ABSTRACT

The manufacturing sector contributes approximately one-fifth of Indonesia's GDP. However, data from the Financial Services Authority (OJK) as of September 11, 2024, shows that 7 out of 8 companies exempted from reporting due to bankruptcy originated from this sector. This highlights the high vulnerability of the manufacturing industry to financial distress, especially amid external pressures such as the COVID-19 pandemic and global trade tensions. Based on this background, the study aims to identify key factors influencing financial distress to support more effective risk mitigation strategies.

This research examines the effect of financial ratios, specifically liquidity and profitability, as well as corporate governance aspects, namely institutional ownership and board independence, on financial distress. In addition, the study investigates the moderating role of firm size to determine whether business scale strengthens or weakens the relationship between these factors and financial distress.

Using a quantitative approach and panel data regression on 205 manufacturing firms listed on the Indonesia Stock Exchange during the 2019–2023 period, the study finds that all independent variables have a significant simultaneous effect on financial distress. Profitability consistently shows a significant positive effect, while liquidity becomes significant only after being moderated by firm size. Conversely, institutional ownership and board independence do not exhibit significant influence. These findings are expected to help management and investors detect early warning signs of financial distress and design financial and governance strategies tailored to the scale of the business.

***Keywords**: Financial distress , Financial Ratios, Corporate Governance, Firm size, Panel Data Regression*