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The Role of Firm Attributes in Financial Distress Risk

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ARTICLE INFORMATION	ABSTRACT
	This study investigates the impact of firm variables such as corporate reputation, firm size, leverage, financial slack, and depreciation on the financial distress risk. The sample contains 1,789 non-financial public businesses registered on the Indonesia Stock Exchange (BEI) from 2021 to 2023. To evaluate the provided hypotheses, perform multiple regression analysis using the STATA application. According to the data, organizations with a good reputation and high liquidity are less likely to experience financial distress. Companies with greater sizes, higher leverage, and higher depreciation rates, on the other hand, are more likely to experience financial distress. This study broadens understanding of the elements influencing financial distress risk by concentrating on the financial side of businesses. Furthermore, the findings are expected to provide management with valuable insights into the importance of firm attributes (such as corporate reputation, firm size, leverage, financial slack, and depreciation) in managing financial distress risk, particularly in light of the economic impact of the COVID-19 pandemic.

INTRODUCTION

One of the largest risks for businesses is the possibility of financial distress, particularly in light of the current state of the world economy. A worldwide crisis, financial misery is represented in the high number of bankruptcies and business failures. This illness has the potential to impair business operations and perhaps cause bankruptcy. When a company's finances are in crisis or unhealthy, it is said to be in financial distress (Utama and Setiawati, 2022). Financial distress that significantly disrupts the business's operations is a condition that needs to be quickly anticipated and monitored. The inability of the business to fulfill its responsibilities, particularly those that are short-term in nature, such as liquidity and solvency commitments, is the first sign of financial crisis.

As a consequence of the COVID-19 pandemic and the broader trend of economic instability on a worldwide scale, businesses, particularly those operating in the non-financial sector, are now more susceptible to experiencing financial distress. To ensure that businesses are able to maintain their financial stability, it is essential to have a solid understanding of the factors that influence the possibility of experiencing financial distress. It is believed that a number of company variables, including as depreciation, leverage, financial slack, corporate reputation, and size, all have a role in determining the degree of risk connected to the possibility of experiencing financial distress.

Corporate reputation, firm size, leverage, financial slack, and depreciation are some of the very essential company qualities that might have an impact on the likelihood of a company experiencing financial distress. The reputation of a corporation is made up of the opinions of its stakeholders regarding the organization's honesty, the quality of its products, and its commitment to social responsibility. The findings of previous research conducted by Walsh et al. (2009) demonstrated that a high reputation can serve as a safeguard against financial distress. This is due to the fact that a great reputation boosts the confidence of both investors and creditors. Additionally, the size of the company is believed to be a crucial indicator that plays a role in determining the level of danger that a company has about its financial distress. According to Titman and Wessels (1988), large corporations typically have better access to financial resources and markets, which can have the effect of lowering the likelihood of experiencing financial crisis. However, on the other side, a huge size is sometimes connected with high operational costs, which can be a burden for the company when it is experiencing financial difficulties. Leverage, often known as the amount of debt held by the organization, is another element that is a key cause for concern. According to research conducted by Altman (2013), businesses that have a high level of leverage are more susceptible to experiencing financial stress as a result of the significant interest expenses and principal payment commitments they have. On the other hand, leverage can be a useful strategic tool in some situations, such as when it is used to support projects that will boost future cash flow. In the meantime, financial slack, which may be defined as a financial reserve in the form of cash or liquid assets, provides businesses with the flexibility to deal with unforeseen circumstances.

On the other hand, the depreciation of fixed assets, also known as the depreciation expense, is another factor that plays a significant part in evaluating the overall financial health of a corporation. A high depreciation expense can have a negative impact on the net profit of the organization, which in turn can have an effect on the operating cash flow. According to the findings of Graham et al. (1998), businesses that have high depreciation rates appear to be at a greater risk of experiencing financial distress. This is especially true in situations where the depreciation is not compensated for by sufficient operational income.

Although a complete investigation of the association between each component and the chance of experiencing financial distress has been conducted, there are still gaps in the research. The purpose of this study is to fill this void by investigating the impact of factors such as corporate reputation, company size, leverage, financial slack, and depreciation on the risk of financial distress in 1,789 non-financial companies that were listed on the Indonesia Stock Exchange (IDX) between the years 2021 and 2023. Through the use of multiple regression analysis, the purpose of this study is to improve the understanding of the factors that influence the risk of financial distress in Indonesian businesses. Through the utilization of the Resource-Based View (RBV) paradigm, this research presents evidence that indicates how business characteristics can function as strategic resources in the context of financial risk management. According to the Resource-Based View (RBV), a popular theory in the field of strategic management, the internal resources of a company are of the utmost importance in order to achieve a sustained competitive advantage.

Multiple regression analysis indicates that firms with a robust reputation and substantial liquidity are less prone to financial distress. Larger companies with increased leverage and elevated depreciation rates are more prone to financial distress. This study enhances comprehension of the factors affecting financial distress risk by focusing on the financial aspects of enterprises. The findings are anticipated to furnish management with critical insights regarding the influence of financial factors—such as corporate reputation, firm size,

leverage, financial slack, and depreciation—on the management of financial distress risk, especially considering the economic repercussions of the COVID-19 pandemic.

LITERATURE REVIEW
Corporate Reputation and Financial Distress Risk

According to Chun (2005), the reputation of a firm has an impact on how many stakeholders view it. These stakeholders include customer loyalty, employee retention policies, and customer happiness. According to Sageder et al. (2018), the reputation of a company is the most important intangible asset that it possesses. This is due to the fact that it has the potential to maximize the company's ability to deliver high-value goods and services, raise the company's competitive advantage, and improve the trust within the target audience. It has the potential to alleviate concerns among stakeholders over the future success of the organization. According to Aminatuzzuhro et al. (2024), a firm's reputation can be considered an intangible strategic asset with considerable commercial value if the market believes in the company's goal. This provides the company with a competitive advantage and enables it to perform better.

The Resource-Based View Theory posits that a strong reputation constitutes a strategic resource for a corporation that is valuable, scarce, unique, and non-substitutable. A strong reputation serves as a strategic asset, aiding firms in attracting investors, enhancing relationships with creditors, and bolstering customer trust, therefore mitigating the danger of financial difficulty. Prior research, including that of Aminatuzzuhro et al. (2024), substantiates the assertion that a favorable business reputation adversely affects the probability of financial difficulty. Tischer and Hildebrandt (2014) corroborate this, demonstrating that firms with a strong reputation are more adept at maintaining financial stability during challenging economic conditions. The research indicates that a strong corporate reputation enhances a company's appeal to stakeholders and reduces the likelihood of financial distress. The proposed theory is as follows:
H1: Corporate reputation has a negative effect in financial distress risk

Firm Size and Financial Distress Risk

Firm size is usually measured by total assets, revenue, or market capitalization. Larger firms are considered to have more resources that can be used to deal with financial distress, such as liquidable assets, easier access to capital markets, and stronger bargaining power with creditors. Resource-Based View Theory (RBV) explains that firm size can be considered as one of the firm's attributes that reflects the accumulation of internal resources that have the potential to help firms manage financial risk. According to RBV, the resources owned by a firm, including those related to firm size, can provide a competitive advantage and affect the firm's ability to deal with financial distress. Larger firms typically have more financial, physical, and human resources than smaller firms. From the RBV perspective, these resources meet the characteristics of "valuable" because they help firms face operational and financial challenges. Large companies, for instance, typically have better access to outside finance, whether in the form of debt or stock, which can lower the likelihood of financial distress. According to Kusufiyah and Anggraini (2019), huge companies' resources are better suited to accomplish specific objectives. With the assets in place, the business can take advantage of additional chances to build a business that intends to boost its financial performance and lower the likelihood that it will face financial distress. A huge business, as shown by its substantial assets, can generate higher earnings, among other outcomes. in order for the business to expand significantly and be able to pay off both short- and long-term obligations in order to stay out of financial distress (Utama & Setiawati, 2022). Thus, the proposed hypothesis is:
H2: Firm Size has a negative effect in financial distress risk

Leverage and Financial Distress Risk
The leverage ratio is a ratio that is utilized to determine the degree to which a company's assets are capitalized through the utilization of debt (Dirman, 2020). Leverage refers to the utilization of debt within the capital structure of a corporation for the purpose of financing either operational or investment activities. There is a

correlation between high levels of leverage and increased financial risk. This is due to the fact that the firm is required to fulfill its obligations to pay interest and principal on a quarterly basis, regardless of the economic state of the company. As a result, leverage is a crucial component that plays a role in determining the likelihood of experiencing financial distress. Previous research has determined that there is a correlation between the use of leverage and the likelihood of experiencing financial distress. Leverage establishes a fixed responsibility to pay interest and principal on debt, which can be a considerable strain on a company's cash flow. This obligation is brought about by high leverage. In the context of the Resource-Based View Theory, a large debt burden is an example of a resource that is not considered "valuable" if it does not contribute to the financial stability of the organization. Due to the fact that a significant financial load can deplete other resources, such as liquidity and operational flexibility, the likelihood of experiencing financial distress is substantially increased. The research conducted by Altman (1968), which was responsible for the introduction of the Z-score model, demonstrated that high leverage is one of the primary markers that might forecast the bankruptcy of a corporation. According to the findings of this study, businesses that have a high level of leverage have a bigger financial burden, which indicates that they are more susceptible to financial strain, particularly when market conditions are unstable. As a result, the hypothesis that has been offered is:
H3: Leverage has a positive effect in financial distress risk

Financial Slack and Financial Distress Risk
According to Boubaker et al.'s research from 2020, the term "financial slack" refers to the relation between total assets and cash and cash equivalents. According to the pecking order theory, companies that have more financial wiggle room are often less indebted and less dependent on capital from outside sources. Boubaker et al. (2020) found that financial slack is negatively related to the risk of financial distress. Financial slack refers to the financial resources available within a firm that are not tied to daily operational needs, such as cash, liquid assets, and unused borrowing capacity. Financial slack is often considered a financial reserve that gives firms a cushion to deal with uncertain conditions or take advantage of investment opportunities without having to rely on external financing. In the context of financial distress risk, financial slack can serve as a cushion that helps firms survive when facing financial stress. A high degree of financial slack, according to Zhang et al. (2020), provides managers greater control, aids businesses in adapting to different environmental changes, and enables businesses to successfully handle unforeseen demands and possibilities. Financial slack is regarded as one of the key elements that might lower the risk of financial distress by enhancing the company's capacity to handle financial disruption and health, according to the findings of earlier research. Therefore, the proposed hypothesis is:
H4: Financial slack has a negative effect in financial distress risk

Depreciation and Financial Distress Risk
Depreciation is the systematic distribution of the decrease in value of fixed assets employed in a company's operations. Although depreciation is a non-cash expense, high depreciation rates frequently reflect the extensive usage of fixed assets in a company's activities. Depreciation in the context of financial distress risk can have both direct and indirect consequences, depending on the company's asset management and financial structure. Tangible assets improve a company's ability to collateralize debt, resulting in additional debt financing, and so may be positively related to financial distress (Boubaker et al., 2020). At the same time, high depreciation can drastically lower a company's net income, limiting its capacity to satisfy financial obligations and increasing the danger of financial distress. Furthermore, because they rely heavily on fixed assets, companies with high depreciation rates sometimes have higher operational costs. This dependence can lead to increased financial stress, particularly in turbulent market conditions. As a result, this analysis predicts a positive relationship between the depreciation ratio and the probability of financial distress. Overall, high depreciation rates are frequently regarded as a sign of increasing financial risk, particularly if not mitigated by effective fixed asset and financial management. Thus, the hypothesis suggested is:
H5: Depreciation has a positive effect in financial distress risk

RESEARCH METHODS

Data Sources and Sample Selection

This research utilized an initial sample of all publicly traded companies in Indonesia, except those classified under SIC code 6 (listed on the Indonesia Stock Exchange). The sample period commenced in 2021 due to the heightened significance of financial distress risk following the economic devastation caused by the COVID-19 pandemic. The pandemic profoundly affected the global economy, resulting in economic challenges (Khan, 2022; Aminatuzzuhro et al., 2024) and supply chain disruptions (Hosseini & Ivanov, 2022; Orlando et al., 2022). These attributes increased the probability of organizations encountering financial difficulties or insolvency (Bozkurt & Kaya, 2023). Consequently, management can enhance organizational sustainability by comprehensively comprehending the factors that affect financial distress risk post-economic crisis.

Initially, 2,805 firm-year observations were included in the list of Indonesian publicly traded businesses from 2021 to 2023. Because the financial sector (SIC code 6) is subject to unique rules that make it incomparable to other industries, the study then eliminated 519 observations from this sector (Guizani & Abdalkrim, 2023). This exclusion was aimed at ensuring more consistent and comparable analysis (Ngelo et al., 2023; Aminatuzzuhro et al., 2024). Additionally, 497 firm-year observations were removed from the sample due to incomplete data. After this filtering process, the final sample comprised 1,789 firm-year observations. All data used were obtained from the financial reports of the respective companies. Details of the sample selection procedure are presented in Table 1.

Table 1. Sample Selection Procedure

Descriptions	Sample Size
The total observed population of the research (2021 – 2023)	2,805
(-) Financial firm with SIC 6	519
(-) FDR missing data	79
(-) REPU missing data	310
(-) DAR missing data	108
Total data final sample size (N)	1,789

Source: Processed data, 2024

Sample Distribution

Table 2 presents the sample distribution based on industry categories and year. This research involves a sample from various non-financial industries grouped according to the one-digit main code of the Standard Industrial Classification (SIC). The study period covers the years 2021 to 2023.

Table 2. Sample Distribution by Industry and Year

SIC	YEAR			Total
	2021	2022	2023	
(SIC 0) Agriculture, forestry, and fisheries	28	35	37	100
(SIC 1) Mining and construction	90	92	102	284
(SIC 2) Manufacturing (1)	124	132	136	392
(SIC 3) Manufacturing (2)	72	79	84	235
(SIC 4) Transportation, communications, and utilities	83	86	99	268
(SIC 5) Wholesale and retail trade	68	77	84	229
(SIC 7) Service (1)	61	64	82	207
(SIC 8) Service (2)	20	24	30	74
Total	546	589	654	1,789

Source: Processed data, 2024

The following are the sample distribution results based on industry and year. The plastic, metal, and equipment manufacturing industry (SIC 3) has the largest sample size, with a total of 392 observations. This aligns with the report from the Ministry of Industry of the Republic of Indonesia (2022), which highlights the manufacturing sector as a primary contributor to the gross domestic product (GDP). On the other hand, the professional services, museums, and other services sector (SIC 8) has the smallest sample size, with only 74 observations. With a total of 654 observations, 2023 recorded the largest sample size in terms of years. Conversely, 2021 had the smallest sample size, with only 546 observations. Based on annual data, there is a noticeable increase in the sample size each year throughout the study period.

Variable Definitions and Measurement
Dependent Variable
This study primarily examines the various financial elements influencing the likelihood of financial trouble. In this study, Financial Distress Risk (FDR) serves as the dependent variable. This study employs the Altman Z-score as a proxy to assess FDR. An elevated Z-score indicates a diminished likelihood of financial distress, as per previous studies (Boubaker et al., 2020; Kuzey et al., 2023; Shan et al., 2023; Aminatuzzuhro et al., 2024). Table 3 presents the formula employed to calculate the Altman Z-score in this study.

Independent Variables
This study examines five independent variables in order to determine their impact on financial distress risk. The first variable is Corporate Reputation (coded as REPU), which assesses stakeholders' perceptions of the company's credibility based on historical performance and market reputation relative to competitors. The second variable, Firm Size (coded as FSIZE), shows the company's operational scale based on total assets. The third variable is Leverage (coded as DAR), which represents the ratio of a company's debt to its total assets and provides an overview of the company's reliance on debt-based financing. The fourth variable, Financial Slack (coded as SLACK), indicates the company's level of financial flexibility. SLACK demonstrates the company's capacity to use its liquid resources to combat uncertainties or capitalize on unexpected possibilities without requiring external investment. The last variable is Depreciation (coded as DEP), which calculates the depreciation expense of the company's fixed assets, reflecting the periodic costs connected with their use in business activities. Each independent variable is estimated using the formulas shown in Table 3. The purpose of selecting these variables is to capture numerous financial features of organizations that can have a complete impact on financial distress risk.

Empirical Model
The goal of regression analysis is to identify how changes in independent variables (X) affect the value of the dependent variable (Y) (Nuswantara et al., 2023). This study uses multiple regression analysis to investigate the impact of corporate reputation, business size, leverage, financial slack, and depreciation on financial distress risk. So, the regression equation utilized is as follows:

$$FDR_{i,t} = \beta_0 + \beta_1 REPU_{i,t} + \beta_2 FSIZE_{i,t} + \beta_3 DAR_{i,t} + \beta_4 SLACK_{i,t} + \beta_5 DEP_{i,t} + \beta_6 \text{Industry FE}_{i,t} + \beta_7 \text{Year FE}_{i,t} + \varepsilon_{i,t} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(1)$$

In this study, the regression model was computed using STATA software. To address potential problems caused by outliers or extreme data points, a winsorization method was applied to all continuous variables, with the 1st and 99th percentiles used as threshold limits (Shan et al., 2023; Aminatuzzuhro et al., 2024).

RESULT AND DISCUSSION
Result
Descriptive Statistics
By determining the minimum, maximum, mean, median, and standard deviation, descriptive statistics are a method of data analysis that are used to summarize data generally or in a generalized form. Table 4 displays the findings from the test of descriptive statistics. The corporation has the biggest danger of financial distress,

as indicated by its minimum FDR value of -122.368. In the meanwhile, the company has the lowest risk of financial distress, as indicated by its highest FDR rating of 95.767. Financial distress risk varies significantly, as evidenced by the average FDR of 6.254, median of 2.842, and standard deviation of 13.141. Additionally, the ranges of the variables FSIZE and REPU are somewhat small. The REPU value has a mean of 27.921, a median of 27.795, a standard deviation of 1.925, and a minimum of 23.972 and a maximum of 32.446. FSIZE has a mean of 28.204, a median of 28.157, a standard deviation of 1.891, and a minimum value of 23.170 and a maximum value of 32.412. This suggests that the distribution of these two variables is somewhat uniform.

The ratio variables DAR, SLACK, and DEP have average values of 0.418, 0.131, and 0.037, respectively. DAR has a minimum value of 0.026, a maximum of 1.000, and a standard deviation of 0.230. SLACK has a minimum value of 0.001 and a maximum of 0.676, with a standard deviation of 0.143, showing significant variety in cash reserves between organizations. Meanwhile, DEP has a minimum value of 0.000 and a maximum of 0.181, with a standard deviation of 0.035, indicating a narrow distribution of depreciation ratios.

Table 3. Variable Definitions

Variables	Definitions	Measurement	Sources
Dependent variable			
FDR	Financial distress risk (Boubaker et al., 2020; Kuzey et al., 2023; Aminatuzzuhro et al., 2024)	Altman's Z – Score = 1.200 (Working capital / total assets) + 1.400 (Retained earnings / total assets) + 3.300 (EBIT / total assets) + 0.600 (Market value of equity / book value of total liabilities) + 0.999 (Net sales / total assets)	Financial report
Independent variable			
REPU	Corporate reputation (Aminatuzzuhro et al., 2024)	Natural logarithm of market capitalization	Financial report
FSIZE	Firm size (Boubaker et al., 2020)	Natural logarithm of total assets	Financial report
DAR	Leverage (Shan et al., 2023)	Total liabilities / total assets	Financial report
SLACK	Financial slack ratio (Boubaker et al., 2020)	Cash and cash equivalents / total assets	Financial report
DEP	Depreciation ratio (Boubaker et al., 2020)	Total depreciation / total assets	Financial report

Source: Processed data, 2024

*Pearson Correlation*147

The Pearson correlation test results are shown in Table 5. If the Pearson correlation's p-value is less than 0.100, the association between two variables is deemed significant. According to Table 5, this study discovered a strong and favorable correlation between FDR and REPU. This finding suggests that a company's reputation is positively associated with its risk of financial distress. Additionally, a positive correlation between SLACK and FDR was discovered, suggesting that businesses with strong liquidity are linked to a lower likelihood of financial distress.

Table 4. Descriptive Statistics

	Mean	Median	Minimum	Maximum	SD
FDR	6.254	2.842	-12.368	95.767	13.141
REPU	27.921	27.795	23.972	32.446	1.925
FSIZE	28.204	28.157	23.170	32.412	1.891
DAR	0.418	0.406	0.026	1.000	0.230
SLACK	0.131	0.083	0.001	0.676	0.143
DEP	0.037	0.026	0.000	0.181	0.035

Source: Output software Stata 17, 2024

Conversely, a negative correlation existed between FDR and the variables FSIZE, DAR, and DEP. The results indicate that an increased probability of financial distress correlates with greater company size, elevated leverage, and heightened depreciation expenses. The Pearson correlation coefficient can only quantify a linear relationship between two variables. (Aminatuzzuhro et al., 2024). Consequently, a multivariate analysis, namely Multiple Linear Regression, is necessary to evaluate the research hypotheses.

Table 5. Pearson Correlation

		[1]	[2]	[3]	[4]	[5]	[6]
[1]	FDR	1.000					
[2]	REPU	0.095***	1.000				
		(0.000)					
[3]	FSIZE	-0.220***	0.833***	1.000			
		(0.000)	(0.000)				
[4]	DAR	-0.394***	0.064***	0.262***	1.000		
		(0.000)	(0.007)	(0.000)			
[5]	SLACK	0.260***	0.184***	0.038	-0.293***	1.000	
		(0.000)	(0.000)	(0.108)	(0.000)		
[6]	DEP	-0.106***	0.070***	0.032	0.178***	-0.100***	1.000
		(0.000)	(0.003)	(0.173)	(0.000)	(0.000)	

Source: Output software Stata 17, 2024

Multiple Regression Analysis

Multiple regression analysis is a statistical method used to ascertain the association between multiple independent variables and a single dependent variable (Lucà et al., 2018; Ngatno et al., 2021). This study employs multiple regression analysis to assess the correlations among corporate reputation, business size, leverage, financial slack, depreciation, and the probability of financial crisis. Table 6 presents the outcomes of the multiple regression analysis conducted to evaluate the study hypotheses. If the p-value is below 0.0100, the hypothesis is accepted.

Table 6 reveals that REPU and FDR have a strong and positive relationship (t-value = 10.42, coefficient = 5.265). H1 is not rejected based on this evidence, which reveals that corporate reputation is significantly and negatively connected with the chance of financial distress. Next, FSIZE has a negative and significant connection with FDR (coefficient = -5.584, t-value = -10.60). This finding indicates that greater firm sizes are associated with increased financial distress risk, and so H2 is rejected. The DAR variable has a negative and significant link with FDR (coefficient of -10.598, t-value of -7.77), indicating that enterprises with more leverage are more likely to experience financial distress, which supports H3. Furthermore, SLACK has a positive and substantial relationship with FDR (coefficient of 7.415, t-value of 2.26), indicating that enterprises with higher liquidity are linked to lower financial distress risk, hence H4 is not rejected. Finally, DEP shows a negative and significant connection with FDR (coefficient of -32.821, t-value of -4.57). This

study implies that enterprises with higher depreciation values are more likely to face increased financial distress risk, which supports H5.

Table 6. Multiple Regression Analysis

	(1)	VIF
	FDR	
REPU	5.265***	3.94
	(10.42)	
FSIZE	-5.584***	4.16
	(-10.60)	
DAR	-10.598***	1.32
	(-7.77)	
SLACK	7.415**	1.18
	(2.26)	
DEP	-32.821***	1.16
	(-4.57)	
_cons	22.538***	
	(5.16)	
Year FE	Yes	
Industry FE	Yes	
R^2	0.366	
R^2_Adjusted	0.361	
N	1789	
Mean VIF		2.51

Source: Output software Stata 17, 2024

Discussion

Numerous research findings are derived from the data processing outcomes of 1,789 non-financial public firms listed on the Indonesia Stock Exchange (BEI) from 2021 to 2023, utilizing the STATA program. An enhanced corporate reputation may reduce the likelihood of financial distress. This finding aligns with that of Aminatuzzuhro et al. (2024), who found that corporate reputation negatively impacted the probability of financial difficulty. The Resource-Based View Theory posits that a favorable reputation is a strategic resource for a corporation that is valuable, rare, distinctive, and irreplaceable. Companies can mitigate their risk of financial difficulty by utilizing a favorable reputation as a strategic asset to attract investors, enhance relationships with creditors, and bolster customer trust. Established enterprises are more inclined to possess financial stability and be adequately equipped to endure challenging economic periods, hence diminishing the likelihood of financial distress.

Secondly, the study's results demonstrate that the probability of financial difficulties for a corporation escalates with its size. The study's results align with those of Boubaker et al. (2020) and Ohlson (1980), who found that firm size negatively affects the risk of financial distress. Large firms with a substantial fixed cost structure that is difficult to mitigate through sales during an economic downturn may be susceptible to financial distress (Ohlson's, 1980). Large corporations may be more vulnerable to prolonged financial instability due to their slower adaptation to market fluctuations (Charitou et al., 2004). These findings contradict the study of Utama & Setiawati (2022), which revealed that a company's ability to meet both short- and long-term obligations to avert financial crisis is influenced by its size. Large firms may experience financial difficulties due to their inability to compete (Dianova & Nahumury, 2019).

Third, the study's findings indicate that a company's chance of experiencing financial distress increases with its level of debt. These findings corroborate the findings of Masdupi et al. (2018), who found that enterprises with high levels of debt are more likely to experience financial distress down the road. The debt-to-assets ratio (DAR) is used in this study to measure leverage. According to Hamzah et al. (2024), the higher the DAR ratio, the more reliable the company is in the eyes of external parties, such as creditors, and the

higher the costs of debt (interest) that the company must pay. According to the Resource-Based View Theory, a large debt load indicates that a resource is not "valuable" if it does not contribute to the financial health of the business. A significant financial burden raises the possibility of financial distress by depleting other resources like liquidity and operational flexibility.

Fourth, the study's findings suggest that a company's likelihood of financial distress decreases with increasing financial slack. These findings corroborate those of Boubaker et al. (2020), who discovered a negative correlation between financial slack and the likelihood of financial distress. The Resource-Based View (RBV) clarifies that firm features like financial slack or liquidity can be viewed as strategic resources that are crucial to preserving the company's sustainability in the context of financial distress risk research. Some businesses lack the financial flexibility to deal with challenging market conditions. Effective financial slack management gives businesses a competitive edge over rivals, particularly in sectors where market volatility is common. Managers have more control, the business can adapt to changing environmental conditions, and it can efficiently handle unforeseen opportunities and demands when there is a high degree of financial slack (Zhang et al., 2020).

Fifth, the study's findings indicate that a high rate of corporate depreciation influences the likelihood of financial distress. The study's findings corroborate those of Boubaker et al. (2020), who also discovered a strong correlation between depreciation and the likelihood of financial distress. It is anticipated that tangible assets will have a positive correlation with financial distress because they improve the company's capacity to collateralize its debt, which leads to greater debt financing. Excessive depreciation can drastically lower a company's net income, which eventually impacts its capacity to pay debts and raises the possibility of financial distress. Furthermore, because of their strong reliance on fixed assets, high depreciation rates frequently result in greater operational expenses. Financial stress might rise as a result of this dependence, particularly during erratic market conditions.

CONCLUSIONS

This study investigates how corporate reputation, firm size, leverage, financial slack, and depreciation affect the probability of financial distress. The sample includes 1,789 public non-financial enterprises listed on the Indonesian Stock Exchange (BEI) between 2021 and 2023. The proposed hypotheses are investigated using multiple regression analysis. According to the findings, businesses with high liquidity and a positive reputation are less likely to experience financial distress. Businesses that are larger, have more debt, and have higher levels of depreciation are more prone to face financial distress.

This research makes both theoretical and practical contributions. Theoretically, focusing on financial aspects of firms broadens knowledge of the variables that influence the likelihood of financial distress. Practically speaking, the findings should provide management with valuable information about the importance of financial elements (such as firm size, leverage, depreciation, corporate reputation, and financial slack) in mitigating the risk of financial distress, particularly in light of the COVID-19 pandemic's economic effects.

There are some limitations to this study. First, it assesses the likelihood of financial distress using a single, widely accepted proxy. For a more full comparison, future research could use other proxies such as the ZM-Score and O-Score (Boubaker et al., 2020). Second, this study focuses primarily on the financial characteristics related with the chance of financial distress. Future research should widen their scope to include non-financial factors such as top management qualities or business governance.

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