**The Impact of Political Stability, Profitability, and Liquidity on Financial Distress of Non-Bank State-Owned Enterprises in Indonesia**

**Abstract**

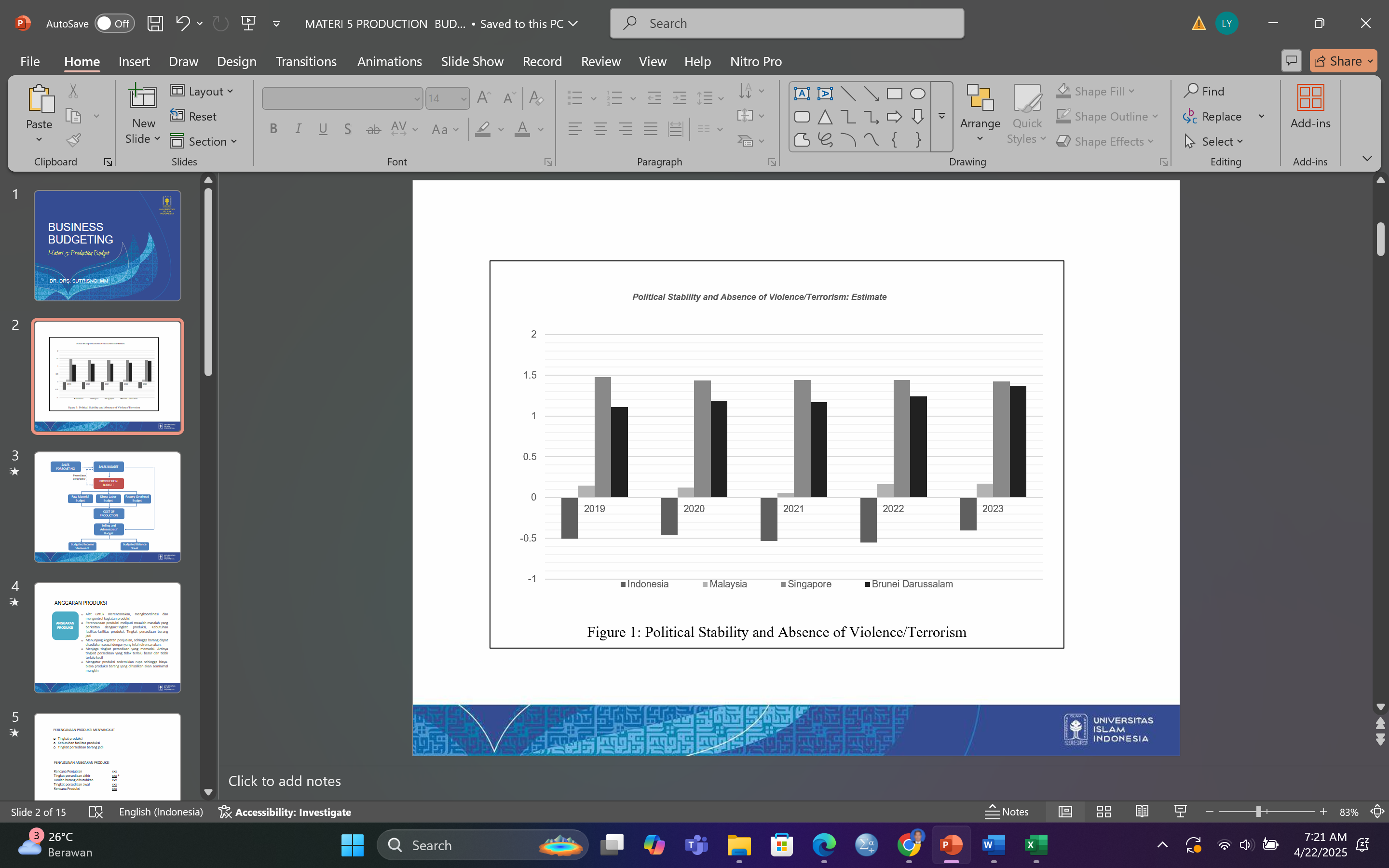
Political stability in a country can have an impact on state-owned companies because state-owned companies are often used as cash cows by politicians, which can cause financial distress in state-owned companies. Financial difficulties or financial distress in companies can be influenced by internal and external factors. This study aims to analyze the effect of political stability, profitability and liquidity on financial distress in non-bank state-owned companies (SOE) in Indonesia. The dependent variable in this study is financial distress which is measured using the Altman Z Score. While the independent variable consists of external factors in the form of political stability and internal variables represented by profitability and liquidity, with sales growth and company age as control variables. The population in this study were non-bank state-owned companies listed on the Indonesia Stock Exchange. This study uses a quantitative approach with a causal associative research design. A total of 33 companies and a sample of 15 companies with an observation period of five years were taken. To test the hypothesis, panel data logistic regression was used. Data analysis was carried out with the help of Eviews 12 and SPSS software. The results of the study showed that there were two outcome variables in accordance with the hypothesis, namely political stability and liquidity had a significant negative effect on financial distress. While profitability did not have a significant effect on financial distress. For instance, political stability (SP) has a minimum value of -0.170 (2019) and a maximum of -0.004 (2023), with an average of -0.0846 and a standard deviation of 0.0551. Profitability (PF) shows a minimum value of -4.11 (WSBP 2020) and a maximum of 5.30 (INAF 2022), with an average of 0.079 and a standard deviation of 0.804. This finding confirms that high political stability and optimal liquidity reduce the risk of financial difficulties, while profitability is not a determinant of SOE financial distress.

Keywords: Financial Distress, political stability, Profitability, Liquidity, Altman Z-Score

**Introduction**

State-Owned Enterprises (SOEs) in Indonesia have a strategic role in national economic development. SOEs in Indonesia have two primary roles defined by the country’s laws: development agents and business actors. While the significance of Indonesian SOEs can be debated, it is essential to consider Indonesia’s legal framework (Bachtiar, 2024). As an instrument of government policy, SOEs are expected to generate non-tax state revenues through dividends while encouraging economic stability and inclusive growth (Liahmad et al., 2021; Setiawati & Wijaya, 2023). However, reality shows that many SOEs are experiencing ongoing financial difficulties, raising concerns about the sustainability of their operations. Several cases, such as the major losses experienced by Garuda Indonesia, Waskita Beton Precast, and Krakatau Steel, are clear evidence of these challenges (Aprilia, 2024; Idris, 2022; Nityakanti & Rahmawati, 2024)

Financial difficulties or financial distress in companies can be influenced by internal and external factors. From an internal perspective, weak financial performance, especially in terms of profitability and liquidity, is often an early indicator of financial distress (Rahmawati et al., 2020). If the company is able to predict financial distress before it occurs, it becomes an important parameter for the success of a business. Internally, financial distress can be caused by several factors, including the amount of debt, operational losses, and cash flow difficulties owned by the company (Aurelia & Leon, 2023; Isayas, 2021). On the other hand, political instability as an external factor is also believed to have a significant impact on company performance, because it creates uncertainty in the business climate, hinders investment, and increases operational risks (Gerged et al., 2022; Mohsen et al., 2021). Indonesia's political stability index reported by the Worldwide Governance Indicators (WGI) for the 2019–2023 period shows a score that is still below the average of other ASEAN countries, such as Malaysia and Singapore (World Bank, 2023).



**Figure 1: Political Stability and Absence of Violence/Terrorism**

Most previous studies have focused on internal factors such as leverage, profitability, and liquidity in explaining financial distress (Aan Marlinah, 2023; Ramadani & Ratmono, 2023). However, this approach has not fully explained the complexity of a company's financial condition, especially in the context of developing countries. Political stability as an external macroeconomic factor is now beginning to be recognised as an important component that influences a company's financial resilience (Ceylan, 2021; Farkhan, 2023). This study aims to examine the effect of political stability (external factor), profitability, and liquidity (internal factors) on financial distress in non-bank state-owned companies in Indonesia. To measure the level of financial distress, the Altman Z-Score model is used, which has been proven effective in classifying a company's financial condition. The analysis was carried out using panel data logistic regression by considering control variables in the form of sales growth and company age.

**Theoretical Review and Hypothesis Development**

*Financial Distress*

Financial distress is a condition in which a company is unable to meet its financial obligations, which can be an early indicator of bankruptcy (Rafatnia et al., 2020; Sheng, 2023). One of the most popular methods for detecting financial distress is the Altman Z-Score model introduced by Altman (1968). This model combines five financial ratios that reflect aspects of liquidity, profitability, leverage, activity, and solvency. Z-Score> 2.99 indicates a healthy company; <1.81 indicates a company at risk of bankruptcy, while values ​​between 1.81 and 2.99 are in the grey area (Altman, 1968). Research by Liang et al. (2020) also supports the accuracy of the Altman Z-Score in predicting corporate bankruptcy.

*Political Stability and Financial Distress*

Political stability reflects the ability of a country's political system to avoid chaos, maintain order, and create certainty in economic decision-making (Wang, 2023; Zhang et al., 2022). In a business context, political stability affects the investment climate and operational risk. Political uncertainty can increase financing costs and reduce investor confidence, which leads to disruption of the company's financial health (Liu et al., 2024; Masulis & Reza, 2023)

According to the World Bank, the political stability indicator is part of the Worldwide Governance Indicators (WGI), which includes six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (Kaufmann et al., 2010). In this study, the political stability index is calculated as the average of the six dimensions.

Several studies have found that political stability has a significant impact on a company's financial performance. Companies operating in a stable political system have easier access to financing and a conducive business climate (Kong & Shi, 2023; Mariath et al., 2022). Based on this literature, political stability is thought to have a positive effect on the ability of state-owned enterprises (SOEs) to overcome financial distress.

*H1: Political stability has a negative effect on the financial distress of SOEs in Indonesia.*

Profitability and financial distress

Profitability reflects a company's ability to generate profits from its operational activities and is a key indicator of a company's financial health (Dewi & Abundanti, 2023; Sukmawati et al., 2022). One commonly used ratio is Return on Equity (ROE), which measures the efficiency of using equity in generating profits (Atmaja & Davianti, 2022). However, the findings of Pratiwi & Sudiyanto (2022) show that profitability does not always have a significant effect on financial distress, especially if external pressures are more dominant. Given the important role of SOE in maintaining national financial stability, an analysis of the effect of profitability is relevant to determine whether profit performance contributes to preventing financial distress.

*H2: Profitability has a negative effect on SOE’s financial distress in Indonesia.*

Liquidity and financial distress

Liquidity reflects a company's ability to meet its short-term obligations and is usually measured through ratios such as the Current Ratio. Several studies have shown that adequate liquidity levels can reduce a company's chances of experiencing financial distress. For example, Damajanti et al. (2021) found that companies with good liquidity tend to be more resistant to liquidity pressures and are able to maintain financial stability, so that the risk of financial distress is reduced. On the other hand, Salim & Yanti (2023) highlighted that excessive liquidity sometimes reflects inefficient use of current assets or less than optimal managerial policies, so that it can actually increase the risk of financial distress. Thus, although liquidity is generally viewed as a buffer against short-term financial pressures, its impact on financial distress is context-specific and depends on the optimal level of company liquidity.

*H3: Liquidity has a negative effect on the financial distress of SOEs in Indonesia.*

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**Methodology**

Population and Sample

The population in this study were all non-bank state-owned enterprises in Indonesia, totalling 33 companies. Through a purposive sampling technique, 15 companies were selected that met the criteria: having non-bank state-owned enterprise status, listed on the IDX, presenting complete financial reports during the study period, and presenting financial data in rupiah currency. With a five-year observation period, the total observations in this study were 75 data units (15 companies × 5 years).

Research Variables

The dependent variable in this study is financial distress, which is measured using the Altman Z-Score model. Companies are classified into two categories: companies in distress (Z < 1.81) and not in distress (Z ≥ 1.81), which are expressed in dummy form (1 = distress, 0 = not in distress) (Altman, 1968; Lagasio et al., 2023). The independent variables consist of political stability (SP), profitability (PF), and liquidity (LQ). Political stability is measured through the World Bank's Worldwide Governance Indicators (WGI) index, with six governance indicators converted on a scale of −2.5 to +2.5 (Kaufmann et al., 2010). Profitability is measured by Return on Equity (ROE), while liquidity is measured using the Current Ratio (CR) (Friska & Pudjolaksono, 2023; Hiba & Prasetyo, 2024).

Table 1: Variables and Measurements

|  |  |  |
| --- | --- | --- |
| Variable | Measurement | Source |
| Dependent Variable |  |  |
| *Financial Distress* | Z-Score = 1,2 X1 + 1,4 X2 + 3,3 X3 + 0,6 X4 + 1,0 X5 | (Altman, 1968; Lagasio et al., 2023) |
| Independent Variable |  |  |
| Political Stability (PS) | (VA+PI+GE+RL+RQ+CC)/6 | (Kaufmann et al., 2010) |
| Profitabilty (PRO) | EAT/Ekuitas | (Friska & Pudjolaksono, 2023; Sukmawati et al., 2022). |
| Liquidity (LIQ) | Aset lancar/ Utang lancar | (Hiba & Prasetyo, 2024; Salim & Yanti, 2023) |
| Sales growth (GRW) | (Salest – Salest-1)/Salest-1 | (Datun & Indrati, 2022) |
| Age | Age of company | (Usman et al., 2022) |

Note for dummy variables: Value 1 if present, and value 0 if not present.

As control variables, this study added sales growth and company age. Sales growth reflects the company's revenue performance from year to year, while company age represents the level of maturity and operational experience that can affect resilience to financial distress (Datun & Indrati, 2022; Usman et al., 2022). Political stability data was obtained from the official website of the World Bank, while financial data was obtained from the annual reports of each company and the official website of the Indonesia Stock Exchange (IDX).

Data Analysis

This study uses a quantitative approach with a causal associative research design that aims to determine the effect of political stability, profitability, and liquidity on financial distress in non-bank state-owned companies in Indonesia. According to Sugiyono & Lestari (2021), the quantitative approach relies on numerical data processing and hypothesis testing and is used to explain the relationship between variables through statistical analysis techniques. This study adopts a panel data logistic regression model, considering that the data used is a combination of time-series data (period 2019–2023) and cross-section (15 non-bank state-owned companies listed on the Indonesia Stock Exchange). This technique was chosen because it is able to handle data variability between times and between entities, as well as control heterogeneity and heteroscedasticity in observations (Gujarati, 2021). Data analysis was carried out with the help of Eviews 12 and SPSS software using panel logistic regression. With the following regression model equation:

*Ln* ( = α + β1PSit + β2PROit + β3LIQit + β4GRWit + β5AGEit + ɛit

The logistic regression model used predicts the probability of financial distress based on the independent and control variables mentioned. The validity test of the model is carried out through several stages, including the Goodness of Fit test (Hosmer & Lemeshow Test), the Likelihood Ratio test (Overall Model Fit), the Wald test (variable significance), the determination test (McFadden R²), and the model accuracy test through the confusion matrix (Ghozali, 2016). Interpretation of the logistic regression results is carried out by observing the odds ratio coefficient value, which indicates the probability of financial distress based on changes in the value of each independent variable (Hosmer & Lemeshow, 2000).

**Results**

*Descriptive Statistics*

Based on the data that has been collected and tabulated, the following is a description of the data in the form of minimum, maximum, average and standard deviation:

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| --- | --- | --- | --- | --- | --- |
| Table 2: Statistics Descriptive | | | | | |
| Variabel | N | Minimum | Maximum | Mean | Std. Deviasi |
| PS | 75 | -0.171 | -0.004 | -0.0846 | 0.055114 |
| PRO | 75 | -4.11 | 5.300000 | 0.079467 | 0.804027 |
| LIQ | 75 | 0.280000 | 4.170000 | 1.323200 | 0.623445 |
| GRW | 75 | -2.377 | 0.494000 | -0.10796 | 0.493444 |
| AGE | 75 | 8.000000 | 33.00000 | 19.60000 | 7.709243 |
| FD | 75 | 0.000000 | 1.000000 | 0.786667 | 0.412420 |
| Source: Data Processed | | | | | |

The results of this study were obtained through panel data logistic regression analysis of 75 observations from 15 non-bank state-owned companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The dependent variable, financial distress, is measured using the Altman Z-Score, which is converted into a dummy variable, while the independent variables include political stability (SP), profitability (PF), and liquidity (LQ), as well as two control variables, namely sales growth and company age. The data were processed using EViews 12 and SPSS software with a logistic regression model to test the effect of each variable on the probability of financial distress. This study uses 75 observations from the financial statements of 15 non-bank state-owned companies for the 2019–2023 period. Descriptive statistical analysis shows: Political Stability (SP) has a minimum value of -0.170 (2019) and a maximum of -0.004 (2023), with an average of -0.0846 and a standard deviation of 0.0551. This indicates relatively stable political fluctuations between years. Profitability (PF) shows a minimum value of -4.11 (WSBP 2020) and a maximum of 5.30 (INAF 2022), with an average of 0.079 and a standard deviation of 0.804. The distribution of data is very heterogeneous, indicating that profitability performance between companies varies greatly. Liquidity (LQ) has a minimum value of 0.28 (JSMR 2019) and a maximum of 4.17 (INAF 2019), with an average of 1.323 and a standard deviation of 0.623. This shows relatively good liquidity consistency between companies. A binary logistic regression model is used to analyse the effect of political stability, profitability, and liquidity on financial distress, with sales growth and company age as control variables. The test results show that the regression model has good feasibility, indicated by:

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| --- | --- | --- | --- |
| Table 3: Homes-Lemeshow Test (HL-Test) | | | |
| H-L Statistic | 4.8667 | Prob. Chi-Sq(8) | 0.7717 |
| Andrews Statistic | 24.7783 | Prob. Chi-Sq(10) | 0.0058 |
| Source: Data processed | | | |

The Hosmer-Lemeshow Test value of 0.7717 > 0.05 indicates a good model fit (Sihombing, 2022).

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| Table 4: Overall Model Fit Test | |
| LR statistic | 19.05255 |
| Prob(LR statistic) | 0.001879 |
| Source: Data processed | |

Overall Model Fit is significant with an LR statistic value of 19.05 (p = 0.001879 < 0.05), meaning that there is at least one significant variable (Widarjono, 2010).

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| --- | --- |
| Table 5: Peseudo R-Square (McFadden) | |
| McFadden R-squared | 0.245046 |
| Source: Data processed | |

McFadden's pseudo R² of 0.245 indicates that 24.5% of the variation in financial distress can be explained by the independent variables.

Discussion

By using logistic regression analysis, the results of the hypothesis test estimates are obtained as in Table 6 below:

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| --- | --- | --- | --- | --- |
| Table 6: Logistic Regression Estimation Results | | | | |
| Variable | Coefficient | Std. Error | z-Statistic | Prob |
| FD | 3.214246 | 1.281915 | 2.507378 | 0.0122 |
| PS | -14.77886 | 7.269161 | -2.03309 | 0.042 |
| PRO | -0.729841 | 0.653652 | -1.116559 | 0.2642 |
| LIQ | -1.93087 | 0.618474 | -3.121991 | 0.0018 |
| GRW | -1.51518 | 1.198175 | -1.264573 | 0.206 |
| AGE | -0.009286 | 0.044918 | -0.206726 | 0.8362 |
| Source: Data processed | | | | |

Based on the results of logistic regression, it was found that political stability (SP) has a negative and significant effect on financial distress at a significance level of 5%. This means that the higher the political stability of a country, the less likely it is for a SOE company to experience financial distress. If political conditions are stable, the economy will also be stable, so that the operations of SOE companies will also improve, reducing the possibility of financial distress. This finding is consistent with research by Gerged et al. (2022) and Wahid (2020), which shows that a stable political environment creates legal certainty and encourages the sustainability of company operations through a conducive investment climate. In the context of Indonesia, this is in line with the findings (Farkhan, 2023) that political uncertainty increases business risks and causes financial pressure on SOEs.

Meanwhile, the results of the analysis show that profitability (PRO) as measured by the Return on Equity (ROE) ratio does not have a significant negative effect on the company's financial distress. This means that the level of net profit obtained from equity is not sufficient to explain the financial distress conditions of non-bank SOEs during the study period. This finding supports the research results of Pratiwi & Sudiyanto (2022), which states that in the context of large companies such as SOE, external factors and strategic policies are more dominant than profitability in determining the risk of bankruptcy. This also indicates that profitability is not the only indicator of financial health, because companies can still be vulnerable to distress even though they have positive profits.

Liquidity (LQ) as measured by the current ratio shows a negative and significant effect on financial distress. These results strengthen the argument that companies with high liquidity have a better ability to meet short-term obligations and avoid acute financial pressures. This finding is in line with research by Ria & Susilo (2023) and Sugiharto et al. (2022), which emphasises that liquidity is one of the key indicators in detecting potential bankruptcy. SOE companies that manage their current assets efficiently tend to be more resilient to economic shocks or policy changes.

Overall, the research results emphasise that external factors in the form of political stability and internal factors in the form of liquidity have a crucial role in determining the risk of financial distress in non-bank SOE companies. On the other hand, profitability as a general indicator of financial performance has not been shown to be significant in this context. These findings provide important implications for policymakers and corporate management, that strengthening national political stability and efficient liquidity management need to be a priority in efforts to mitigate the risk of SOE bankruptcy.

**Conclusion and Recommendations**

This study analyses the effect of political stability, profitability, and liquidity on financial distress in non-bank state-owned enterprises in Indonesia for the period 2019–2023. The results of logistic regression show that political stability and liquidity have a negative and significant effect on financial distress, while profitability has no significant effect.

This finding confirms that conducive political stability and good liquidity conditions can reduce the risk of financial distress. Although profitability is not statistically significant, profit performance remains important in maintaining financial resilience.

The practical implications of this study indicate that state-owned enterprise management needs to strengthen internal management, especially liquidity and operational efficiency. The government also needs to maintain policy stability to support a healthy business climate. For investors, integration between macro and micro indicators needs to be a reference in financial risk analysis.

Academically, this study adds insight into the determinants of financial distress in developing countries. Further research is recommended to include other variables such as leverage, governance, or conduct comparisons between sectors and countries to expand the generalizability of the results, as well as extend the research period.

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1.

2.

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