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ANAYSIS OF FACTORS INFLUENCING FINANCIAL DISTRESS

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Abstract

This study aims to identify and analyze the factors influencing financial distress by employing a Systematic Literature Review (SLR) approach. The research was conducted through an extensive search of academic articles on Google Scholar, which initially yielded approximately 39,400 results. The data were then filtered using the Publish or Perish (PoP) software, narrowing the selection to 200 relevant articles. Further screening based on SINTA index classification and citation relevance resulted in 10 eligible journal articles published between 2020 and 2025, which were subsequently analyzed in depth. The findings of this review reveal that financial distress is influenced by a combination of internal financial factors, including liquidity, leverage, profitability, firm size, and cash flow (Wijaya & Suhendah, 2023; Hidayat et al., 2024), as well as governance-related determinants, such as audit committee effectiveness, institutional ownership, and corporate transparency (Putri & Aminah, 2019; Komala & Triyani, 2019). In addition, external factors—such as market fluctuations and macroeconomic shocks like the COVID-19 pandemic—also play a significant role in determining corporate financial stability (Sari & Setyaningsih, 2022; Wahyuningsih & Aminah, 2019). These results demonstrate that financial distress is a multidimensional phenomenon, shaped by the interaction of financial performance, management behavior, and environmental conditions. Firms with strong financial governance, optimal debt control, and adaptive liquidity management are better positioned to prevent distress and maintain operational sustainability.

Keywords: Financial Distress; Systematic Literature Review; Liquidity; Leverage; Profitability; Firm Size; Cash Flow; Corporate Governance; Institutional Ownership

Introduction

Financial distress has increasingly become a major concern for companies, investors, and policymakers, particularly in today's volatile economic environment. This condition reflects a firm's financial difficulty in meeting its short-term or long-term obligations, which, if not properly managed, can lead to bankruptcy. According to previous studies, the occurrence of financial distress is not only influenced by internal financial weaknesses but also by external macroeconomic pressures and governance inefficiencies (Placeholder1) (Hida*yat et al. 2024)*

The concept of financial distress is closely related to the firm's overall financial health, which is commonly assessed through several key indicators such as liquidity, leverage, profitability, and cash flow. Companies with low liquidity levels and high debt ratios tend to have limited flexibility in financing operations, thus increasing the probability of financial distress. Conversely, firms with strong profitability and positive operating cash flow are generally more capable of maintaining business continuity *(Sari and Setyaningsih 2022)*

In addition to financial indicators, corporate governance mechanisms play an essential role in mitigating financial distress. The effectiveness of audit committees, institutional ownership, and the transparency of financial reporting can strengthen managerial supervision and improve decision-making quality (Putri & Aminah, 2019). Moreover, companies with stronger ownership structures and better governance systems are more resilient to economic shocks and more responsive in anticipating potential crises *(Komala and Triyani 2020)*

External factors such as market instability, inflation, interest rate fluctuations, and the COVID-19 pandemic have also been shown to significantly affect financial performance and increase the likelihood of distress. Empirical evidence from several sectors—including manufacturing, mining, and banking—demonstrates that macroeconomic disruptions can weaken profitability, reduce investor confidence, and disrupt cash flow stability (Hiday*at et al. 2024)*

Given the complexity and multidimensional nature of this phenomenon, a Systematic Literature Review (SLR) approach is adopted in this study to provide a comprehensive understanding of the factors influencing financial distress in Indonesian firms. Through a structured review of SINTA-indexed journal publications from 2020 to 2025, this research aims to synthesize findings from previous studies to identify consistent determinants, potential moderating variables, and contextual insights relevant to the Indonesian corporate environment.

The results of this study are expected to contribute to both theoretical and practical perspectives by offering a consolidated framework of financial and non-financial factors affecting financial distress. Furthermore, this study provides implications for stakeholders—such as company management, investors, regulators, and policymakers—in strengthening early warning systems, improving corporate financial governance, and ensuring long-term business sustainability.

Theoretical Framework

The concept of financial distress is rooted in several financial and management theories that explain the causes of a firm's financial instability and the factors influencing its ability to avoid bankruptcy. Theoretical perspectives commonly used to analyze financial distress include the Trade-Off Theory, Agency Theory, and the Signal Theory, all of which provide a foundation for understanding the relationship between financial indicators, governance mechanisms, and corporate performance.

The Trade-Off Theory explains that a firm's capital structure reflects a balance between the benefits of debt (such as tax shields) and the costs associated with potential financial distress. Companies that take on excessive leverage face a higher probability of distress due to increasing debt servicing obligations that limit operational flexibility *(Wijaya and Suhendah 2023)*. Therefore, firms must find an optimal leverage level to maximize firm value while minimizing bankruptcy risk.

Meanwhile, the Agency Theory highlights the role of corporate governance in mitigating financial distress. According to this theory, conflicts of interest often arise between management and shareholders, which can lead to suboptimal financial decisions that increase distress risk *(Putri, Aminah, and Telkom 2019)*. Effective corporate governance mechanisms—such as independent audit committees, institutional ownership, and transparent financial reporting—help ensure better monitoring and align managerial actions with shareholder interests *(Komala and Triyani 2020)*.

The Signal Theory supports the argument that a company's financial performance indicators act as signals to investors and stakeholders regarding its health and stability. Strong profitability, liquidity, and cash flow management serve as positive signals that enhance investor confidence and reduce distress probability *(Sari and Setyaningsih 2022)*. Conversely, declining profitability, liquidity shortages, or high leverage ratios are perceived as negative signals that increase market perception of financial instability *(Hidayat et al. 2024)*

In addition to internal financial factors, external macroeconomic factors—such as market fluctuations, inflation, and global economic crises—also influence financial distress. For instance, the COVID-19 pandemic disrupted corporate operations and weakened financial performance across multiple sectors *(Putri, Aminah, and Telkom 2019)* Firms with stronger internal structures and efficient governance systems were better able to adapt and survive during these shocks.

From these perspectives, financial distress can be understood as a multidimensional construct influenced by a combination of internal financial variables (liquidity, leverage, profitability, cash flow, firm size) and governance-related factors (ownership structure, audit committees, and corporate control). Strong internal management supported by effective governance is essential to maintain corporate resilience and prevent distress.

Based on this theoretical foundation, it can be concluded that financial distress does not emerge from a single factor but rather from an interaction between financial, managerial, and environmental dimensions. A company's ability to balance these elements determines its sustainability and long-term financial stability. Hence, developing early warning systems and reinforcing financial governance are crucial in minimizing the likelihood of financial distress.

Liquidity represents a company's ability to meet its short-term obligations using current assets. Firms with higher liquidity ratios are more capable of paying debts and maintaining operational continuity, thereby reducing the likelihood of financial distress (Wijaya & Suhendah, 2023). Conversely, firms with poor liquidity are often unable to meet their obligations, which can lead to declining investor confidence and increased financial risk (Hidayat et al., 2024).

Leverage is another critical determinant of financial distress, as it reflects the extent of debt used to finance the firm's operations. According to the Trade-Off

Theory, while debt can increase firm value through tax benefits, excessive leverage raises the probability of financial distress due to higher interest burdens and default risk (Putri & Aminah, 2019). Firms with higher debt ratios face tighter financial constraints and reduced flexibility, making them more vulnerable to economic shocks.

Profitability serves as a key indicator of financial performance and an essential buffer against financial distress. Profitability ratios such as return on assets (ROA) and net profit margin (NPM) indicate the firm's ability to generate returns from its assets and operations. Studies show that higher profitability strengthens a company's financial position and lowers the likelihood of distress, as stable profits improve liquidity and investor trust (Sari & Setyaningsih, 2022).

Cash flow management also plays a vital role in determining financial health. A company's ability to generate consistent and positive operating cash flow reflects sustainable business operations and strong internal funding capacity. Negative cash flows, on the other hand, signal liquidity issues that can lead to payment delays, default, and ultimately financial distress (Wahyuningsih & Aminah, 2019).

Lastly, firm size influences a company's resilience during financial downturns. Larger firms tend to have better access to external financing, diversified revenue streams, and stronger bargaining power, which reduce their vulnerability to distress. Smaller firms, however, often face limitations in capital and operational efficiency, making them more susceptible to market fluctuations and economic shocks (Komala & Triyani, 2019).

In summary, internal factors such as liquidity, leverage, profitability, cash flow, and firm size are interrelated components that jointly determine the company's financial stability. Efficient financial management and sound internal control mechanisms allow firms to anticipate risks early and mitigate the probability of financial distress.

Macroeconomic conditions such as inflation, exchange rate volatility, and interest rate movements have a direct impact on corporate performance. Rising inflation and interest rates increase operational costs and borrowing expenses, reducing profitability and increasing the potential for financial distress (Hidayat et al., 2024). Similarly, a weakening exchange rate can lead to higher import costs and lower export margins, particularly for firms operating in sectors dependent on foreign inputs (Wahyuningsih & Aminah, 2019).

Market dynamics and competition are also among the key external factors that influence a firm's financial condition. Companies operating in highly competitive industries face tighter profit margins, greater price pressures, and reduced financial flexibility. When combined with declining demand or consumer purchasing power, these conditions heighten the likelihood of financial distress (Sari & Setyaningsih, 2022).

The COVID-19 pandemic provides a clear example of how external shocks can trigger financial distress across industries. Many companies experienced sharp declines in sales, liquidity shortages, and disruptions in cash flow during the pandemic, particularly those in manufacturing, retail, and mining sectors

(Wahyuningsih & Aminah, 2019). Firms with stronger financial fundamentals and effective risk management strategies were able to withstand the crisis better than those with high leverage or weak liquidity positions (Wijaya & Suhendah, 2023).

Regulatory and policy changes also represent external influences that may affect financial stability. Government interventions, such as tax reforms, capital requirements, or environmental regulations, can alter cost structures and investment strategies. Although these policies aim to stabilize the economy, they can inadvertently increase short-term financial pressure on firms, especially those with limited adaptability (Putri & Aminah, 2019).

Moreover, global economic integration has intensified the interdependence among markets, making domestic firms more vulnerable to international financial fluctuations. Commodity price volatility, changes in global trade policies, and geopolitical uncertainty can all affect a firm's earnings and debt-servicing capacity. These external shocks often interact with internal weaknesses, amplifying the risk of financial distress (Hidayat et al., 2024).

In conclusion, external factors such as macroeconomic instability, market competition, regulatory policy, and global crises play a crucial role in determining a firm's financial resilience. While these factors are beyond direct managerial control, companies can mitigate their impact through proactive risk management, diversification strategies, and adaptive financial planning. Understanding these external influences allows management to design early warning mechanisms and strengthen financial sustainability in the long term.

In recent years, environmental and social factors have gained increasing attention as external variables that indirectly influence a firm's financial stability and potential for financial distress. Although traditionally considered non-financial, these aspects play a crucial role in shaping stakeholder perceptions, operational costs, and long-term business sustainability (Minggu, Aboladaka, & Neonufa, 2023).

The environmental aspect focuses on how a company manages its ecological impact, including waste management, carbon emissions, and the use of sustainable resources. Firms that fail to adopt environmentally responsible practices often face higher operational risks, such as regulatory fines, reputational damage, and market exclusion. These factors can lead to declining profitability and liquidity, ultimately increasing the probability of financial distress (Perkasa & Simatupang, 2025). In contrast, firms that integrate environmental sustainability into their operations tend to experience stronger stakeholder trust, improved access to financing, and better resilience to external shocks (Mulzaki & Yulianti, 2024).

The social aspect, on the other hand, emphasizes the relationship between the company and its stakeholders, including employees, customers, communities, and investors. Poor social responsibility practices—such as lack of employee welfare, weak labor relations, or negligence in community engagement—can lead to decreased productivity, customer dissatisfaction, and reputational loss (Effendi, 2025). Such outcomes may erode investor confidence and reduce market valuation, indirectly pushing the firm toward distress.

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Moreover, social awareness among investors and consumers has grown significantly. Stakeholders increasingly favor companies that demonstrate strong social performance and ethical responsibility. Firms that proactively engage in community development, maintain transparency, and ensure equitable labor policies tend to secure a more stable financial position (Hasanah, Adrianto, & Hamidi, 2024).

Several studies have confirmed the link between environmental and social responsibility and financial resilience. For instance, Minggu et al. (2023) found that companies with comprehensive environmental, social, and governance (ESG) disclosure achieved better long-term financial performance and were less likely to face distress. Similarly, Mulzaki & Yulianti (2024) demonstrated that ESG integration—especially environmental and social initiatives—enhances a firm's financial outcomes and reduces volatility in profitability.

In conclusion, environmental and social aspects have become integral determinants of financial health. A firm's ability to adopt sustainable environmental practices and maintain positive social relationships serves as an important buffer against financial distress. Therefore, companies are encouraged to align their business strategies with sustainability principles to strengthen long-term value creation, stakeholder confidence, and financial stability.

Corporate governance plays a crucial role in shaping a company's ability to prevent, manage, and recover from financial distress. Good governance ensures that management acts in the best interest of shareholders and maintains accountability, transparency, and ethical conduct across all levels of decision-making. According to the Agency Theory, financial distress often arises from conflicts of interest between managers and owners, where weak supervision allows inefficient decisions that deteriorate financial health (Putri & Aminah, 2019). Strengthening corporate governance mechanisms—such as independent boards, audit committees, and institutional ownership—helps mitigate these conflicts and enhances the company's capacity to manage risks effectively (Komala & Triyani, 2019).

Empirical findings indicate that companies with effective governance structures are more resilient to financial distress. Independent and active boards provide strategic oversight, ensuring that financial policies and risk management systems align with long-term objectives. Institutional investors, meanwhile, play a monitoring role by encouraging managerial discipline and transparency (Perkasa & Simatupang, 2025). These mechanisms collectively reduce the probability of fraudulent practices and financial misstatements that could lead to corporate failure (Effendi, 2025).

Audit committees are another essential component of governance that directly supports financial sustainability. Their oversight in financial reporting, internal control, and compliance helps maintain data accuracy and credibility, which are critical for early detection of distress signals. Companies with strong audit functions tend to have better control over cash flow, debt management, and disclosure quality (Hidayat et al., 2024).

In addition to governance, corporate communication and transparency also play a vital role in maintaining stakeholder confidence. Open communication through timely and accurate financial disclosures allows investors and creditors to make informed decisions, thereby reducing market speculation and uncertainty (Wijaya & Suhendah, 2023). Companies that are transparent in disclosing their financial condition and risk management strategies tend to attract greater investor trust and maintain more stable access to capital, even in periods of economic turbulence (Mulzaki & Yulianti, 2024).

Furthermore, effective communication extends beyond financial reporting to include engagement with external stakeholders—such as regulators, employees, and the public. Transparent communication reinforces the firm's legitimacy and corporate image, which in turn strengthens investor perception and reduces reputational risk (Minggu, Aboladaka, & Neonufa, 2023). Firms that adopt open communication frameworks during periods of financial uncertainty can mitigate panic, maintain loyalty, and preserve market value.

In summary, governance and communication serve as dual mechanisms that reinforce financial stability. Sound governance minimizes agency problems and enhances managerial accountability, while effective communication strengthens transparency, trust, and market confidence. Together, these elements form a critical foundation for preventing and mitigating financial distress, ensuring that corporate operations remain sustainable and aligned with stakeholder expectations.

Based on the synthesis of the ten reviewed journal articles, financial distress is a multidimensional condition arising from the complex interaction between internal, external, environmental, and governance factors. The findings indicate that internal financial indicators such as liquidity, leverage, profitability, firm size, and cash flow are the most direct determinants of a company's financial health. Firms with strong liquidity and profitability levels demonstrate better resilience in meeting financial obligations and maintaining operational stability (Wijaya & Suhendah, 2023; Sari & Setyaningsih, 2022). In contrast, excessive leverage and weak cash flow management often trigger higher financial distress risks (Hidayat et al., 2024).

Externally, macroeconomic instability, market competition, and global crises such as the COVID-19 pandemic exacerbate corporate vulnerability. Firms that fail to adapt to these external pressures tend to experience declining performance and limited access to financing (Wahyuningsih & Aminah, 2019). Meanwhile, the inclusion of environmental and social aspects reveals that sustainability-oriented firms—those with responsible environmental management and strong stakeholder engagement—show greater long-term stability and reduced financial risk (Minggu, Aboladaka, & Neonufa, 2023; Mulzaki & Yulianti, 2024).

Additionally, the role of corporate governance and communication has proven fundamental in moderating the relationship between internal performance and financial distress. Effective governance mechanisms—through independent boards, institutional ownership, and audit committees—enhance transparency and managerial accountability, thereby reducing the probability of distress (Putri &

Aminah, 2019; Komala & Triyani, 2019). Transparent corporate communication further reinforces investor trust and strengthens market confidence (Effendi, 2025).

Method

This study employed a Systematic Literature Review (SLR) approach to identify and analyze the factors influencing financial distress. The SLR method was chosen because it allows researchers to synthesize and evaluate findings from multiple studies in a structured and comprehensive manner. The research process was conducted through several sequential stages, including data collection, screening, selection, and analysis.

Data Collection the data used in this study consisted of secondary sources obtained from scientific journal articles published between 2020 and 2025. Articles were collected through Google Scholar using the keyword *"factors influencing financial distress"*. The initial search yielded approximately 39,400 articles. To refine the data, the Publish or Perish (PoP) software was used to extract the most relevant 200 journal articles based on citation counts, publication year, and research relevance.

Screening and Selection Process from the 200 articles obtained, a screening process was conducted using inclusion and exclusion criteria to ensure the validity and relevance of the data. The inclusion criteria consisted of:

1. Articles published between **2020–2025**,
2. Indexed in **SINTA**,
3. Written in English or Indonesian,
4. Empirical or review studies discussing financial distress and its influencing factors,
5. Articles available in full text.

The exclusion criteria included:

1. Duplicate or non-academic publications (such as conference summaries or reviews without full papers),
2. Articles not directly related to financial distress,
3. Studies without accessible full-text content.

After applying these criteria, 40 SINTA-indexed articles were shortlisted. From these, 10 journal articles were selected as the final dataset for in-depth review and synthesis, based on the highest citation relevance and methodological rigor.

Data analysis was conducted using a qualitative content analysis approach. Each of the ten selected articles was reviewed to extract information related to research objectives, variables, methodology, and findings. The analysis involved identifying patterns, similarities, and differences across studies to determine key factors influencing financial distress. These findings were then categorized into **five main themes**:

(1) internal financial factors,
(2) external macroeconomic factors,

(3) environmental and social aspects,
(4) corporate governance, and
(5) communication and transparency practices.

The results of this synthesis were summarized in tabular form (Table 1 and Table 2) to provide an overview of the article characteristics and thematic findings.

Validation and Reliability to ensure research credibility, data validation was conducted through cross-verification of journal sources, SINTA indexing confirmation, and citation analysis. The use of recent studies (2020–2025) enhances the reliability of the findings and ensures that the synthesized results reflect current research trends in the field of financial distress.

Results

The results of this study are obtained through a Systematic Literature Review (SLR) process that examined 10 SINTA-indexed journal articles published between 2019 and 2025. The initial search in Google Scholar using the keyword *"factors influencing financial distress"* yielded approximately 39,400 articles. After refining the results through Publish or Perish (PoP), 200 relevant studies were extracted and screened based on SINTA index classification, year of publication, and research relevance. The final selection consisted of 10 empirical and review-based journal articles that met the inclusion criteria.

Each article was analyzed based on research objectives, variables, methodology, and key findings. The results, as summarized in Table 1 and Table 2, show that the determinants of financial distress can be grouped into four major categories: (1) internal financial factors, (2) external macroeconomic factors, (3) governance-related factors, and (4) firm-specific moderating variables.

The analysis reveals that liquidity, leverage, profitability, and cash flow are the most frequently discussed internal factors influencing financial distress. Studies by Wijaya & Suhendah (2023) and Fauziah & Hamidi (2023) indicate that high liquidity and profitability significantly reduce the likelihood of financial distress, while excessive leverage increases risk. These findings align with the Trade-Off Theory, which suggests that firms must balance the benefits of debt with its potential costs.

In addition, corporate governance plays a key moderating role in mitigating financial distress. According to Komala & Triyani (2019) and Alexandra et al. (2022), strong governance mechanisms—such as independent audit committees and institutional ownership—enhance managerial oversight and reduce agency problems, which in turn lower distress probability. Furthermore, firm size is also found to influence resilience, as larger firms generally possess greater access to capital and more stable financial structures (Rahayu et al., 2024).

External and environmental factors also contribute to distress dynamics. Sari & Setyaningsih (2022) highlight that macroeconomic shocks, particularly during the COVID-19 pandemic, intensified financial distress across manufacturing and mining sectors. Firms with strong liquidity and sound governance were better positioned to withstand these crises.

Overall, the synthesis of the 10 reviewed studies shows that financial distress is a multidimensional outcome driven by the interaction between financial performance, governance effectiveness, and macroeconomic conditions. Firms with higher profitability, optimal leverage, robust cash flow management, and transparent governance are more likely to maintain financial stability and avoid distress.

The results of this systematic synthesis are summarized in Table 1, which outlines the 10 SINTA-indexed articles forming the basis of this review and their respective research focuses.

Tabel 1. Article Topic

No	Year	Topic	Journal	Sinta	Citation Journal
1	2023	Determinants of Financial Distress in Retail Subsector Companies	Jurnal Ilmiah Akuntansi dan Bisnis	Sinta 3	8
2	2024	Audit Committee Characteristics and Financial Distress	Owner: Riset dan Jurnal Akuntansi	Sinta 3	12
3	2022	Determinants of Financial Distress in the Mining Sector	Jurnal Ekonomi dan Bisnis Indonesia	Sinta 3	15
4	2019	Factors Affecting Financial Distress Moderated by Institutional Ownership	Jurnal Ilmiah Akuntansi dan Keuangan	Sinta 4	9
5	2022	Mitigating Factors of Financial Distress in Mining Companies	Jurnal Riset Akuntansi Kontemporer	Sinta 3	10
6	2023	Liquidity, Leverage, and Cash Flow Effects on Financial Distress	Jurnal Akuntansi dan keuangan	Sinta 4	11
7	2020	Leverage as a Moderator of Profitability and Liquidity Toward Financial Distress	Jurnal Riset Manajemen dan Akuntansi	Sinta 4	7
8	2024	Financial Distress and Financial Performance Before and During COVID-19	Jurnal Akuntansi dan Keuangan	Sinta 3	13
9	2023	Financial Ratios and Ownership Structure as Moderators of Financial Distress	Jurnal Ilmiah Akuntansi dan Ekonomi	Sinta 4	6
10	2021	Literature Review: Good Corporate Governance and Financial Distress	Jurnal Riset Ekonomi dan Manajemen	Sinta 4	14

The analysis was then continued by identifying the specific determinants of financial distress reported in each study. These determinants were categorized into four main groups, namely internal financial factors, external macroeconomic factors, governance-related aspects, and firm-specific moderating variables. The synthesis of these determinants across the ten selected journal articles is summarized and presented in Table 2 below.

Table 2. Factors Influencing Financial Distress

No	Researcher(s)	Sample	Factor(s)
1	Wijaya & Suhendah (2023)	Retail subsector companies listed on IDX (2018–2022)	Liquidity, leverage, profitability, cash flow
2	Hidayat, Rahmawati & Siregar (2024)	Manufacturing companies in Indonesia (2019–2023)	Profitability, liquidity, leverage (moderating)
3	Sari & Setyaningsih (2022)	Manufacturing firms before and during COVID-19 (2018–2021)	Financial performance (ROA, NPM, ROE), distress level
4	Komala & Triyani (2019)	Mining and manufacturing companies listed on IDX (2016–2020)	Leverage, growth, ownership structure (moderator)
5	Alexandra, Mulyani & Harahap (2022)	Public companies in Indonesia (2015–2021)	Corporate governance (board size, audit committee, ownership concentration)
6	Fauziah & Hamidi (2023)	IDX-listed manufacturing firms (2020–2023)	Firm size, liquidity, profitability, leverage
7	Nugraha & Santoso (2020)	Mining sector companies (2015–2019)	Debt ratio, profitability, sales growth, leverage
8	Rahayu, Utami & Syahputra (2024)	Manufacturing and consumer goods companies (2018–2022)	Cash flow, leverage, firm size, financial performance
9	Anggraini, Dewi & Lubis (2023)	IDX-listed firms (2019–2023)	Liquidity, profitability, institutional ownership, leverage
10	Hartono & Wulandari (2021)	Multiple sectors in Indonesia (2015–2020)	Corporate governance, profitability, firm growth, external macroeconomic factors

Discussion

The findings of this study indicate that financial distress is influenced by a variety of factors, which can generally be categorized into internal financial factors, external and macroeconomic factors, corporate governance, and firm-specific characteristics. This supports the idea that financial distress is a multidimensional phenomenon that arises from both internal company conditions and external economic pressures.

1. **Internal Financial Factors**

   Internal financial factors are found to have a significant effect on the likelihood of financial distress. Most of the reviewed studies emphasize that liquidity, leverage, profitability, and firm size are the dominant determinants influencing company solvency.

   According to Wijaya & Suhendah (2023), high liquidity ratios reduce the probability of financial distress, as firms with strong current assets can better meet short-term obligations. Similarly, profitability serves as a protective factor, where firms with consistent profits are less vulnerable to default risk (Fauziah & Hamidi, 2023).

   On the other hand, high leverage tends to increase the risk of distress due to growing financial obligations (Nugraha & Santoso, 2020). Moreover, **firm size** was also identified as a moderating factor; larger firms usually have more stable access to financing and better managerial capacity to mitigate risks (Rahayu et al., 2024).
2. **External and Macroeconomic Factors**

   External factors, including macroeconomic conditions, also play an important role in determining financial distress. The studies reviewed show that economic downturns, inflation rates, and market volatility can significantly weaken a firm's financial position (Hartono & Wulandari, 2021).

   Nugraha & Santoso (2020) further state that companies in the mining and manufacturing sectors are particularly sensitive to commodity price fluctuations and changes in global demand. These findings highlight that financial distress is not only determined by internal weaknesses but also by the firm's ability to adapt to changing external environments.

3. **Corporate Governance and Managerial Aspects**

   The role of corporate governance also emerges as an important determinant in mitigating financial distress. Alexandra, Mulyani & Harahap (2022) found that board size, audit committee independence, and ownership structure significantly affect a company's ability to manage risks.

   Effective governance practices encourage better supervision and transparency, thus improving decision-making processes and reducing managerial opportunism. In addition, institutional ownership is shown to have a moderating effect by strengthening firm control and promoting accountability (Komala & Triyani, 2019).

These results suggest that companies with stronger governance structures are more resilient in facing financial crises.

4. **Firm-Specific and Moderating Factors**

   Some studies identified additional firm-specific variables that act as moderators between financial performance and distress. Leverage was found to moderate the relationship between profitability and financial distress, implying that even profitable firms may face distress when debt levels are excessively high (Hidayat et al., 2024).

   Similarly, Rahayu et al. (2024) reveal that cash flow stability and asset management efficiency can significantly reduce financial vulnerability. These findings reaffirm that financial distress arises from the interaction of various internal and external dynamics rather than a single financial ratio.

5. **Synthesis**

   Based on the synthesis of the ten reviewed studies, it can be concluded that financial distress is primarily shaped by internal financial indicators such as liquidity, leverage, and profitability, as well as governance quality and external economic pressures.

   Companies with efficient asset utilization, sound financial structures, and strong governance systems are more capable of maintaining stability even in adverse macroeconomic conditions.

   These findings underline that preventing financial distress requires an integrated approach that combines financial management, governance improvement, and risk monitoring mechanisms to sustain long-term corporate performance in dynamic business environments.

Conclusion

This study conducted a Systematic Literature Review (SLR) to identify and analyze the factors influencing financial distress based on ten SINTA-indexed journal articles published between 2020 and 2025. From an initial pool of approximately 39,400 articles identified through Google Scholar, a total of 10 relevant studies were selected after applying inclusion and exclusion criteria. The review findings indicate that financial distress is influenced by a diverse combination of internal, external, and organizational factors.

The internal factors include liquidity, leverage, profitability, and firm size, which directly determine a company's financial stability. External factors such as macroeconomic conditions, market fluctuations, and inflation also play a crucial role in shaping financial risk. Furthermore, corporate governance mechanisms — including board independence, ownership structure, and audit committee effectiveness — have been shown to moderate the relationship between financial performance and distress probability. These findings confirm that financial distress is not caused by a single determinant, but rather by the complex interaction between financial structure, managerial quality, and economic environment.

The results of this study highlight that a comprehensive and integrative approach is essential to prevent financial distress. Firms need to strengthen internal efficiency, maintain optimal leverage, and improve transparency through good corporate governance. This synthesis contributes to the academic literature by providing structured insights into recent financial distress research in Indonesia, which can serve as a reference for policymakers, investors, and corporate management in evaluating financial health and crisis prevention strategies.

However, this study has limitations, particularly its reliance on secondary data and literature restricted to SINTA-indexed journals within the 2020–2025 range. Future research should expand the scope by incorporating international comparative studies, empirical testing of the identified variables, and examining the impact of digital transformation and sustainability factors on corporate financial resilience.

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