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ASSESSING THE CONDITION OF FINANCIAL DISTRESS W ITH ANALYSIS OF LIQUIDITY, SOLVENCY AND PROFIT O F COMPANIES IN INDONESIA

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ABSTRACT : Financial distress is the stage of declining financial conditions that occurred before bankruptcy. To determine the risk of bankruptcy by knowing the signs of financial distress. Financial distress can analyze financial statements using financial ratios, namely liquidity, solvency and profitability. The purpose of this study was to examine the effect of liquidity, solvency and profitability on financial distress conditions. The population in this study were 30 consumer goods industrial companies. By using purposive sampling technique, 21 companies were obtained. Using 3 (three) years, 63 observations were obtained. Data analysis technique is logistic regression analysis with SPSS V.23 program. The results of this study indicate that liquidity and profitability have a negative and significant effect on financial distress conditions so that the hypothesis is accepted, but solvency has a positive and significant effect on financial distress conditions, this means rejecting the hypothesis.

KEYWORDS*: Liquidity, Solvency, Profitability, Financial Distress*

I. INTRODUCTION

The company was established to be able to operate in the long term, where one of the objectives is to maximize profit. Currently the world is experiencing intense business competition. Intense business competition results in demands for companies to always innovate in order to survive and compete. The company's ability to compete is determined by the performance of the company itself. Companies that are not able to compete will gradually experience losses, which in turn can make a company experience financial distress. According to Whitaker (2014), financial distress is the stage of declining financial conditions that occurred before bankruptcy or liquidation. If this is not resolved immediately, it will have a major impact on large companies such as loss of trust from stakeholders, and even the company will go bankrupt.

The financial distress condition of consumer goods industry companies from 2018 to 2020 continues to increase. Financial distress is a very important issue to be considered by the company, because if the company really experiences financial distress, the company will be at risk of going bankrupt. One way to reduce the risk of bankruptcy, according to Brahmana (2017) is to know early on and predict the signs that will condition financial distress. Prediction of these signs is considered necessary to minimize the possibility of the risk of corporate bankruptcy. Financial statement analysis can be a tool to predict financial difficulties. Financial statements can be used as the basis for regulating the health of a company through existing financial ratios. Financial ratios that can predict financial distress conditions are liquidity, solvency and profitability.

According to Hendra (2009), the liquidity ratio is a ratio that measures the company's ability to meet its short-term obligations that have matured. To be able to keep the company in a liquid condition, the company must have current funds that are greater than its current debt. The liquidity ratio is calculated by the current ratio, which is the ratio that divides the total current assets with the company's current debt. Current ratio is a ratio that shows the company's ability to meet its short-term obligations by using its current assets.

In addition to the liquidity ratio, the solvency ratio is also used in this study as an indicator to predict the occurrence of financial distress. According to Keown (2008), the solvency ratio shows how much debt is used to finance the company's assets. The solvency ratio commonly used is the debt ratio, which is total debt divided by total assets. This debt ratio information is also important because through the debt ratio, creditors can measure how high the risk of debt given to a company is.Profitability ratios can be used to predict financial distress conditions.

This ratio is reflected in the return on assets (ROA). According to Rohmadini et al. (2018), profitability shows the efficiency and effectiveness of using the company's assets because this ratio measures the company's

ability to generate profits based on the use of assets. With the effectiveness of the use of company assets, it will reduce the costs incurred by the company, the company will get savings and will have sufficient funds to run its business. With sufficient funds, the possibility of the company experiencing financial distress in the future will be smaller.

Research Problem

1. Based on the background of the problem above, the formulation of the problem in this study can be formulated as follows.
2. 1. Does liquidity affect financial distress in the consumer goods industry on the Indonesia Stock Exchange?
3. 2. Does solvency affect the condition of financial distress in the consumer goods industry on the Indonesia Stock Exchange?
4. 3. Does profitability affect the financial distress condition of the consumer goods industry on the Indonesia Stock Exchange?

Research Purpose

1. To determine the effect of liquidity on financial distress conditions in the consumer goods industry on the Indonesia Stock Exchange.
2. To determine the effect of solvency on financial distress conditions in the consumer goods industry on the Indonesia Stock Exchange.
3. To determine the effect of profitability on financial distress conditions in the consumer goods industry on the Indonesia Stock Exchange.

II. LITERATURE REVIEW

Financial Distress

Financial distress is a condition that describes the state of a company that is experiencing financial difficulties, meaning that the company is in an unsafe position from the threat of bankruptcy or failure in the company's business (Agusti, 2013). Nur (2007) stated that the most easily seen condition of a company experiencing financial distress is a violation of debt payment commitments accompanied by the omission of dividend payments to investors. From an economic point of view, financial losses indicate that the company has failed. If the company is not able to get out of this condition, then the company will experience bankruptcy (Gholizadeh et al., 2011).

Financial distress can be measured in various ways, as research by Almilia and Kristijadi (2003) states that companies experiencing financial distress are companies that have experienced negative net operating income for several years and have not paid dividends for more than one year. In the research conducted by Hanifah (2013), the measurement used for financial distress is the interest coverage ratio, which is a measurement made by comparing the ratio between interest costs and the company's operating profit. Then Bodroastuti (2009) and Agusti (2013) state that companies experiencing financial distress are companies that have negative profits. While Whitaker (1999) measures financial distress by the presence of cash flows that are smaller than current long-term debt.

Liquidity

According to Lukman (2004:40), liquidity is an indicator of the company's ability to pay all short-term financial obligations at maturity with available current assets.According to Widnyana (2020), the company's inability to meet its current obligations is an extreme liquidity problem, this problem can lead to forced sales of investments and other assets, and even lead to insolvency and bankruptcy difficulties. According to Toto (2008: 20), the inability to pay obligations on time will be directly felt by creditors, especially creditors related to company operations (suppliers). According to Luciana (2003), this has indicated a distress signal that causes delivery delays and product quality problems. If the company is able to finance and pay off its short-term obligations properly, the potential for the company to experience financial distress will be smaller.

The liquidity ratio can be calculated using the Current Ratio, which is a ratio that compares the total current assets of the company with its short-term liabilities (current ratio = current assets / current debt).

Solvency

According to Kasmir (2008:113), the solvency ratio is a ratio used to measure the extent to which the company's assets are financed by debt, in other words the extent to which the company's ability to pay all its obligations, both short-term and long-term if the company is dissolved (liquidated), financing with debt creates a constant burden. According to Van Horne (2005) in Meilinda (2012), solvency emphasizes the important role of debt financing for companies by showing the percentage of company assets that are supported by debt funding.

According to Toto (2008; 91), the greater the amount of debt, the greater the potential for the company to experience financial difficulties and bankruptcy. According to Lenox et al in Pasaribu (2008), bankruptcy usually begins with a moment of default, this is due to the greater the amount of debt, the higher the probability

of financial distress. Companies with many creditors will move faster towards financial distress, compared to companies with single creditors. If a finance company uses debt more, this is at risk of difficulty in payment in the future due to debt that is greater than the assets owned. If this situation cannot be handled properly, the potential for financial distress will be even greater. One of the ratios used to measure solvency is the debt ratio by comparing debt with the company's total assets (debt ratio = debt/total assets).

Profitability

Profitability ratios can be used to predict financial distress conditions. Profitability ratio is a ratio that measures the company's ability to generate net income at a certain level of sales, assets, and share capital (Mamduh and Abdul 2007)

According to Wahyu (2009), profitability shows the efficiency and effectiveness of using the company's assets because this ratio measures the company's ability to generate profits based on assets. According to Keown (2008), an indicator that can be used as a measurement of company profitability is ROA (Return On Assets) which is a return on assets used to generate company net income (ROA = net income / total assets). With the effectiveness of the use of company assets, it will reduce costs incurred by the company, the company will get savings and will have sufficient funds to run its business. With sufficient funds, the possibility of the company experiencing financial distress will be smaller.

III. CONCEPTUAL FRAMEWORK AND HYPOTHESES

Conceptual framework

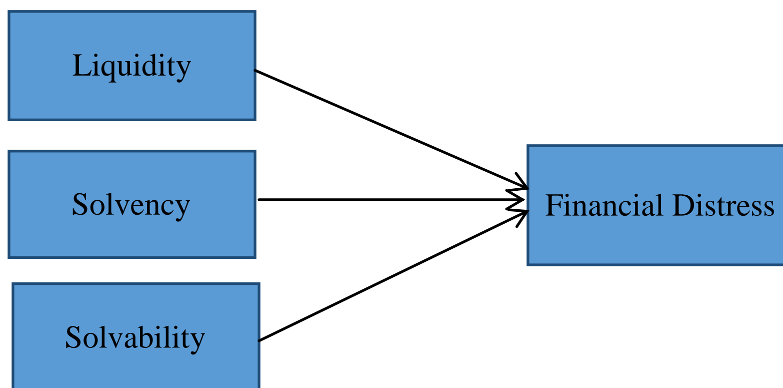

Figure 1
Conceptual FrameworkofAssessingthe Condition of Financial Distress with Analysis of Liquidity, Solvency and Profit of Companies in Indonesia

Hypothesis

1. Liquidity has a negative and significant effect on financial distress in consumer goods companies in Indonesia
2. Solvency has a negative and significant effect on financial distress in consumer goods companies in Indonesia
3. Profitability has a negative and significant effect on financial distress in consumer goods companies in Indonesia

IV. RESEARCH METHODS

Research location

This research was conducted at the Indonesia Stock Exchange (IDX). Information on the financial statements is obtained by accessing the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id

Data type

The type of data in this study is quantitative. Quantitative data is data in the form of numbers that can be calculated in the form of financial statements (Sugiyono, 2012). The quantitative data in this study is data derived from the annual reports of consumer goods industry companies listed on the Indonesia Stock Exchange in 2018 – 2020.

Data source

The source of this research data is secondary data, namely data that is not directly obtained from the company, but is obtained from other sources through documents. The secondary data used in this study is the annual report of consumer goods industrial companies listed on the IDX for the period 2018 – 2020.

Population and sample

Total population of 30 companies in the consumer goods industry. The sampling technique was purposive sampling, so that a sample of 21 companies was obtained. Using a research period of 3 (three) years, 63 observations were obtained.

Data analysis technique

Data were analyzed using logistic regression analysis with SPPS V application. 23.0

V. RESULT AND DISCUSSION

Hypothesis testing is done by comparing the significance value with the error rate. Based on the analysis of the data obtained for the liquidity variable, it shows a negative regression coefficient of 0.540 and a significance level of 0.001. This means that liquidity has a negative and significant effect on financial distress. If the company's liquidity increases, the financial distress condition decreases. It also shows that the hypothesis which states "liquidity has a negative and significant effect on financial distress conditions" is accepted.

The results of data analysis for the solvency variable showed a positive regression coefficient of 0.325 and a significance level of 0.013. This means that solvency has a positive and significant effect on financial distress. If the solvency increases, the financial distress condition also increases. The increase in solvency is caused by an increase in debt, which will cause the cost of corporate debt to increase, resulting in an increase in financial distress conditions. It also shows that the hypothesis which states "solvability has a negative and significant effect on financial distress conditions" is rejected. The results of data analysis for the profitability variable showed a negative regression coefficient of 0.526 and a significance level of 0.000. This means that profitability has a negative and significant effect on financial distress conditions. If the company's profitability increases, the financial distress condition decreases. It also shows that the hypothesis which states "profitability has a negative and significant effect on financial distress conditions" is accepted.

VI. CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results and discussions that have been carried out, conclusions can be drawn from this research as follows:

1. Liquidity has a negative and significant effect on financial distress conditions in consumer goods industrial companies listed on the IDX for the 2018-2020 period.
2. Solvency has a positive and significant effect on financial distress conditions in consumer goods industrial companies listed on the IDX for the period 2018-2020.
3. Profitability has a negative and significant effect on financial distress conditions in consumer goods industrial companies listed on the IDX for the 2018-2020 period.

Recommendation

Recommendations that can be put forward in this research:

1. Companies must continue to pay attention to liquidity and profitability in order to maintain financial conditions in a stable position so that financial distress is not easy.
2. Companies need to reduce debt dependence, because at a certain point debt can burden the company's financial condition

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