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Liqudity, Leverage and Profitability Analysis of The Risk of Financial Distress in Manufacturing Companies

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ABSTRACT

***Objectives**: This research aims to determine Liquidity, Leverage and Profitability against the risk of Financial Distress. The data used in this research was obtained from the annual published financial reports of manufacturing companies listed on the Indonesia Stock Exchange.*
***Methodology**: The method used in this research is multiple linear regression involving classical assumption tests, followed by partial significance using hypothesis testing, namely the t test, while to find out simultaneously, the F test uses a significance level of 5%.*
***Findings**: The results of the research show that of the three independent variables analyzed, the liquidity and profitability variables do not have a significant influence on financial distress. while leverage has a significant influence on financial distress.*
***Conclusion**: Simultaneously, the variables liquidity, leverage and profitability influence financial distress. The adjusted R-squared value in this study is 0.924, which means that the ability of the independent variable to explain variations in the dependent variable is 92.4%, while the remaining 7.6% is explained by other independent variables outside the model. Partially, the liquidity and profitability variables do not have a significant influence on financial distress. while leverage has a significant influence on financial distress. Simultaneously, the variables liquidity, leverage and profitability influence financial distress.*

***Keywords**: Liquidity; Leverage; Profitability and Financial Distress.*

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INTRODUCTION

In running a company, the company's financial condition is a crucial aspect. This is because financial condition is a fundamental aspect of the company as a foundation for carrying out business activities so that it can improve company performance (Manurung dkk, 2022). One of the factors that influences a company's financial condition is the state of the global economy. As in the period from late 2019 to 2020, there was an outbreak of the Covid-19 pandemic which had a negative impact on all aspects of life including the financial conditions of companies in

Indonesia (Badawi, 2021). During the Covid-19 outbreak, according to Ayuni (2020) only 58.95% of companies operated normally and companies experienced a decline in revenue of 82.45%. Jayani D.H (2020) stated that the company's revenue decreased by 48.60% due to losses resulting from a decrease in sales.

During the post-covid-19 recovery period in 2023, the PMI (Purchasing Managers Index) figures for the manufacturing industry experienced a decline, this was stated by CNBC Indonesia (2023) which stated that the combined index of five main indicators which include orders, inventory levels, production, delivery and labor or what is often called the Purchasing Managers Index (PMI), Indonesia's manufacturing PMI was at the level of 52.3 in September, this figure decreased compared to the position in August at 53.9. The decline in Indonesia's manufacturing PMI is due to the high number of bankruptcy applications and Postponement of Debt Payment Obligations (PKPU), which indicates that companies are experiencing financial difficulties due to limited funds and high debt which can result in bankruptcy. The greater the obligations a company has, the higher the risk of the company experiencing financial distress.

According to Christine et al., (2019) financial distress is a stage of decline in a company's financial condition experienced before liquidation or bankruptcy occurs. Financial distress is being experienced by many companies as a result of the Covid-19 virus pandemic outbreak. Companies that are able to manage their finances well will survive, while companies that cannot handle their financial distress will experience liquidation. Companies that are unable to compete and do not take action to improve performance will experience financial difficulties and even bankruptcy (Rahayu, 2023).

LITERATURE REVIEW

Liquidity

The liquidity ratio is the ability of a company to fulfill its short-term obligations in a timely manner (Fahmi, 2017) If the ratio of current assets to current debt is greater, the company's ability to meet its short-term obligations is higher. If the company is able to pay its short-term obligations with the assets it owns, the company's liquidity will improve, so the company can avoid financial distress according to *(Carolina et al., 2018; Stepani & Nugroho, 2023)* The leverage or solvency ratio is a ratio used to find out how much a company funds its assets and company activities from debt (Rahma, 2020).

Leverage

The leverage or solvency ratio is a ratio used to determine how much a company funds its assets and activities from debt (Rahma, 2020: 524). The leverage ratio shows how a company is able to manage its debt in order to pay off its debt while earning profit for its company. This study uses one type of leverage ratio, namely the Debt to Asset Ratio (DAR), which is used to measure the extent to which a company's assets are financed by debt (Effendi & Fernanda, 2019: 98).

Profitability

The profitability ratio measures the overall effectiveness of management which is indicated by the size of the level of profit obtained in relation to sales or investment (Fahmi, 2017: 135).

According to Fatmawati & Rihardjo (2017: 5), the higher the profitability ratio, the better the efficiency and effectiveness of asset management so that it produces large profits, which will prevent the company from financial distress. This study uses one type of profitability ratio, namely Return On Equity (ROE), which shows the extent to which the company is able to obtain net profit from the equity it owns (Fahmi, 2017: 140).

Financial Distress

Financial Distress or financial difficulties is a situation when a company is unable to fulfill its obligations (Kristanti, 2019: 3). Platt and Platt (2002) in Simanjuntak et al. (2017) define financial distress as the level of decline in a company's financial condition that occurs before liquidation or bankruptcy. This is in line with the statement of Hutauruk et al. (2021) which explains that financial distress is a condition in which a company's finances are at a stage of decline before the company experiences liquidation or bankruptcy.

Based on the background, problem formulation, research objectives and benefits, and literature review as described above, to analyze the influence of liquidity, leverage and profitability on financial distress. The hypothesis in this research is:

Ho1: Liquidity does not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

Ha1: Liquidity has a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period

Ho2: Leverage does not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

Ha2: Leverage has a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

Ho3: Profitability does not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

Ha3: Profitability has a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

Ho4: Liquidity, leverage and profitability simultaneously or together do not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

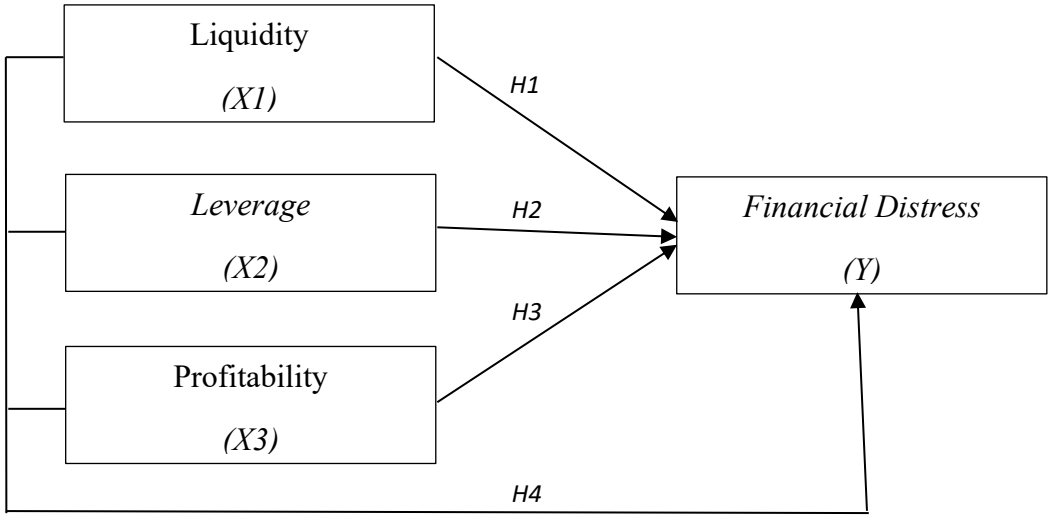

Figure 1. Conceptual Framework

METHOD

According to Sugiyono (2017: 137) secondary data sources are sources that do not directly provide data to data collectors, for example through other people or through documents. This data was obtained using literature studies carried out on many books and was obtained based on notes related to the research, apart from that the research used data obtained from the internet.

The data used in this research are financial reports on manufacturing companies for the period 2016 to 2023. This data was obtained from the official website of the Indonesia Stock Exchange (BEI), namely www.idx.co.id and also the IDN Financial website, namely www.idnfinancials.com.

According to Sugiyono (2021) population is a generalized area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn. The population in this study are manufacturing sector companies listed on the Indonesia Stock Exchange for the 2016-2023 period. The sampling technique in this research used purposive sampling. According to Deci (2024) purposive sampling is a type of non-random sample selection whose information is obtained using certain considerations (generally adjusted to the research objectives and problems). The sample in this research is the financial reports of manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2023 period.

The statistical method used to analyze data and test hypotheses is using descriptive statistics, classical assumption tests, and multiple linear regression tests using Microsoft Excel 2021 and SPSS (Statistical Package for Social Sciences) version 25 software.

1. Descriptive Statistical Test

   According to Sugiyono (2021) states that descriptive statistics provide a picture of data that can be seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness. Descriptive statistics are usually used to describe the profile of sample data before utilizing statistical analysis techniques that function to test hypotheses.

2. Classic Assumption Test

   According to Sugiyono (2021)), the requirements that must be met in multiple linear regression analysis based on ordinary least squares (OLS) are classical assumption tests. The classical assumption tests that are commonly used are the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

   a. Normality Test

   b. Multicollinearity Test

   c. Autocorrelation Test

   d. Heteroscedasticity Test

3. Multiple Linear Regression Analysis

   According to (Sugiyono, 2021) multiple linear regression analysis is a linear relationship between two or more independent variables. This analysis aims to determine the direction of the relationship between the independent variable and the dependent variable, whether each independent variable is positively or negatively related, and to predict the value of the dependent variable if the value of the independent variable increases or decreases.

4. Coefficient of Determination

   According to M Yamin (2024) the coefficient of determination is the coefficient used to find out how much the independent variable influences the dependent variable. The coefficient of determination value ranges from 0 to 1. The coefficient of determination value uses the Adjusted R-square value because there is more than one independent variable used in this research.

5. t test (partial test)

   According to Ahfaz (2024;) the t test is used to test the partial (individual) regression coefficient of the independent variable on the dependent variable. To carry out a t test, the t-table value must be determined with a significance level of 5%.

6. F Test (Simultaneous Test)

   According to Adhani (2023) the F test is used to show whether all independent or independent variables included in the model have a joint influence on the dependent or dependent variable.

RESULTS AND DISCUSSION

Results

1. Descriptive Statistical Test

   The following is descriptive statistical data in this research:

Table 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR (X1)	40	.0949	5.8592	1.811237	1.6581437
DAR (X2)	40	7.4571	552.2268	144.974242	186.7852420
ROE (X3)	40	-20.7551	23.2272	1.135219	8.4066376
FINANCIAL DISTRESS	40	-4.3109	2.7076	-.244738	1.8141257
Valid N (listwise)	40				

Based on Table, it can be explained that the number of samples is 40 research data. The descriptive statistics that have been processed are as follows:

1. The liquidity variable (CR) has a minimum value of 0.0949, a maximum value of 5.8592, an average value of 1.811237, with a standard deviation value of 1.6581437.
2. The leverage variable (DAR) has a minimum value of 7.4571, a maximum value of 552.2268, an average value of 144.974242, with a standard deviation of 186.7852420.
3. The profitability variable (ROE) has a minimum value of -20.7551, a maximum value of 23.2272, an average value of 1.135219, with a standard deviation value of 8.4066376.
4. The financial distress variable has a minimum value of -4.3109, a maximum value of 2.7076, an average value of -0.244738, with a standard deviation of 1.8141257.

2. Normality Test

The normality test aims to test whether in the regression model, the dependent variable and the independent variable both have a normal distribution or not

Table 2. *Kolmogorov-Smirnov* Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		*40*
Normal Parameters[a,b]	*Mean*	*.0000000*
	Std. Deviation	*.48040123*
Most Extreme Differences	*Absolute*	*.142*
	Positive	*.142*
	Negative	*-.118*
Test Statistic		*.142*
Asymp. Sig. (2-tailed)		*.051[c]*

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on table, it is known that the significance value of Asymp. Sig. (2-tailed) of 0.051. This value is greater than 0.05, so the data is normally distributed. So in accordance with the basis for decision making in the Kolmogorov-Smirnov normality test above, it can be concluded that the data is normally distributed. Thus, the normality assumptions or requirements in the regression model have been met.

3. Multicollinearity Test

The multicollinearity test can be seen from the tolerace and Variance Inflation Factor (VIF) values. These two measures show each independent variable which is explained by other independent variables. Tolerance measures the variability of a selected independent variable that cannot be explained by other variables

Table 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.195	.190		6.278	.000		
	CR (X1)	-.044	.062	-.040	-.707	.484	.616	1.623
	DAR (X2)	-.010	.001	-.981	-17.448	.000	.616	1.624
	ROE (X3)	.018	.010	.084	1.889	.067	.994	1.006

a. Dependent Variable: FINANCIAL DISTRESS

Based on table, it can be seen that the CR tolerance value is 0.616, DAR is 0.616, and ROE is 0.994. It can also be seen that the VIF CR value is 1.623, DAR is 1.624, and ROE is 1.006. It can be concluded that there are no tolerance values below 0.10 and no VIF values above 10. This shows that the three independent variables do not have a multicollinearity relationship and can be used to predict financial distress for the 2016-2023 observation period.

4. Autocorrelation Test

Autocorrelation arises because successive observations over time are related to each other, this occurs because residual errors are not independent from one observation to another. One method that can be used to detect the presence or absence of autocorrelation is the Durbin-Watson test.

Table 4

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.964[a]	.930	.924	.5000175	1.665

a. Predictors: (Constant), ROE (X3), CR (X1), DAR (X2)
b. Dependent Variable: FINANCIAL DISTRESS

In table, the results of the autocorrelation test based on a sample (n) of 40 and a number of independent variables of 3 (k=4) show that the Durbin Watson value is dl = 1.834, and du = 1.6589. From the results of the autocorrelation test, it can be seen that the resulting Durbin Watson value is 1.665, where this value is between -2 and +2, so it can be concluded that there is no autocorrelation.

5. Heteroscedasticity Test

A good regression model requires the absence of heteroscedasticity problems. In this study, the Glesjer test was used to regress the absolute residual value on the independent variables. The decision making used in this test is as follows:

Table 5

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	.170	.126		1.342	.188		
	CR (X1)	.084	.041	.398	2.071	.056	.616	1.623
	DAR (X2)	-3.487	.000	-.019	-.096	.924	.616	1.624
	ROE (X3)	.005	.006	.116	.769	.447	.994	1.006

a. Dependent Variable: ABS_RES

Based on table, it can be seen that the significance value (sig) of the liquidity variable (CR) is 0.056, the significance value (sig) of the leverage variable (DAR) is 0.924, while the significance value (sig) of the profitability variable (ROE) is 0.447. The significance value of these variables is above 0.05, so it can be concluded that there is no heteroscedasticity problem, and the regression model is suitable for use.

6. Multiple Linear Regression Test

The regression equation can be seen from the table of coefficient test results based on SPSS version 25.0 output, there are three independent variables, namely liquidity (CR), leverage (DAR), and profitability (ROE) on financial distress shown in the following table:

Table 6

Coefficients[a]

Model		*Unstandardized Coefficients B*	*Unstandardized Coefficients Std. Error*	*Standardized Coefficients Beta*	*t*	*Sig.*	*Collinearity Statistics Tolerance*	*Collinearity Statistics VIF*
1	*(Constant)*	*1.195*	*.190*		*6.278*	*.000*		
	CR (X1)	*-.044*	*.062*	*-.040*	*-.707*	*.484*	*.616*	*1.623*
	DAR (X2)	*-.010*	*.001*	*-.981*	*-17.448*	*.000*	*.616*	*1.624*
	ROE (X3)	*.018*	*.010*	*.084*	*1.889*	*.067*	*.994*	*1.006*

a. Dependent Variable: FINANCIAL DISTRESS

Based on table, the following multiple linear regression equation can be produced:

$Y = a + \beta1X1 + \beta2X2 + \beta3X3 + e$

FD = 1.195 – 0.044 (CR) – 0.010 (DAR) + 0.018 (ROE) + e

Based on the regression model and table, the results of multiple regression can be explained as follows:

1) The regression equation above is known to have a constant of 1.195 with a positive sign so that the magnitude of the constant shows that if the independent variables liquidity (CR), leverage (DAR), and profitability (ROE) are assumed to be constant or zero, then the dependent variable, namely financial distress, has a positive value of 1.115.
2) The liquidity variable coefficient (CR) is -0.044. This means that if liquidity (CR) increases by one unit, financial distress will decrease by 0.044.
3) The leverage variable coefficient (DAR) is -0.010. This means that if leverage (DAR) increases by one unit, financial distress will decrease by 0.010.
4) The profitability variable coefficient (ROE) is 0.018. This means that if profitability (ROE) increases by one unit, financial distress will increase by 0.018.

7. Coefficient of Determination Test

This coefficient of determination value aims to find out how much the independent variable influences the dependent variable. The coefficient of determination value uses R2.

Table 7

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.964[a]	.930	.924	.5000175	1.665

a. Predictors: (Constant), ROE (X3), CR (X1), DAR (X2)
b. Dependent Variable: FINANCIAL DISTRESS

Table shows how big the percentage contribution of the variables liquidity (CR), leverage (DAR), and profitability (ROE) simultaneously has on the financial distress variable. From the Model Summary image, it can be seen that the R2 (Adjusted R Square) value is 0.924 or 92.4%. This means that 92.4% of financial distress is influenced by the independent variables liquidity (CR), leverage (DAR), and profitability (ROE). Meanwhile, the remaining 7.6% is influenced by other factors outside the model such as Debt to Equity Ratio (DER), Dividend Per Share (DPS), Earning Per Share (EPS), Return on Assets (ROA), Return on Investment (ROI), Operating Capacity.

8. Partial Test (t Test)

The t test aims to see the level of significance of a variable partially to the dependent variable, namely financial distress. With a significance level of 0.050/2 = 0.025 (2-sided test) and df = (n-k-1) = (40-3-1) = 36, the t-table is 2.028. The results of the regression analysis to test the hypothesis can be seen in the following table:

Table 10

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.195	.190		6.278	.000		
	CR (X1)	-.044	.062	-.040	-.707	.484	.616	1.623
	DAR (X2)	-.010	.001	-.981	-17.448	.000	.616	1.624
	ROE (X3)	.018	.010	.084	1.889	.067	.994	1.006

a. Dependent Variable: FINANCIAL DISTRESS

Based on table, it can be seen that the results of the calculation of each independent variable on the dependent variable can be described as follows:

1) Liquidity Variable (Current Ratio)

Data from table can be seen from the results of partial test calculations for the liquidity variable (current ratio). The t-count value is -0.707, while the t-table is 2.028. The t-count value is smaller than the t-table (-0.707 < 2.028). With a significance level of 0.484 > 0.050,

2) Leverage Variable (Debt to Asset Ratio)

Data from table can be seen from the results of partial test calculations for the leverage variable (debt to asset ratio) which shows a t-count value of -17.448 while the t-table is

2.028. The t-count value is smaller than the t-table (-17.448 < 2.028). With a significance level of 0.000 < 0.05.

3) Profitability Variable (Return On Equity)

Data from table can be seen from the partial test calculation results for the profitability variable (return on equity). The t-count value was 1.889, while the t-table was 2.028. The t-count value is smaller than the t-table (1.889 < 2.028). With a significance level of 0.067 > 0.05, the conclusion is that profitability (return on equity) has no influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023.

9. Simultaneous Test (F-Test)

The F test or joint regression coefficient test is used to find out whether together the independent variables (liquidity, leverage and profitability) have a significant effect on the dependent variable (financial distress). The results of the F test calculation are as follows:

Table 11

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	119.350	3	39.783	159.123	.000[b]
	Residual	9.001	36	.250		
	Total	128.351	39			

a. Dependent Variable: FINANCIAL DISTRESS
b. Predictors: (Constant), ROE (X3), CR (X1), DAR (X2)

Based on table 4.16, it shows that the F-count is 159.123 and the F-table can be found with a significance level of α = 0.05, df 1 = k – 1 and df 2 = n – k, where n = 40, k = 4, then df 1 = 4 – 1 = 3 and df 2 = 40 – 4 = 36 so that the F-table is 2.87. So it can be seen that F-count > F-table (159.123 > 2.87) with a significance of 0.000 < 0.05. So it can be concluded that simultaneously (together) liquidation (current ratio), leverage (debt to asset ratio), and profitability (return on equity) have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023.

Discussion

Discussion is to interpret and describe the significance of the findings in light of what was already known about the research problem being investigated, and to explain any new understanding or fresh insights about the problem after taking the findings into consideration.

1. ***The effect of liquidity on financial distress in manufacturing companies***
   for the liquidity variable (current ratio). The t-count value is -0.707, while the t-table is 2.028. The t-count value is smaller than the t-table (-0.707 < 2.028). With a significance level of 0.484 > 0.050, the conclusion is that partially liquidity does not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023.
2. **The effect of leverage on financial distress in manufacturing companies**
   for the leverage variable (debt to asset ratio) which shows a t-count value of -17.448 while the t-table is 2.028. The t-count value is smaller than the t-table (-17.448 < 2.028). With a significance level of 0.000 < 0.05, the conclusion is that leverage (debt to asset ratio)

partially has a negative influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023.

3. **The effect of profitability on financial distress in manufacturing companies**
   for the profitability variable (return on equity). The t-count value was 1.889, while the t-table was 2.028. The t-count value is smaller than the t-table (1.889 < 2.028). With a significance level of 0.067 > 0.05, the conclusion is that profitability (return on equity) has no influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023.
4. **The effect of liquidity, leverage, and profitability has a simultaneous effect on financial distress in manufacturing companies.**
   F-count is 159.123 and the F-table can be found with a significance level of α = 0.05, df 1 = k – 1 and df 2 = n – k, where n = 40, k = 4, then df 1 = 4 – 1 = 3 and df 2 = 40 – 4 = 36 so that the F-table is 2.87. So it can be seen that F-count > F-table (159.123 > 2.87) with a significance of 0.000 < 0.05. So it can be concluded that simultaneously (together) liquidation (current ratio), leverage (debt to asset ratio), and profitability (return on equity) have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023. This means that every change that occurs in the independent variables, namely liquidity, leverage and profitability, simultaneously or together has an effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2023.

CONCLUSION

1. The Effect of Liquidity (Current Ratio) on Financial Distress
2. Based on the results of the t test research, it states that the liquidity variable (current ratio) does not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in the 2016-2023 period.
3. The Effect of Leverage (Debt to Asset Ratio) on Financial Distress
4. Based on the results of the t test research, it states that the leverage variable (debt to asset ratio) partially has a negative influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in the 2016-2023 period.
5. The Effect of Profitability (Return On Equity) on Financial Distress
6. Based on the results of the t test research, it states that the profitability variable (return on equity) does not have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in the 2016-2023 period.
7. Simultaneous influence of liquidity, leverage and profitability on financial distress
8. Based on the results of the F test, it states that the variables liquidity (current ratio), leverage (debt to asset ratio), and profitability (return on equity) simultaneously (together) have a significant influence on financial distress in manufacturing companies listed on the Indonesia Stock Exchange in the 2016-2023 period. This is proven by the value of F-count > F-table (159.123 > 2.87) with a significance level of 0.000 < 0.05

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