



The effect of operating capacity and leverage on financial stability: Testing the interaction of corporate governance

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ABSTRACT

Financial stability is a picture of the unstable financial condition of a company that can allocate its financial resources to prevent interference with the financial system. This study examines the influence of leverage variables and operational capacity on corporate financial stability in the property and real estate industries, with corporate governance factors as moderation. The data used is the annual Property and Real Estate Companies report on the Indonesian Stock Exchange for 2018-2022. The study involved 91 companies as a population, and 22 samples were taken over a five-year analysis period. Data analysis using panel data regression with E-Views 12 as software. Financial stability is affected positively and significantly by Operational Capacity, while Corporate Governance and Financial Stability are affected negatively and significantly by Leverage. That can explain the importance of financial stability in a company so that it can continue to survive and thrive. This research aims to give readers and stakeholders insight into Financial Stability in the real estate sector, thus minimizing the risk of financial difficulties in a company. Further research needs to add relevant variables and expand research objects.

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1. INTRODUCTION

Along with the development of the times, the progress of a country will also undergo significant developments. This transformation will affect various aspects of life, including political, economic, and socio-cultural aspects. The inevitable phenomenon is globalization. In this era of globalization, countries are forced to be able to respond quickly to the rapidly spreading flow of information and cultural influences from other countries, which is now easy to access (Zulfa & Najicha, 2022). When discussing globalization, the rapid advancement of technology cannot be ignored. Nowadays, technology plays a major role in many aspects of life, including the economic sector. It can be a threat or an opportunity for a country or an existing company. Suppose the entire business entity in a country can recognize and choose the negative or good effects of technological development. In that case, technological progress can be a source of profit and drive a country's economic growth progressively.

Indonesia's economic growth chart, which continues to grow above 5 percent despite a drastic decline in 2020 or during a pandemic. However, it is already above that and shows a slump in growth. Changes in the economic situation impact the activities and performance of companies, including small and large enterprises. As a result, competition between companies is becoming

increasingly intense, resulting in increased operating costs. If a company cannot compete effectively, it can suffer losses, which can interfere with its financial stability.

Companies that operate in the field of property and real estate are companies that seek to meet the requirements of consumers towards houses and properties. These companies operate in an environment full of competitors, so they need to compete well to survive. Investment in the property industry is usually long-term and thrives as the economy grows. This is reflected in the constant availability of land, the continuously rising demand, and population growth. This research examines property and real estate companies listed on development boards, which are generally medium-sized companies that are growing and susceptible to financial fluctuations. According to the latest data from the Central Statistical Agency, the population of Indonesia continues to rise, reaching 278.69 million by the middle of 2023. The demand for space and property has also increased, making the sector an attractive investment option. However, the sector is also vulnerable to changes in interest rates, inflation, and exchange rates that affect people's purchasing power and can cause serious financial problems, even risk of bankruptcy (Nirmalasari, 2018; Budi & Dillak, 2022).

A company's financial situation is considered insufficient or in financial trouble when financial stability is disrupted, where the company generates less income than the cost to be paid over a long period (Pulungan, 2017; Septiani & Dana, 2019). Financial stability is a picture of the unstable financial condition of a company that can allocate its financial resources to prevent interference with the financial system. According to Bank Indonesia (2007) in Wati et al., (2019), financial stability is the financial system's resilience to economic shocks as the key to ensuring that corporate intermediation, payment systems, and risk management continue to operate efficiently. This model of financial stability is critical to be observed and developed for a company, where financial stability is expected to provide an early warning to the company to manage its business activities better and take steps to detect potential situations that could lead to bankruptcy as soon as possible (Zulfa & Najicha, 2022).

Managing a company is not easy, especially when it comes to regulating integrity, which is crucial in determining a company's survival. It directly impacts the various parties that have interests in the company. So, companies must maintain financial stability through strict monitoring of financial statements. Financial statements serve as an assessment tool to determine the financial stability of an organization using various financial indicators contained in the financial statement documents. This ratio also serves as a parameter to predict the potential negative impact that a company may encounter (Radiansyah, 2013; Rahmadiani, 2022).

Activity ratio, also known as Operating Capacity, is a factor that impacts a company's financial stability. Operating capacity, also referred to as the ratio of total turnover of assets, can be calculated by comparing sales revenue to the company's total assets. This ratio will increase if the sales are significantly increased compared to the growth of the asset, while, on the contrary, if the relative growth of sales is more negligible compared with asset growth, then it will decrease (Ardiyanto & Prasetyono, 2011; Rahmadiani, 2022).

When discussing the issue of short and long-term debt disbursement, the concept of leverage ratio becomes a significant concern. Leverage is a measure used to compare funds from the company's owners to the amount of funds borrowed from creditors. This measure aims to evaluate to what extent the company's assets are financed through debt (Rahmadiani, 2022). Total debt to the company's assets analyzed using DAR is used to assess the company's financial stability. Research results by Pertiwi et al., (2022) indicate that leverage rates impact financial stability.

Corporate governance is a structured and methodical framework employed to supervise and administer a business entity with the objective of enhancing shareholder value while considering the concerns and welfare of all stakeholders associated with the organization (Wahyuni, 2020). Implementing corporate governance is expected to increase corporate productivity and efficiency. This has a significant positive impact on corporate profits, ultimately affecting the corporate financial condition, such as the Operating Capacity and Leverage ratio. After considering the issues related to Financial Stability and the various factors that influence it, the researchers were interested in conducting research and establishing the title "Effects of Operating Capacity and

Leverage on Financial Stability: Testing the Effects of Corporate Governance Interaction” in the context of Property and Real Estate companies listed on the Indonesian Stock Exchange (IDX) during the period 2018-2022. This research can contribute to the theoretical understanding of how corporate governance mechanisms interact with operating capacity and leverage in influencing financial stability. This can deepen the knowledge base about the complex relationships within the corporate structure. Corporate managers can also use research findings to make more informed decisions regarding operating capacity, leverage, and corporate governance practices that lead to strategies to improve financial stability.

2. RESEARCH METHOD

Agency Theory

The theory of agency is a concept that describes interactions between owners and management (Agustin & Trisnawati, 2022). The theory states that agency problems can arise when the company's owner, the principal, is motivated to optimize its interests sustainably. Therefore, management is given partial authority to make decisions in favor of shareholders and management must be able to hold them accountable for their actions to the shareholders (Jensen & Meckling, 1976; Dwi Urip Wardoyo et al., 2021). This role-sharing often results in inequalities in the quantity and quality of information available to both sides. Managers who act as agents managing the company's operations have faster access to information than owners of companies who are not directly involved. Therefore, situations like this can allow managers to act according to their interests, ultimately resulting in agency costs.

Information in financial statements can be a benchmark for knowing a company's financial condition. If a company successfully runs its operations efficiently, high returns will automatically be achieved, maintaining its Financial Stability value (Putri, 2016; Kuntari & Machmuddah, 2022). With agency theory, the coordination between agents and principals is expected to reduce the level of financial difficulties so that the company's financial stability is awakened.

Financial Stability

Financial stability is a picture of the unstable financial condition of a company that can allocate its financial resources to prevent interference with the financial system. According to Bank Indonesia (2007) in Wati et al. (2019), financial stability refers to the ability of the financial system to withstand the impact of economic shocks so that the intermediation functions, payment systems, and risk management of companies remain operational efficiently. Financial stability does not have a basic sense, but it can be explained that a system is considered unstable when it becomes a threat and blocks economic activity (Awanti, 2017; Aksari et al., 2022). The vulnerability of a company's financial system to changes and disruptions can pose limiting restrictions on the economy's motion. An unstable company, in other words, faces financial difficulties when it cannot cover its obligations in paying burdens, especially the burden of interest due, and the income received by the company is insufficient to pay its debts. In order to assess the financial stability of a company, this study employs the Interest Coverage Ratio, which evaluates the company's ability to make interest payments.

Financial Distress

Financial distress is associated with the term “financial difficulties” which describes a company's poor financial condition and risk of liquidity problems (Agustin & Trisnawati, 2022). Terms like failure, inability to pay the debt, and bankruptcy often describe this situation. According to Simanjuntak, (2022) Financial distress is caused by a sequence of suboptimal decisions and weaknesses that are either directly or indirectly interconnected. These factors impact the company's management and oversight of its financial condition, resulting in an ineffective use of resources relative to their requirements. A company that cannot control competition can also face financial difficulties because fierce competition can result in costs to be borne by high companies.

The financial distress situation affects not only the company's management but also shareholders, stakeholders, suppliers, and creditors. Since such a huge impact can occur due to these conditions, companies need to be prepared and strive to prevent worse financial risks. Managers are expected to have increasing managerial skills to cope with an increasingly fast and

competitive business world. Thus, managers must be prepared to face the challenges and uncertainties that may arise in the future so that companies can defeat the potential for bankruptcy (Pertiwi et al., 2022).

Operating Capacity

Operating capacity is used to evaluate how a company manages each aspect of its activity by evaluating the proper use of its assets (Sari et al., 2019; Rahmadiani, 2022). According to Fahmi (2018) in (Agustin & Trisnawati, 2022), operating capacity is a ratio that describes how a company can effectively use its resources to reach a goal that produces maximum returns. Operating capacity can be measured by comparing net sales to the average total value of assets. Where, the greater the value of the operating capacities of a company, the more influential the company is in utilizing its total assets and will generate significant corporate profits.

Leverage

The leverage ratio is the indicator used to assess the extent to which a company finances its assets through loans (Kasmir, 2017; Pertiwi et al., 2022). According to Wiagustini (2010) in Mutmainnah & Huda (2022), leverage reflects an entity's ability to repay debt or measure the extent to which the entity relies on debt as a source of financing. In other words, the leverage ratio shows how well a company can meet its short- and long-term responsibilities if the company has to be liquidated. When companies rely more on debt as a source of funds, it can increase the risk to financial stability because the debt is greater than the value of the assets it holds.

Corporate Governance

Corporate governance is a systems designed to effectively organize and manage company operations to meet stakeholders' expectations (Simanjuntak, 2022). In its regulation, corporate governance creates a structure to regulate the distribution of roles, rights, and responsibilities for those who have interests in the company, such as shareholders, the board of directors, management, and all other parties involved other than the shareholder (Ihvan et al., 2022). According to Reni & Wendy (2023), Corporate Governance is a corporate governance system that considers all the factors that influence corporate processes, including aspects related to regulation concerning corporate government. A company's performance can be judged by the extent to which it applies corporate governance principles. According to Aziz et al., (2023), the Bank of Indonesia Regulation No. 8/4/PBI/2006 describes Corporate Governance as a corporate management system for general banks which operates in accordance with the values of impartiality, responsibility, accountability, transparency, and equity. The parties within the company use corporate governance as a tool to enhance business success and ensure corporate accountability in the long term while keeping in mind the interests of other stakeholders by following applicable legal regulations and ethical principles (Sutedi, 2011; Aziz et al., 2023). Corporate governance is intended to manage the relationship to prevent critical strategic errors and ensure that if errors occur, they can be repaired immediately. The application of good corporate governance establishes a professional framework that governs the interaction among shareholders, managers, and stakeholders in order for them to profit substantially while carrying out their respective roles and responsibilities (Malini, 2021).

Profitability

Profitability is an indicator of a company's capacity to generate revenue. to attract investor interest in providing its modalities as well as a form to evaluate the effectiveness of its corporate management (Aziz et al., 2023). Profitability is used to measure a company's capacity to generate revenues through sales, the amount of assets, and a certain amount of stocks (Hanafi & Halim, 2018; Aziz et al., 2023). When profitability is low, it reflects an under-optimal corporate management performance.

If a company cannot achieve adequate profitability, then its business survival will be threatened. Therefore, companies should seek external funding sources, such as by applying for loans to creditors or issuing shares and bonds that can be offered to the public. The use of debt to meet fund needs will affect the company's leverage level, which measures the extent to which the company uses its debt (Putra Pradana, 2021). In its implementation, the shareholders of a company not only act as providers of funds and means but also oversee the execution of

management tasks to ensure that everything can be implemented effectively, thereby increasing the profitability of the company (Hayati & Sholichah, 2022). If the principal and the agent can work together well, then the company can its goal of generating huge profits. The greater the revenue and the more efficient the management of the company's assets, the stronger the company is in the face of the threat of financial difficulties due to sound financial stability (Feri, 2011; Hayati & Sholichah, 2022).

Operating Capacity and Financial Stability

Operating capacity measure to evaluate a company's ability to use its assets efficiently to generate revenue (Pertiwi et al., 2022). Financial stability is measured by looking at a company's ability to pay off when sales rates rise so that the company can cover the burden of interest to be paid and avoid financial difficulties that keep the company's financial stability awake. A considerable potential profit can be generated if a company can manage its assets efficiently. On the contrary, a company that is unable to manage its assets properly can interfere with the financial stability of the company and result in financial problems (Agustin & Trisnawati, 2022).

Research conducted by Sholikhah & Rokhmania (2022), states that operating capacity has a negative influence on the occurrence of financial distress. These results are in line with the results of a study conducted by Fadlillah & Mei Susilowati (2019), which stated that operating capacity affects financial distress in a negative direction. That is, if the operating capacity of a company is low, then the company cannot generate sales as much as the value of its assets. Companies with relatively low sales rates compared to the high value of their assets indicate that the company's performance is not optimal. If this situation continues, the company risks financial difficulties, which indicates a decline in the financial stability of the company. Indirectly, this study mentions that operating capacity positively impacts Financial Stability. Meanwhile, a different study conducted by (Rahmadiani, 2022) has obtained results showing that the operating capability negatively impacts financial distress. Another study by Agustin & Trisnawati (2022), showed that operating capacity positively impacts the risk of financial difficulties. This means that if the company's sales value increases, it will be a threat to the financial stability of the company. H1: Operational capacity has a positive impact on financial stability

Leverage and Financial Stability

The leverage ratio measures the level of debt involvement in corporate financing by comparing it to the assets it owns (Agustin & Trisnawati, 2022). When a company is in a liquidity phase, this ratio can be applied to assess its ability to pay off debts, including those to be paid off in the short or long term. The lower the leverage ratio, the higher the company can pay its debt (Pertiwi et al., 2022). This indicates that if a company's debt value is high, the company's financial stability will decrease because the company has to pay large liabilities.

Studies conducted by Pertiwi et al., (2022) and Fadlillah & Mei Susilowati (2019), indicate that leverage positively influences financial distress conditions. If a company with a presentation of debt used in its financing is too high, it will have difficulty making payments. If not addressed immediately, the company will slowly have financial problems that end in bankruptcy. It means showing that leverage has a negative impact on financial stability. Companies with higher debt and risk of financial distress will be experiencing low financial stability. Contrary to the opinion of Agustin & Trisnawati (2022) in his research, it is mentioned that the leverage rate has a significant and negative impact on the possibility of financial distress because the high value of a company's non-performing leverage is associated with a high chance of bankruptcy. Companies with high levels of debt but can still buy assets and generate profits can overcome these constraints, thus reducing the company's financial risk. A study conducted by Hayati & Sholichah (2022), found that the leverage rate of a company, represented by the DER ratio, cannot predict the potential financial distress of the company and can not affect the financial stability of a firm. H2: Leverage has a negative impact on financial stability

Corporate Governance Moderation Effect

Corporate governance is a system that provides guidance and supervision over an entity or organization (Cadbury Report, 1992; Aziz et al., 2023). By implementing effective corporate

governance, corporate managers will make appropriate, unselfish decisions, and protect the company's stakeholders, thus minimizing the risk of a company facing financial difficulties and keeping its financial stability in a healthy state (Simanjuntak, 2022). The leverage ratio is evaluated as a predictive metric for financial distress, taking into consideration the organization's capacity to fulfill its immediate and long-term financial commitments, which encompasses the repayment of debt (Septiani & Dana, 2019). Many companies with high debt can continue to grow with stable financial conditions because they have good governance in managing debt so financial stability will be better. The same thing happens when a company has large amounts of debt but makes the company's economic stability worse because of poor corporate management.

According to (Ginanjari, 2018) a company has a ratio of the total turnover of assets that is used as a measure to assess the ability of the company to use its assets for operating activities called operating capacity. This ratio is used to measure how a company generates sales by effectively managing the company's assets. Implementing corporate governance calculated based on institutional ownership will increase the efficiency of using assets so that Financial Stability will always be awake. Lisiantara & Febrina (2018), in their research, revealed that good Corporate Governance can avoid financial problems, and with the accuracy of operational work, a company using company assets can maintain healthy financial stability. So, in this study, corporate governance is expected to be able to moderate the ratio of leverage and operating capacity to influence financial stability. This may be because a company with good corporate governance is a company that has a prudential management background by considering a balance of fulfilling interests by building robust and sustainable company conditions (Simanjuntak, 2022).

H3 : Corporate governance moderates the impact of operational capacity on financial stability

H4 : Corporate governance moderates the impact of leverage on financial stability

Based on the above description, we can design the research framework as follows:

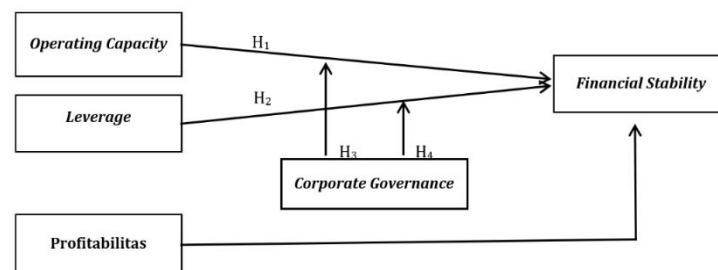


Figure 1. Research Framework

This quantitative research uses data in numerical form and statistical analysis methods to test the impact of leverage and operating capacity on financial stability with corporate governance as a moderation variable on property and real estate sector listed on the Indonesian Stock Exchange during 2018-2022.

The method used is using a library study method taken from sources such as books and journals to understand and dig deeper into the literature relevant to the research. In addition, the research also uses a method of documentation study by gathering a number of relevant documents as a source of information to support related research. Secondary data is collected from annual financial reports of companies in the property and real estate sector listed on the Indonesian Stock Exchange for during 2018 to 2022, collected from the Indonesia Stock Exchange (IDX) website www.idx.co.id.

The population of this research includes the companies operating in the property and real estate sectors listed in the Indonesian Stock Exchange (IDX) in the year 2018-2022. In collecting samples, purposive sampling or sample selection techniques are used that take into account a certain number of criteria. The criteria applied in this study include:

Table 1. Sample Selection Process

No.	Company criteria	Sample Members List
1.	Total Real and State Property Companies listed in the BEI	91
2.	Real and State Property companies listed on the development board	33
3.	The company continuously releases financial statements that have undergone the audit process for the period ended on 31 December during the observation period (2018-2022) and contain the information necessary for research purposes	22
Number of samples of research		22
Study period (Year)		5
Number of observation data		110

The study developed four research models, each of which showed the correlation between the variables and how they were measured, which will be described in a structured manner in the following section:

$$\begin{aligned} \text{FSB} &= c + \beta_1 \cdot \text{CG} \dots\dots\dots \text{Model (1)} \\ \text{FSB} &= c + \beta_1 \cdot \text{OPC} + \beta_2 \cdot \text{LEV} \dots\dots\dots \text{Model (2)} \\ \text{FSB} &= c + \beta_1 \cdot \text{OPC} + \beta_2 \cdot \text{LEV} + \beta_3 \cdot \text{CGN} + \beta_4 \cdot \text{OPC} * \text{CGN} + \beta_5 \cdot \text{LEV} * \text{CGN} \dots\dots\dots \text{Model (3)} \\ \text{FSB} &= c + \beta_1 \cdot \text{OPC} + \beta_2 \cdot \text{LEV} + \beta_3 \cdot \text{CGN} + \beta_4 \cdot \text{OPC} * \text{CGN} + \beta_5 \cdot \text{LEV} * \text{CGN} + \beta_6 \cdot \text{PROF} \dots\dots\dots \text{Model (4)} \end{aligned}$$

Description :

FSB = Financial Stability
 OPC = Operating Capacity
 LEV = Leverage
 CGN = Corporate Governance
 PROF = Profitability
 C = Constanta

3. RESULTS AND DISCUSSIONS

Descriptive statistics is the process of collecting and organizing data to provide an overview of the characteristics of samples. Table 3, contains descriptive statistical information of each variable used in this research.

Table 2. Result of Descriptive Analysis

	OPC	LEV	CGN	FSB	PROF
Mean	0.115727	0.351364	0.705273	9.682364	0.011079
Median	0.085000	0.295000	0.780000	1.890000	0.007400
Maximum	0.810000	0.800000	1.000000	393.6800	0.277367
Minimum	0.000000	0.010000	0.020000	-337.8900	-0.119540
Std. Dev.	0.108234	0.198774	0.240560	65.80481	0.062821

Eviews12 is used to analyze the descriptive with the sum of data on 110 financial reports; the Financial Stability variable has a minimum value of -337.89 in ASPI companies, a maximum value of 393.68 in MKPI companies with an average of 9.68. The results show that MKPI is the best company in Corporate Financial Stability for 2018-2022.

The Operating Capacity variable with a minimum gain of 0.00 is in BBSS companies, and the maximum value of 0.81 is in ASPI companies with an average of 0.11. Operating capacity measured by comparing net sales to average total assets indicates that the highest sales rate is in the ASPI company.

The minimum value on the leverage variable is for BBSS and LPLI companies 0.01, and the maximum value of 0.80 is for POLL and POLI companies with an average of 0.35. The results

reflect that POLL and POLI companies have smuggled companies that use most of their assets to secure debt.

The minimum value on the Corporate Governance variable of 0.02 is for OMRE companies, and the maximum value of 1.00 is for BBSS companies with an average of 0.70. The results provide an overview that BBSS is the company with an enormous level of Institutional Ownership in its business during the period 2018-2022, while the firm with the smallest amount of institutional ownership is OMRE.

Table 3. Chow Test Results

Effect Test	Statistic	d.f.	Prob.
Cross-section F	2.832355	(21,86)	0.0004
Cross-section Chi-square	57.825633	21	0.0000

From Table 4, it shows that the probability of Chi-square has a value of 0.0000, which is smaller than the degree of significance $\alpha = 0.05$. By referring to the decision-making guidelines, we can state that the Fixed Effect Model (FEM) is superior to the Common Effect model (CEM).

Table 4. Hausman test results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.470513	2	0.0239

In Table 5, the results of the test showed that the Chi-square probability of 0.0239 is smaller than the significance level $\alpha = 0.05$, based on the decision-making criteria; this indicates that the Fixed Effect Model (FEM) is better than the Random Effect model (REM) and is used for further testing.

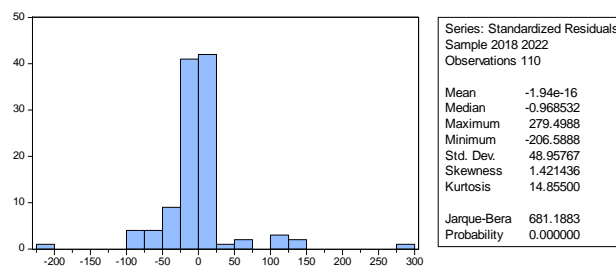


Figure 2. Normality Test Diagram

Based on Figure 3, of the histogram diagram, the JB value is 681.1883 with a probability of $0.000000 < 0.05$. Thus, it is concluded that the research data is not normally distributed. This study can use the limit theorem because the data is not distributed normally. In other words, the normality assumption can be ignored if the research data is extensive ($n > 30$). It is based on the statement of Gujarati & Porter (2022) that when the number of N (data) is more than 100 and has been tested abnormal, then normality can be ignored.

Table 5. Multicollinearity test results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	209.3172	5.574557	NA
OPC	3248.443	2.162900	1.004250
LEV	963.1305	4.170930	1.004250

Based on the results of the tests in Table 6, above, the VIF value of the variable OPC was 1.004250 and the LEV was 1.004250. Centered VIF value of each variable < 10 , it shows there are no symptoms of multicollinearity.

Table 6. Heteroscedasticity test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2218.176	3886.328	0.570764	0.5694
OPC	30204.29	15309.98	1.972851	0.0511
LEV	-4826.703	8336.418	-0.578990	0.5638

Results of the Breusch-Pagan-Godfrey test in Table 7, show that the probability of OPC and LEV variables is > 0.05 . Thus, it can be concluded that the data does not contain the problem of heteroscedasticity. Table 4.6 shows an autocorrelation test with a DW value of 1.573619. According to Field (2018), the DW value that meets to be able to conclude no auto-correlation occurs is between 1 and 3. So it can be stated that the regression model in this study does not have auto-correlation.

Table 7. Autocorrelation Test Results

R Square	Adjusted R Square	Std. Error of Regression	Durbin Watson
0.446489	0.298457	55.11689	1.573619

Table 8, shows the four models tested in this research. Model 1 tested the influence of the moderation variable of corporate governance on financial stability, which showed that Corporate Governance (CGN) positively and significantly impacted Financial Stability (A significant rate of one percent). It shows that Corporate Governance can act as a predictor in explaining Financial Stability and qualify as a moderator. In this case, the function of market monitoring is working well where the agency theory states that the tendency of agency problems can arise when the owner who acts as principal and the manager acting as agent tries to maximize utility functions sustainably. There will be coordination between agent and principal that can lower the level of financial difficulty so that the company's financial stability is awakened. The results are in line with the findings of Simanjuntak (2022), who stated that by implementing good corporate governance, corporate managers will always make the right and altruistic decisions while securing the corporate stakeholders, thereby reducing the risk of the company undergoing financial distress and will keep the financial stability in a healthy state.

Model 2 tested the influence of all independent variables (OPC and LEV) on financial stability with significant results. Operating Capacity variables significantly influence Financial Stability, proving that **H1 is accepted**. The aftermath aligns with a study performed by Sholikhah & Rokhmania (2022) and Fadlillah & Mei Susilowati (2019), where a positive result means every increase in sales will increase the Interest Coverage Ratio and so on. That is, the higher the value of the Operating Capacity that a company is targeting in generating sales, the more efficient the company's performance will be, thus indicating the increased financial stability of the company.

The test on the leverage variable (LEV) against Financial Stability showed that the results significantly negatively impacted Financial stability. This finding confirms that **H2 is accepted**. The smaller the leverage value of a company, the greater the financial stability because it doesn't have to cover an enormous debt burden. Similarly, if a company has a high debt rate and a high risk of financial distress, then the company is experiencing a low Financial Stability. These results support the research by Pertiwi et al., (2022) and Fadlillah & Mei Susilowati (2019).

Table 8. Test Results of Research Models

No	Variable	Model-1	Model-2	Model-3	Model-4
1.	Constant	-6.3440	15.1128	31.9395	30.3687
	<i>P-value</i>	(0.2616)	(0.0137)**	(0.0000)***	(0.0000)***
2.	CGN	22.7237	-	-27.2853	-47.8438
	<i>P-value</i>	(0.0053)***	-	(0.0431)**	(0.0003)***
3.	OPC	-	99.7881	-126.4444	-133.5193
	<i>P-value</i>	-	(0.0013)***	(0.0124)**	(0.0112)**
4.	LEV	-	-48.3223	0.2377	-36.58947
	<i>P-value</i>	-	(0.0006)***	(0.9921)	(0.1352)
5.	OPC*CGN	-	-	286.190	300.9856

No	Variable	Model-1	Model-2	Model-3	Model-4
	<i>P-value</i>	-	-	(0.0024)***	(0.0021)***
6.	LEV*CGN	-	-	-56.8843	55.3518
	<i>P-value</i>	-	-	(0.2566)	(0.2595)
7.	PROF	-	-	-	94.2086
	<i>P-value</i>	-	-	-	(0.0001)***
	F	5.1141	3.9459	5.7462	6.4697
	<i>P-value</i>	(0.0000)***	(0.0000)***	(0.0000)***	(0.0000)***
	<i>Adjusted R²</i>	0.5639	0.5134	0.6428	0.6805

Description: Dependent variable = FSB; *** sig.1%; ** sig. 5%; * sig. 10%

Model-3 tests the interaction effects of Corporate Governance (CGN) with the independent variable of Financial Stability. The aftermaths of the model using the determination coefficient and the F-test showed that after involving CGN, the research model yielded excellent and consistent results. The determination coefficient increased to 64% of the previous 51%, while the F-test still showed support at a significant rate of one percent. The moderation effect test showed that CGN was supported as a moderation factor involved in variable interaction with CGN. The interaction results indicate that CGN can moderate Operating Capacity against Financial Stability so that **H3 is accepted**. This result gives an interaction effect with a stable significant degree of one percent equal to the influence of Operating Capacity on Financial Stability before interacting with CGN. Having institutional ownership that measures corporate governance can help companies increase their sales so that good governance will improve financial stability. The results of this study are in line with the findings made in previous research by Lisiantara & Febrina (2018), which revealed that good Corporate Governance can avoid financial problems and the accuracy of the operational work of a company in using the company's assets can maintain a healthy financial stability.

The CGN interaction with the LEV variable showed different results. The LEV that previously gave significant negative influence appeared insignificant after interacting with the CGN. Therefore, the presumption of Corporate Governance could not moderate the Leverage on Financial Stability so **H4 is rejected**. It shows that Corporate Governance measured by institutional ownership is not well done by the institution responsible for monitoring activities optimally. Institutional investors are sometimes less effective in performing their supervisory role, so supervision over management is weak. Weaknesses in the management of debt management are causing companies to rely on additional debt to pay off existing debt if this continues to happen, it will cause the company's financial stability to decline.

In Model 4, the test was carried out by adding a control variable profitability. The results of this test indicate that profitability has a significant positive impact on financial stability. That is, the change in the increase in the profitability value is in line with the change in the increase in a company's financial stability. Financial stability will increase when the company's management increases its revenue by making efficiency. The greater the revenue, the higher the profit it can make, and the more efficiently the company uses its assets will save the company from the threat of financial distress as its financial stability improves (Feri, 2011; Hayati & Sholichah, 2022).

4. CONCLUSION

This research was conducted to analyze the impact of Operating Capacity and Leverage on Financial Stability moderated by Corporate Governance on Property and Real Estate companies listed on the Indonesian Stock Exchange in the period 2018-2022. Based on the analysis, Operating Capacity has a significant positive influence on Financial Stability. The higher the value of Operating Capacity measured by the sales rate, the higher the company's financial stability. Another finding from this study suggests that leverage has a negative effect on financial stability, suggesting that companies with high debt rates will reduce their financial stabilities because they have to bear a heavy burden of interest. In this study, corporate governance can act as a predictor in moderating the influence of independent variables on financial stability. Interaction of Corporate Governance with Operating Capacity can strengthen influence on Financial Stability. By implementing effective corporate governance, corporate leaders will always make the right decisions, prioritize the company's interests, and protect the corporate stakeholders, thus

minimizing risk and keeping the financial stability healthy. Meanwhile, the interaction with the leverage showed weaker outcomes, from what was once significant to insignificant.

This research uses secondary data from the financial report of Property and Real Estate companies recorded on the EIB development board for the period 2018-2022. The object of the research became a constraint in researching because five consecutive years, many companies were inconsistent in publishing financial statements that had been audited for the period ended on December 31st during the observation period (2018-2022) and did not contain the complete data required by the research. Besides, research into the Corporate Governance variable is measured only from institutional ownership, while there are still some other measurement variables.

The limitations in this research can be an essential note for further research on this study and are expected to add relevant variables and broaden the focus of the research. The findings in this study are expected to provide an overview for companies in evaluating financial stability conditions so that they can plan for further actions to maintain financial Stability. This research too used as a reference and consideration for investors analyze and choose to invest in the right company, so investors can minimize risks and optimize profits achieved.

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