out that the inventory cannot be easily sold or used as cash because the absorption of products in the market is not so good that the company does not have enough cash to pay term obligations short resulting in delays and defaults on debts.

Research conducted by (Rohmadini et al., 2018) states that Leverage has a positive effect on Financial Distress, this is because the greater the amount of debt, the higher the probability of Financial Distress. Further research states that Leverage has no effect on Financial Distress, this is because the amount of current debt is caused by short-term operating debt. If the long-term debt is greater, it is feared that the company will experience liquidity disruptions in the future and the company's profits will also be depressed due to having to finance the loan interest (Srikalimah, 2017).

Research conducted by Rianti & Yadiati (2018) states that Company Size has a negative but not significant effect, this is because large companies are easier to obtain additional funds needed from outside parties because usually investors will invest in large companies, while subsequent research states that Company Size does not affect Financial Distress. This is because not all large companies tend to diversify their business more than small companies (Christine et al., 2019).

Research conducted by Haziro & Bramanti (2017), states that the Audit Committee negatively affects Financial Distress, this is because the higher the frequency will accelerate knowledge earlier if the company is in financial difficulty and take action also earlier before bankruptcy, while further research states that the Audit Committee does not affect Financial Distress, this is because in carrying out internal supervision and control over agents the independence of audit committee members whose role is doubtful. Supervision carried out by the audit committee on agents will not be optimal if the possibility occurs that audit committee members have special relationships with agents such as family relationships and business relationships (Cook & Noviyanti, 2019).

However, research on Financial Distress by adding non-financial factors or variables, such as (frequency of audit committee meetings) associated with variables of Liquidity, Leverage and Company Size is rarely done. So the purpose of this research that will be carried out is about the analysis of Liquidity, Leverage, Company Size and-frequency-meeting-committee-audit-against-Financial Distress.

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## LITERATURE REVIEW

### Agency Theory

According to Scott (2015) agency theory is a branch of gametheory that studies the scheme of contracts to motivate rational agents to act according to the wishes of the principal. In agency theory, the agent must be responsible to the principal for all obligations he has, but the agent can also intentionally or unintentionally hide some information related to the company's finances so that the principal does not know the actual condition. Therefore, it is necessary to control so that agents can provide actual information because if this is left unchecked it can have an impact on business continuity (going concern) and can also cause financial difficulties for the company

### Signaling Theory

According to Spence (1973) In contract theory, signaling is the idea that one party (called an agent) credibly conveys some information about himself to another party (principal). The signal given can make a great contribution to the survival of the company. Companies with good signals will report their financial statements voluntarily, so as to gain public trust and increase company value. Signaling theory explains that managers give signals to reduce information asymmetry that might occur if managers have more internal information and than external parties. Information asymmetry in companies can cause Financial Distress because investors feel they don't get profits anymore because many things are hidden by the company. (Toly et al., 2019)

### Altman Z-Score Model

Altman's z-score model or Altman bankruptcy z-score model is a model that provides a formula to assess when a company will go bankrupt, and is used to predict the likelihood of a company going bankrupt in the next 2 years using a formula filled (interpretation) with financial ratios so that certain numbers will be known to be material to predict when the possibility of a company going bankrupt (Altman, 1968b)

### Liquidity Ratio

Liquidity Ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity Ratios measure a company's ability to pay debt obligations and margin of safety through the calculation of metrics including current ratio, quick ratio, and operating cash flow ratio (Mayes, 2020b). According to Damayanti et al., (2017), Liquidity is a ratio that describes the company's ability to settle its obligations, especially its short-term obligations that can be proxied with the current ratio that can show the company's ability to settle its short-term obligations using current assets.

### Leverage Ratio

Leverage results from using borrowed capital as a source of funding when investing to expand a company's asset base and generate a return on risk capital. Leverage is an investment strategy using borrowed money in particular, the use of various financial instruments or borrowed capital to increase the potential return on investment. Leverage can also refer to the amount of debt a company uses to finance assets (Mayes, 2020). According to Nugroho et al., (2016), leverage is a ratio used as an indicator to measure the ratio of funds provided by company owners with funds borrowed from the company's creditors in other words to measure how far the company's assets are financed with debt.

### Financial Distress

Information about financial distress becomes very important for an investor. Investors have a tendency not to invest in companies with financial distress status (Carolina et al., 2017). There are studies that interpret financial distress as the condition of companies that experience liquidation, bankruptcy, failure to repay debts, until delisting from the exchange concerned. While other studies consider that companies enter a state of financial distress due to experiencing adverse

economic conditions (Khalid et al., 2020). Hek & Juwita (2017) explained that financial distress conditions begin with short-term liquidity difficulties to the toughest stage, namely bankruptcy. Meanwhile, Irfani (2020: 247) describes the condition of financial distress as the company's failure to pay off its overdue debts and accompanied by write-offs or reductions in dividend payments.

To predict corporate bankruptcy, Altman developed the Z-Score formula, which is a combination of several commonly used financial ratios, namely liquidity, profitability, leverage, solvency, and activity (Altman et al., 2017). Altman (1968) in his research uses statistical techniques multivariate discriminant analysis (MDA) to determine the discriminant coefficient of the company's financial ratios that have been selected, so that a linear equation can be produced that is able to classify companies into two categories, namely bankrupt or non-bankrupt conditions. A series of studies were conducted again by Altman and research showed the accuracy of the model reached 80-90%, with a prediction of bankruptcy one year before the company went bankrupt (Kason et al., 2020).

### Company Size

Company size is a scale or value where companies can be classified large or small based on total assets, total sales, stock value and so on (Widiastari & Yasa, 2018). According to Zadeh & Eskandari (2012), Company size is one of the most important factors that affect the level of risk disclosure and the way company size is measured is by analyzing it, there are several ways to analyze company size, namely by measurement. The method of measuring company size includes measuring total sales (turnover, TS), total assets, market capitalization, total revenue, total book value of debt and market value of equity and number of employees.

### Komite Audit

In Article 1 paragraph (1) of OJK Regulation 55/2015, the audit committee is a committee formed by and responsible to the board of commissioners in assisting in carrying out the duties and functions of the board of commissioners.

## HYPOTHESIS DEVELOPMENT

### Relationship between Liquidity and Financial Distress

If the company's current assets are high, it can guarantee if the company can cover the company's current debt and vice versa, this can also show that if the company can pay short-term obligations before the agreed time, the Company can minimize the possibility of Financial Distress (Rohmadini et al., 2018). Yanuar (2018) in his research stated that Liquidity affects Financial Distress negatively because the company's short-term obligations can be met by the company by using its current assets, so the researcher proposed a hypothesis, namely:

H<sub>1</sub>: Liquidity partially negatively affects Financial Distress.

### The Relationship between Leverage and Financial Distress

Financial Distress is not only about the company's inability to fulfil its obligations in the Liquidity section but also in the solvency section. Debt to asset ratio which serves to determine the amount of debt influence in financing assets used by the company (Aisyah et al., 2017). Rohmadini et al., (2018) in their research stated that Leverage affects Financial Distress positively, this happens because the greater the amount of debt, the higher the probability of Financial Distress so that the hypothesis proposed is:

H<sub>2</sub>: Leverage partially has a positive effect on Financial Distress.

### Relationship between Company Size and Financial Distress

The size of the company can be used as a tool to determine the possibility of bankruptcy in the company, where large companies are considered to be able to better face problems that occur in the company, especially financial problems (Christine et al., 2019). Rianti & Yadiati (2018) in their research resulted in the Company Size having a negative effect, this is because large companies are easier to obtain additional funds needed from outside parties because usually investors will invest in large companies so that the hypothesis proposed:

H<sub>3</sub>: Company Size partially negatively affects Financial Distress

## Relationship between Audit Committee and Financial Distress

Supervision in agency theory is the most important thing in analyzing the company, especially in analyzing financial conditions. Regular audit committee meetings can improve performance and ensure integrity in the submission of financial statements so that they can review the company's operating activities effectively (Gunawijaya, 2015). Haziro & Bramanti (2017) in their research resulted that the Audit Committee affects Financial Distress negatively, this can happen because more and more audit committee meetings can find out early about the problems that will occur in the company, especially problems related to the company's financial difficulties and related parties can also take what steps must be taken in order to be able to Minimizing the occurrence of financial difficulties that can cause bankruptcy so that researchers propose hypotheses, namely:

H<sub>4</sub>: Audit Committee partially negatively affects Financial Distress

### Research Model

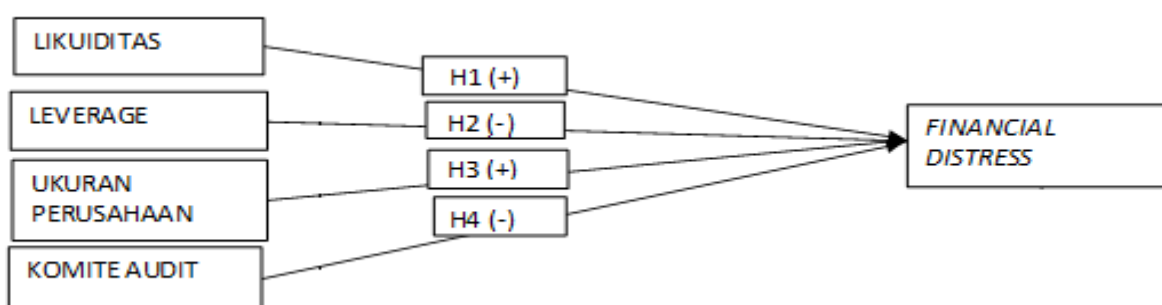


Figure 2. Research Framework

## RESEARCH METHOD

In this study using 4 variables namely Liquidity, Leverage, Company Size and Audit Committee and one dependent variable is Financial Distress. Liquidity measurement is calculated by the current ratio, namely current assets divided by current liabilities in research (Yanuar, 2018). (Yanuar, 2018) Leverage measurement is calculated by Debt Ratio, namely total liabilities divided by total assets in the study (Rohmadini et al., 2018). Company Size Measurement is calculated by Natural Asset Logarithm in research (Rianti & Yadiati, 2018). Audit Committee measurement is calculated by the frequency of audit committee meetings in (Haziro. A L, Bramanti. G W, 2017) and Financial Distress measurements are calculated using the Altman Model 3 formula (Altman, 1968b). The research design that is determined is a causality research design, namely the relationship between cause and effect. The variables determined in this study are independent variables, namely Liquidity, Leverage, Company Size, and Audit Committee while the dependent variable is Financial Distress.

The data in this study was sourced from the [www.idx.co.id](http://www.idx.co.id) and websites of their respective companies, the population in this study was Hotel, Restaurant and Tourism sector companies listed on the IDX, of which there were 180 data consisting of 36 companies. The sample in this study was 90 data consisting of 18 companies. This study uses purposive sampling techniques, where researchers use their own deliberate judgment in selecting members of the population who are considered to be able to provide the necessary information or sample units that match certain criteria desired by the researcher. Researchers determine the sample to be determined based on criteria that have been decided. These criteria are Hotel, Restaurant and Tourism sector companies listed on the Indonesia Stock Exchange in 2016-2020, companies that do not use foreign currencies in their financial statements during the 2016-2020 period.

This study used quantitative analysis methods. The data were analyzed using classical assumption tests and hypothesis tests. The classical assumption test is the Normality Test, Multicollinearity Test, Heteroscedasticity Test, Autocorrelation Test. Multiple liner analysis, Model feasibility test (F test) and hypothesis test (t test) and determination coefficient (R<sup>2</sup>). Data is processed using data processing software. According to (Anwar, 2014), multiple linear regression is an extension

of simple linear regression useful for determining the influence between independent variables and dependent variables. The following regression equation in this study is:

$$FD = a - \beta_1 LKD + \beta_2 LVG - \beta_3 UKP - \beta_4 KO + e$$

RESULTS

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
Liquidity	90	0.208	8,346	2.114	1.826
Leverage	90	0.110	1.000	0.400	0.171
Company Size	90	65,103,319,418,000	28,574,866,571,647,000	2,936,789,676,198,360	4,318,415,702,966,650
Audit Committee	90	0.500	18.750	1.947	2.996
Financial Distress	90	3.098	13.616	4.282	3.127

There are 90 samples of data on companies in the Hotel, Restaurant and Tourism sector based on table 1. Average liquidity is 2,114 with a maximum value of 8,346 and a minimum value of 0.2080. Meanwhile, Leverage has an average value of 0.400 and a maximum of 1,000 and a minimum value of 0.110. Company Size yields an average of 2,936,789,676,198,360 with a maximum value of 28,574,866,571,647,000 and a minimum value of 65,103,319,418,000. The Audit Committee has an average of 1,947 with a maximum score of 18,750 and a minimum score of 0,500. Financial Distress averaged 4.282 with a maximum value of 13.616 and a minimum value of -3.098.

The equation above can be interpreted that  $\beta_1$  of 0.359 which means Liquidity (LKD) positively affects Financial Distress, which means if Liquidity is high then Financial Distress also increases. Then,  $\beta_2$  of -4.213 which means that Leverage (LVG) negatively affects Financial Distress, which means that if Leverage is high then Financial Distress will be low and vice versa. Then,  $\beta_3$  of -0.485 means that the size of the company affects the financial distress negatively, which means that the larger the size of the company, the lower the financial distress and,  $\beta_4$  of -0.000 which means that the audit committee does not affect the financial distress, which means that many audit committee meetings cannot determine the financial distress of the company.

The normality test based on the processed data, using the Kolmogorov-Smirnov sample data test shows that the value of Asymp. Sig. is 0.200 and the value is greater than 0.05 which means the data is spread normally. Furthermore, for the multicollinearity test, based on the table in the appendix produces results that there is no multicollinearity that occurs between dependent variables in the regression model because it shows the tolerance value that all independent variables each produce a tolerance value of more than 0.10 and a VIF value of less than 10. For heteroscedasticity test using Glejser test. Based on the heteroscedasticity test table with the Glejser test method in the appendix, it can be concluded that the symptom of heteroscedasticity does not occur because it shows the value of Sig. each variable is greater than 0.05.

The autocorrelation test of this study used the Durbin Watson (DW) test. According to the autocorrelation testing table on the appendix, it can be seen that the statistical value of DW is 1.878. The dU value to look for in the DW table value distribution is based on the number of variables used (k=4) and the number of samples (N=88). The results of this study  $dU < DW < (4-dU)$  which is  $1.749 < 1.878 < 2.122$  which can be interpreted that DW is at intervals so that there are no symptoms of autocorrelation.

The F test is used to determine the effect between all independent variables on the dependent variable. The decision taken on this test based on such things, is said to be unfit for use in research if  $Sig F > 0.050$ ; and to be feasible to use the result model of the f test must produce a  $Sig F < 0.050$ . Based on the F test table data in the appendix, it can be seen from the results of F value data of 5.818 and significance value of 0.000 so as to produce that Liquidity (LKD), Leverage (LVG), Company Size (UK) and Audit Committee (KO) on Financial Distress have a joint influence.

Table 2. Partial Test (Test t)

Model	Beta	Sig	Result
Constant	18.530	0.004	
Liquidity	0.369	0.038	Rejected
Leverage	-4.213.831	0.024	Rejected
Company Size	-0.485	0.025	Accepted
Audit Committee	0.000	0.998	Rejected

Based on table data, it can be concluded from the test results of linear regression analysis as follows: In the variable Liquidity shows a value of Sig. 0.038 which is smaller than 0.05 but Liquidity has a positive effect on Financial Distress so that the hypothesis of Liquidity affecting Financial Distress is rejected. The variable Leverage shows a value of Sig. 0.024 which is smaller than 0.05, but the Leverage has a negative and partially significant effect on Financial Distress. So the hypothesis of Leverage positively affecting Financial Distress is rejected. The Company Size variable shows a Sig. value of 0.025 which is smaller than 0.05, thus the Company Size has a negative and partially significant effect on Financial Distress. So the hypothesis of Company Size negatively affecting Financial Distress is accepted. In the Audit Committee variable shows a value of Sig. 0.998, this value is greater than 0.05, thus the Audit Committee partially does not affect Financial Distress. So the hypothesis of the Audit Committee negatively affecting Financial Distress is rejected. For the coefficient of determination test, based on the table in the appendix, the Adjusted R Square value in this study in the Hotel, Restaurant and Tourism sector listed on the Indonesia Stock Exchange is 0.181 this indicates that 18.1% of the company's Financial Distress can be explained by Liquidity, Leverage, the size of the Company and Audit Committee while the rest that can be explained by other things outside of this study is 81.9%. This can happen because researchers do not pay attention to macroeconomic conditions that can occur and can affect Financial Distress and researchers in this study only look at the company's fundamentals.

#### The Relationship of Liquidity with Financial Distress

The first hypothesis is the negative influence of liquidity on financial distress. The results of statistical analysis in this study conducted on the Hotel, Restaurant and Tourism sector listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019 resulted that Liquidity positively and significantly affected Financial Distress. So if the higher the Liquidity will cause a significant upside risk in Financial Distress. The results of this research are not in line (Chrissentia & Syarief, 2018) in their research, but in line with the results of research conducted by (Made & Septiani, 2019) which states that liquidity positively affects Financial Distress.

Liquidity as a measuring tool to measure a company's ability to meet its short-term obligations. The liquidity level of Hotel, Restaurant and Tourism subsector companies listed on the IDX for the period 2015 to 2019 has an average level of 211,400%, a minimum value of 20.8% and a maximum value of 834.6%. When the amount of the company's current assets is greater than the amount of the company's current debt, the amount of liquidity level that the company has will be higher. The higher the liquidity ratio is good because the company can meet its short-term obligations, but on the other hand, if liquidity is high, it can also indicate that the company has the possibility of inefficiency in using current assets which results in low profits due to the large amount of unused cash and this can cause problems that can affect the higher Financial Distress.

#### The Relationship of Leverage with Financial Distress

The second hypothesis is the positive influence of leverage on financial distress. The results of statistical analysis in this study conducted on the Hotel, Restaurant and Tourism sector listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019 found that Leverage is negative and significantly affects Financial Distress. So if the higher the Leverage results in the lower the possibility of Financial Distress and the lower the Leverage, the higher the level of possibility of financial difficulties. This research is not in line with the results of the study (Rohmadini et al., 2018), but in line with the results of the study (Made & Septiani, 2019) which states that liquidity has a negative effect on Financial Distress.

Leverage where to increase returns or profits in the company is shown by the level of debt or loan funds used. The level of leverage in Hotel, Restaurant and Tourism subsector companies listed on the IDX for the period 2015 to 2019 has an average level of 40,000%, a minimum value of 11,000% and a maximum value of 100,000%. When the amount of the company's liabilities is greater than the amount of the company's assets, the amount of leverage that the company has will be higher. The higher the Leverage indicates that the company in carrying out its operational activities uses more funds sourced from debt, the use of Leverage must also be supported by the achievement of high profitability because if the level of profitability is low the company will have difficulty paying its debts, because the increase in profitability must be proportional to the increase in Leverage so as to reduce the risk of possible Financial Distress.

### The Relationship of Company Size with Financial Distress

The third hypothesis is that there is a negative influence between Company Size and Financial Distress. Based on the results of statistical analysis in this study, it was found that Company Size negatively and significantly affected the company's Financial Distress in Hotel, Restaurant and Tourism sector companies listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 period. This shows if the large Company Size can cause a low possibility of Financial Distress and if the Company Size is small then the level of possibility of Financial Distress becomes high. The results of this study are in line with the results of research by Rianti & Yadiati, (2018) which states that Company Size has a negative and significant effect on Financial Distress

Company size can be measured one of the company's total assets and can be used as a measurement tool, scale or variable that can show the size or size of a large company. The size of the Company in the Hotel, Restaurant and Tourism subsector companies listed on the IDX for the period 2015 to 2019 has an average rate of 2,788.6%, a minimum value of 2,489.9% and a maximum value of 3,098.40%. When the amount of company assets is high, the size of the company is getting bigger. The larger Company Size indicates that the company can obtain funding sources both internal and external which can be in the form of retained earnings, debt and stock issuance. So that if the size of the company is getting bigger, it will affect the low level of possibility of Financial Distress.

### Audit Committee's Relationship with Financial Distress

The fourth hypothesis is that there is a negative influence between the Audit Committee on *Financial Distress*. The results of this study on Hotel, Restaurant and Tourism sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019 found that the Audit Committee did not affect the company's Financial Distress. This shows that if the company often or does not conduct audit committee meetings, it will not be able to affect the high level of low likelihood of Financial Distress. The results of this study are contrary to the research conducted by (Haziro. A L, Bramanti. G W, 2017), but this result is in line with (Cook & Noviyanti, 2019) which states that the frequency of committee meetings does not affect Financial Distress.

The number of audit committee meetings shows the many and least audit committee meetings conducted by the audit committee of a company. The frequency of audit committee meetings in Hotel, Restaurant and Tourism subsector companies on the IDX for the period 2015 to 2019 has an average of 194.7% with a maximum value of 1,875.00% and a minimum value of 50.00%. Audit Committee meetings are very important to discuss financial problems that occur in a company. This research results that the increasing number of audit committee meetings will not affect the occurrence of Financial Distress and also the agency's theory is not aligned with this study. This insignificance is because the average value in the Audit Committee variable does not represent or support the average Financial Distress variable. This insignificance can occur because the Company may hold audit committee meetings as a mere formality to comply with Government Decree No: KEP-29 / PM / 2004 and many supervisory body meetings have also not been able to change the pattern of management behaviour.

## CONCLUSION

Based on this research regarding the effect of Liquidity, Leverage, Company Size and Audit Committee on Financial Distress in hotel, restaurant and tourism companies listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 period, it can be concluded that Liquidity, Leverage, Company Size and Audit Committee simultaneously influence Financial Distress; Liquidity partially has a positive effect on Financial Distress; Leverage partially negatively affects Financial Distress; Company Size partially negatively affects Financial Distress and the Audit Committee partially does not affect Financial Distress.

Therefore, researchers hope that further research will produce better results by conducting research more broadly by examining other company sectors in the Indonesia Stock Exchange (IDX) that are still rarely studied; add other independent variables, such as sales growth, cash flow and Good Corporate Governance (GCG), auditing and taxation; add the number of samples; and add more years of research than this study, because the results of this study in the sector studied, the dependent variables included in this research can only explain 18.1% regarding the factors that can affect Financial Distress while the remaining 81.9% can be influenced by other things that researchers do not include in this study.



## MANAGERIAL IMPLICATION

The results showed that liquidity, leverage, and company size are important factors that influence the potential for financial distress. The implication is that company management needs to manage these three factors optimally in order to mitigate the risk of financial difficulties. For example, maintaining optimal current ratios, using debt wisely based on profitability, and considering business expansion or consolidation based on asset size. For companies, it is better to pay attention to asset management, especially current assets, ensure that available current assets are sufficient to finance the company's current liabilities and excessive current assets are also not good and if current assets are too high can be transferred to other long-term investments and also strive to innovate and adapt in various situations faced. The results show that liquidity, leverage, and company size are significant factors affecting potential financial distress in the hotel, restaurant and tourism sector. The implications are that companies need to optimally manage these three factors to mitigate the risk of financial difficulties. For example, maintaining an optimal current ratio, using debt judiciously based on profitability, and considering business expansion or consolidation based on asset size. Audit committees, while important for governance, may not directly influence short-term distress. But their monitoring role remains vital. Overall, a balanced approach is needed - pursuing growth while ensuring financial health.

## LIMITATION AND FUTURE RESEARCH

There are several limitations in this study such as, Researchers only use several independent variables namely Liquidity, Leverage, Company Size and Audit Committee; Researchers only use a sample of 18 companies with purposive sampling technique; and the research period is only 5 years from 2015-2019. Other limitations that can be improved for future research. First, it only examines one industrial sector. Further studies can expand the sample to companies from other sectors. Second, it uses a relatively small sample size. Expanding the number of companies analyzed can improve generalizability. Additionally, only four explanatory variables are included. Considering more financial ratios and corporate governance metrics may yield new insights. Extending the time period covered may also reveal trends over a full business cycle. Finally, incorporating qualitative data through interviews and surveys can provide a more comprehensive understanding in conjunction with the quantitative findings. Addressing these limitations can produce novel contributions to the financial distress literature. Since this research is only limited to certain variables and sectors, future research can expand its scope by examining other sectors that are rarely studied on the IDX; adding other independent variables; increase the number of samples; as well as the period of the study year. Because the results of this study were in the sector studied, the dependent variable included only explained 18.1% of the factors that affect financial distress.

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