THE INFLUENCE OF SALES GROWTH, PROFITABILITY AND ACTIVITY ON FINANCIAL DISTRESS

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Abstract
The condition of financial distress is a condition that precedes which a business will run in condition of incapacity or business failure and will eventually lead to the worst condition in business, which is bankruptcy. Bankruptcy and business failure are a scourge and common in a competitive business environment. The problem of financial difficulties arises when the company can no longer fulfill its payment commitments or cannot fulfill its debts (Michael, et al, 2020). Within the company, the bankruptcy analysis can be useful to anticipate as an early warning of bankruptcy conditions and for business continuity or sustainability. So that the risk of bankruptcy can be minimized and improvements can be made immediately. There are several models that can be used in analyzing a company's Financial Distress, the most widely used is the Altman model. The study aims to analyze and identify the influence of fundamental factors represented by ratios such as Sales Growth Analysis, ROA Ratio, Current Ratio, and Activity ratio on Financial Distress conditions. This research was conducted on financial statements of oil and gas mining sector company listed on the Indonesia stock exchange. Data was collected using data panel with multiple linear regression technique analysis. Data was proceed using Eviews 12. The result show Sales growth, ROA, Current Ratio and TATO ratio have a partially significant effect on Financial Distress. Sales growth ROA, Current Ratio and TATO ratio together and a simultaneous have an effect on Financial Distress.

Keywords: current ratio; financial distress; rasio aktivitas; ROA; sales growth

INTRODUCTION

Financial Distress is an initial condition or situation that indicates that the business is experiencing financial difficulties and is likely to experience failure in the future, which can ultimately lead to business bankruptcy. If the company experiences a lack of capital, the company will rely on funding sources from external parties by borrowing funds or using debt (Endri, 2019). Bankruptcy and business failure are a scourge and common in a competitive business environment. The problem of financial distress arises when the company can no longer fulfill its payment commitments or cannot fulfill its debts (Michael, et al, 2020).

The financial distress is characterized by liquidity difficulties until the condition of the company is considered insolvable. Financial distress can be interpreted as a condition where the company's performance is experiencing financial difficulties. So that this is interpreted as a sign that the company is on the verge of bankruptcy (Suot, et al, 2020). As a result of financial difficulties, many public companies in the stock market are delisted. Associated with this phenomenon is a crucial thing for investors, creditors and company stakeholders, a mechanism is needed that can provide early warning (Kamaluddin, A, et al, 2019). For investors it is very important to have financial knowledge (Hirdinis, M. 2019).

To evaluate the possibility of bankruptcy, it is necessary to analyze the financial statements of public companies listed on the Indonesia Stock Exchange. One of the methods applied to analyze the company’s financial condition is using bankruptcy analysis which aims to assess whether the company's performance is at risk of bankruptcy or not. For internal companies, bankruptcy analysis
can be useful to anticipate as an early warning of bankruptcy conditions. So that the risk of bankruptcy can be minimized and improvements can be made immediately. Prediction of financial difficulties is very interesting to do research and study for investors. Prediction of financial difficulties is not only important for potential investors but also very important for regulators or stock market stakeholders and of course also important for internal companies (Arief, H. 2019).

In order to effectively evaluate these decisions, it is necessary to analyze the company's financial statements using various ratio analyses, including profitability, solvency, liquidity, activity and market ratios. By analyzing these ratios, information can be obtained about the strengths and weaknesses of the company, as well as the possibility that in the future the company will experience risks, which will affect investors' expectations of the company in the future (Lumbantobing, 2020).

The results of research by Ramadhani, A. L (2019) entitled The Effect of Operating Capacity, Sales Growth, and Operating Cash Flow on Financial Distress show that Sales Growth has no significant effect on financial distress. Other researchers in the same year found different conclusions where sales growth has a positive and significant effect on financial distress (Handayani, R. D., Widiasmara, A., & Amah, N. 2019). Then according to Rizki Kartika & Hassanudin. (2019) in a study entitled Analysis of the Effect of Liquidity, Leverage, Activity and Profitability on Financial Distress in Public Companies in the Infrastructure, Utilities and Transportation Sector found that the Return on Asset Ratio has a negative and significant effect on Financial Distress. Meanwhile, Amalia, F. N. (2020) in her research on Islamic Commercial Banks, concluded that ROA has a positive and significant effect on Financial Distress. Based on previous research, there are inconsistent results or gaps (Gap) so it is considered necessary to conduct research again using a combination of other variables.

**Literature Reviews**

The purpose of previous studies is to analyze and add information to the discussion of current research, as well as help distinguish between the current research and previous research. This research includes some previous research as follows:

Research conducted by Putu Ayu Diah Widari Putri in 2021 under the title The Effect of Operating Cash Flows, Sales Growth, and Operating Capacity in Predicting Financial Distress from the journal International Journal of Innovative Science and Research Technology. In the journal, it explains that the higher the sales growth rate of a company, the marketing and product sales strategy that is carried out is successful, so that the profits obtained are getting bigger. This shows the company's financial stability which can prevent financial distress. However, if sales growth decreases significantly, this can affect the company's assets, profits, and debt and potentially cause financial distress.

Research conducted by Hirdinis in 2019 under the title Capital structure and firm size on firm value moderated by profitability from the International Journal of Economics and Business Administration. In the study mentioned in business, Return on Asset (ROA) is used to evaluate the profit generated by a company based on the total value of its assets. ROA provides an overview of the company's management ability to use assets to increase revenue.

Research conducted by Michael et, al in 2020 with the title Financial ratios as predictors of financial distress: a study on some select deposit money banks in Nigeria from the journal International Journal of Management Science and Business Administration. In this study, it was stated that the problem of financial distress arises when the company can no longer fulfill its payment commitments or cannot fulfill its debts.

Research conducted by Lumbantobing in 2020 with the title The effect of financial ratios on the possibility of financial distress in selected manufacturing companies listed in Indonesia Stock Exchange. Advances in Economics, Business and Management Research. The study stated the need to analyze financial ratios, so that information can be obtained about the strengths and weaknesses of the company, as well as the possibility that in the future the company will experience risks, which will affect investors' expectations of the company in the future.
Sales Growth. 

One of the indicators in measure the demand and competitiveness of companies in an industry is Sales Growth. Sales growth shows how much sales increase from year to year. By paying attention to sales growth, it can be seen the potential profits that can be obtained by the company. Sales Growth can be considered as a positive indicator of company growth, so that it can attract investors to invest. Sales Growth is useful in evaluating and predicting the future of the company. Sales Growth indicates positive if the sales value of the current period is higher than the sales value of the previous period. Likewise, on the other hand, Sales Growth will indicate negative if the current period Sales value is lower than the previous period Sales value.

Profitability - Return On Asset (ROA)

Profitability is a measure of the company's ability to generate high profits for shareholders. Investors tend to be more interested in investing in companies that have a high Profitability Ratio (Hirdinis, M. 2019). In business, Return on Asset (ROA) is used to evaluate the profit generated by a company based on the total value of its assets. ROA provides an overview of the company's management ability to use assets to increase revenue. Return on Asset can be interpreted in two ways. First, as an indicator of how much management efficiency to use assets for the purpose of earning operating profits. Second, as a measure of the total return earned by all shareholders and creditors, regardless of the source of capital.

Previous literature recognizes ROA as an important indicator for assessing company performance. ROA is a tool in assessing the effectiveness of performance and the effectiveness of asset utilization as well as a basis in measuring the rate of return on new investments in assets. In previous research by Arief, H, et al (2020) stated that ROA has no influence on stock prices regarding financial distress.

Liquidity - Current Ratio

Current ratio as a tool to estimate the possibility of financial difficulties. The higher the liquidity value, the greater the company will have the ability to pay all its short-term obligations.

Activity Ratio – TATO (Total asset turnover)

The activity ratio is one component of the financial ratio used to measure and determine the efficiency of the use of the company's various operational assets in its balance sheet and convert them into sales and cash. The Activity Ratio refers to the asset management ratio which aims to effectively measure how the company manages its assets to generate profits (Brigham & Ehrhardt, 2017).

This ratio can measure the turnover of all assets owned by the company and can also measure the amounts of sales obtained. This shows that if the company can manage assets well, it can minimize the potential for Financial Distress to occur.

Financial Distress - Discriminant Analysis for Financial Distress Prediction

The first model to predict financial distress was introduced by Altman in 1968. This model is referred to as the Altman Z-Score Model. This method has been widely used and is still very relevant in predicting whether a company will go bankrupt, be in critical condition, or even healthy. In 1995, Altman modified this model so that it could be used to predict bankruptcy in manufacturing and non-manufacturing companies in Sawir (2001). Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5. Afterwards, Altman developed an alternative model by updating the formula that can be used for non-manufacturing companies. So that the model can be used in Non-Manufacturing companies that go public or do not go public. The equation obtained is as follows: Z = 6.56X1 + 3.26X2 + 6.72X3 +1.05X4.

This study used Correlation to analyze the relationship between variables. The aim is to identify strong relationships between the variables, whether positive or negative, as well as weak relationships, whether positive or negative. Based on the description above, the following is the research hypothesis:

H1: Sales growth has a partial positive influence on financial risk (financial distress)

In a study entitled The Effect of Operating Capacity, Sales Growth, and Operating Cash Flow on Financial Distress, Ramadhani, A. L. (2019) concluded that there was no significant effect of Sales
Growth on Financial Distress. Meanwhile, research conducted by Giarto, R, & Fachrurrozie, F. (2020) entitled The Effect of Leverage, Sales Growth, Cash Flow on Financial Distress with Corporate Governance as a Moderating Variable, also states that Sales Growth has no effect on Financial Distress. However, Handayani, R. R, Widiasmara, A., & Amah (2019) in their research concluded that Sales Growth has a significant positive effect on Financial Distress.

H2: Net income / Total Asset partially positive effects on Financial Distress in oil and gas mining companies

In research conducted by Rizki Kartika & Hssanudin (2019) regarding the effect of ROA on Financial Distress in Infrastructure, Utilities and Transportation Sector Companies, it was found that the Return on Asset Ratio has a negative and significant effect on Financial Distress. Meanwhile, Amalia, F. N. (2020) in her research on Islamic Commercial Banks, concluded that ROA has a positive and significant effect on Financial Distress.

H3: The ratio of current assets to current liabilities has a partial positive influence on financial risk (financial distress) in oil and gas mining companies.

According to Rahayu, W. P. and Sopian, D. (2017), the liquidity ratio partially has a positive but insignificant effect on financial distress. Meanwhile, Rohmadini et.al (2018) state that the higher the liquidity value, the less likely the occurrence of financial distress, and vice versa. Another finding reported by Mesak & Sukarta (2019) states that the liquidity ratio has a negative impact on the possibility of financial distress.

H4 = Total asset turnover ratio has a partial positive influence on financial risk (financial distress) in oil and gas mining companies.

According to Oktiani, A (2019), his research states that TATO has a significant negative effect on Financial Distress. The smaller the TATO value, the company is considered ineffective in using its assets used to generate sales. The results of this study strongly contradict the results of research by Lumbantobing, R (2020) in his research stating that TATO does not significantly affect Financial Distress.

H5 = Together or simultaneously, Sales Growth, Return on Assets, Liquidity, and Activity ratio affect financial distress in oil and gas companies.

**Conceptual Framework**

Based on the description above, the framework of this research can be seen in figure below.

**Figure 1. Conceptual Framework**

**METHOD**

This type of descriptive approach aims to observe events that cause symptoms of an occurrence. This research can present data from the company’s financial statements, and then analyze the potential for bankruptcy using several modes. This research takes objects on the financial statements of oil and gas mining subsector companies listed on the Indonesia Stock Exchange.
consisting of balance sheets and income statements of companies related to capital, quality of productive assets, profitability, and liquidity. The stages of data analysis in this case are as follows:

1. Collecting data obtained from the financial statements of oil and gas mining company subsector companies listed on the Indonesia Stock Exchange in 2017-2021 through the website www.idx.co.id.
2. Analyzing financial ratios to get the required variables from Altman Z-Score.
3. Analyzing the effect of Sales Growth, Profitability, Liquidity, and Activity on financial distress using the Altman Z-Score model.

Population and Sample

The population of this study were all companies engaged in oil and gas mining and research samples taken based on purposive sampling technique. Sampling is determined based on criteria:
- Oil and gas mining sector companies listed on the IDX which are listed on the IDX during 2017-2021.
- Oil and gas mining sector companies that during the period 2017-2021 have never experienced delisting.

Hypothesis Testing

Based on the hypothesis submission above, Multiple Linear Regression Analysis is used using a 95% confidence level or 5% Alpha. The Multiple Linear Regression formula, as follows:

\[ Y = c + a.X_1 + b.X_2 + c.X_3 + d.X_4 + e \]

Financial Distress = Y, Independent variables = X1, X2, X3, X4
Constant = c, Error = e

RESULTS AND DISCUSSION

The purpose of this study is to examine and discuss how financial performance, namely Sales Growth, the level of Profitability which is represented by Return on Asset, the level of Liquidity which is represented by Current Ratio, and the level of Activity which is represented by Total Asset Turnover Ratio (TATO) to the Predicted Value of bankruptcy using the Altman Zscore model in oil and gas mining companies on the Indonesia Stock Exchange. The Independent Variable used is altman Zscore and the Dependent Variable consists of Sales Growth, ROA, Current Ratio, TATO. The calculation uses a panel data regression model using the Common Efect (CEM), Fixed Effect (FEM) and Random Effect (REM) approaches. Then determine which is the best of the three models by testing the chow test, Hausman test and Langrange Multiplier.

Panel Regression Calculation

Table 1. Random Effect

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob</th>
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</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.000278</td>
<td>0.012513</td>
<td>-0.022183</td>
<td>0.9824</td>
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<tr>
<td>X1</td>
<td>6.565164</td>
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<td>788.6798</td>
<td>0.0000</td>
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<tr>
<td>X2</td>
<td>3.259729</td>
<td>0.000404</td>
<td>8060.715</td>
<td>0.0000</td>
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<tr>
<td>X3</td>
<td>6.719732</td>
<td>0.003585</td>
<td>1874.221</td>
<td>0.0000</td>
</tr>
<tr>
<td>X4</td>
<td>1.056139</td>
<td>0.015668</td>
<td>67.40759</td>
<td>0.0000</td>
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Effects Specification

<table>
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<th>Rho</th>
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<tbody>
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<td>0.000000</td>
<td>0.0000</td>
</tr>
<tr>
<td>0.033486</td>
<td>1.0000</td>
</tr>
</tbody>
</table>
Variable Sales Growth (X1) has probability value 0.0000 < 0.05 so that sales growth has an effect on financial distress. Variable ROA (X2) has probability value 0.0000 < 0.05 so that ROA has an effect on financial distress. Variable Current Ratio (X3) has probability value 0.0000 < 0.05 so that Current Ratio has an effect on financial distress. Variable TATO (X4) has probability value 0.0000 < 0.05 so that TATO has an effect on financial distress. If \( t \)-count > \( t \)-table (1.96) at the significance level (Alpha 5%), the estimated path coefficient value is significant. In this study, all independent variables are at the \( t \)-count > \( t \)-table value, which means that all independent variable used in this research has a significant effect.

Prop (F-Statistic) of 0.0000 < 0.05 means that the Sales Growth, ROA, Current Ratio and TATO Variables Together or simultaneously affect Financial distress.

### The Effect of Sales Growth on Financial Distress

The test results of the Sales Growth variable on Financial Distress have a coefficient of 6.5651 with a probability value of 0.0000, which is smaller than \( \alpha = 5\% \) (0.005). This means that sales growth has a positive and significant effect on financial distress. Sales growth is an indicator in measuring performance. A decrease in sales growth will very likely result in a decrease in profits so that the risk of financial distress will be very large. These results are in line with research by Handayani, R. R., Widiasmara, A., & Amah, (2019), the same result was also found in research conducted by Lubis & Patrisia, (2019).

### The Effect of Profitability on Financial Distress

The test results of the Profitability variable represented by the ROA Ratio on Financial Distress where the coefficient value is 3.2597 and the probability value is 0.0000 so that the value is smaller \( < \alpha = 5\% \) (0.005). So it can be said that ROA has a positive and significant influence on financial distress. ROA is an indicator of how effectively assets are used to achieve profit levels. The greater the level of profitability generated, the smaller the chance of financial distress. These findings are in line with research (Amalia FN, 2020) and (Asfali, 2019).

### The Effect of Liquidity on Financial Distress

Testing the Liquidity variable which in this study used the current ratio or Current Ratio on Financial Distress obtained a coefficient value of 6.7197 and a probability value of 0.0000 which is smaller \( < \alpha = 5\% \) (0.005). So it can be interpreted that the Current ratio has a positive and significant effect on financial distress. The company’s ability to meet its short-term obligations by utilizing its current assets is a depiction of the Current ratio. Because the current assets owned by the company are the easiest assets to turn into cash. A low liquidity value indicates that it will have difficulty paying short-term obligations so that it will have a major impact on financial distress. These results are in line with research by Islamiyatun, S. B. (2021) and Syuhada, P., Muda, I., & Rujiman, F. N. U. (2020).

### The Effect of Activity on Financial Distress

Based on the results of testing the Activity variable represented by the ratio of total asset turnover ratio or TATO on Financial Distress with a coefficient value of 1.0561 with a probability value of 0.0000 where the value is smaller \( < \alpha = 5\% \) (0.005). Total Asset Turn Over can be said to have a positive and significant influence on Financial Distress. The results of this study differ from research conducted by Lumbantobing, R (2020) which states that TATO has no negative and significant effect on Financial Distress and another research by Oktriyani (2022) where TATO has a negative and significant effect on Financial Distress. However, this result of this paper in line with the research results of Asfali, I. (2019) and Amah, N. A., P. R. Z., & Sudrajat, A., (2023). Total Asset Turnover Ratio is a ratio that repre...
Turn Over is a method used to determine the efficiency of using various operational assets owned by the company and converting them into sales so that cash / cash will be obtained. The higher the TATO value, the more effective it is in managing its assets to generate profits (Brigham & Ehrhardt, 2017).

CONCLUSION

The results of this study found that Sales Growth, ROA, Current Ratio and TATO Variables together or simultaneously has positive affect to Financial distress. The sales growth or sales growth has positive effects on financial distress in line with the results of Handayani's research, R. R, Widiasmara, A., & Amah (2019) and Lubis & Patrisia's research, (2019). Sales growth is an indicator to measure performance. The increase in sales value from time to time will make a business or business experience development. Without sales growth, of course, the business will experience difficulties. If the sales growth rate is positive where the current sales figure is higher than the previous year's sales figure, of course, it will increase the company's value. Conversely, if the sales growth rate is negative where the current sales figure is smaller than the previous year's sales, it will cause the company's value, which in turn the company will not be able to survive.

In this study Return on Asset has an influence positively on financial distress, this is in line with the research of Amalia FN, (2020) and Asfali, (2019). Return on Asset with a positive value means that if the ROA value shows a number of positive assets, the company will have great potential to continue to earn profits and will avoid the risk of financial distress.

The Current ratio variable shows a positive influence on financial distress. These results are in line with research by İslamiyatun, S. B. (2021) and Syuhada, P., Muda, I., & Rujiman, F. N. U. (2020). This ratio shows how the ability of current assets to pay the company's short-term liabilities. Low liquidity will have an impact on the company's ability to pay its short-term obligations. The inability to pay the company's short-term obligations that are due will have an impact on total liabilities so that the risk of financial difficulties or financial distress will increase.

The activity variable represented by total asset turnover (TATO) has an effect on financial distress positively. This shows the similarity of the results with the research of Amah, N. A., P. R, Z., & Sudrajat, A., (2023). The higher the amount or value of total asset turnover, the more effective the total assets will be to generate high sales. With a high level of sales, the company's profits will also increase. This will make the adequacy of funds for the company's operations good. In the end, it will reduce the possibility of financial distress risk.

There is a phenomenon where issuers of oil and gas mining stocks experience price gains or increases when world oil prices fall. This finding further suggests that investors pay more attention. Whatever financial distress model is used if it gives a negative prediction of the stock price. This means that when the predicted value of this model is at one point in a company, then there will be a decline in the share price at one point in the future. In particular for the Indonesian Financial Services Authority regulators are advised to rely on bankruptcy prediction scores to control stock price performance, and in turn there will be stability in the national stock market.

For, Company Managers may also promote company performance by referring to bankruptcy prediction scores as a reference source for their policies. To provide more comprehensive findings, future studies on this issue are advised to consider more companies across industries to be used as study samples since different industry sectors have different characteristics. In addition, future studies are also advised to use a longer data period so as to provide a clearer picture of bankruptcy prediction and its relationship with stock prices.

BIBLIOGRAPHY


