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FACTORS AFFECTING FINANCIAL DISTRESS IN NON-CYCLICAL CONSUMER COMPANIES LISTED ON IDX

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ABSTRACT

This study empirically tests the influence of profitability, leverage, firm size, and corporate social responsibility (CSR) on financial distress. The study was conducted on consumer non-cyclical companies listed on the IDX during the 2020-2022 period. This study uses quantitative data obtained from financial reports, annual reports, and sustainability reports published by companies. The amount of data studied was 111 observations, which met the criteria as research samples based on the purposive sampling technique. The data was processed using the IBM SPSS version 25 program. This research shows that profitability has a significant positive effect on financial distress, while leverage significantly negatively affects financial distress. Meanwhile, firm size and CSR do not have a significant influence on financial distress.

Keywords: *financial distress, profitability, leverage, firm size, corporate social responsibility (CSR)*

1. INTRODUCTION

The aim of establishing a company is to maximize the profits and prosperity of the owner. By achieving these goals, the company can meet its needs so that the company's survival can be maintained. However, in reality, not all companies can maintain the profits they have obtained. Many companies ultimately experience ups and downs and even go bankrupt due to worsening financial performance, so the company cannot maintain its survival—for example, the financial performance of PT. Tri Banyan Tirta Tbk (ALTO) continues to decline yearly. Judging from the financial reports published by ALTO, this company has experienced losses since 2014, and the losses experienced continue to this day. It was recorded that in 2022, ALTO is still experiencing a loss of Rp. 16.13 billion. As a result, on November 20, 2022, ALTO closed the operational activities of one of its factories due to the financial condition of ALTO which continues to decline. Just like ALTO, financial performance of PT. Paper Basuki Rachmat (KBRI) also continues to decline yearly [1]. With increasing losses and the absence of sufficient working capital, PT. Kertas Basuki Rachmat reported terminating its factory operational activities at the beginning of 2019. Seeing this condition, the Indonesian Stock Exchange immediately suspended it and planned to delist the shares of PT Kertas Basuki Rachmat. In 2020 alone, six companies were recorded as being delisted from the IDX because they experienced poor financial performance and ended up in financial difficulties [2]. Based on the above phenomenon, it will be difficult for companies to survive if there is a decline in financial performance, leading to financial difficulties or what is often called financial distress [3].

For this reason, companies need to maintain their financial performance to overcome, minimize, or even prevent problems before bankruptcy occurs. Good company financial performance can be achieved by achieving sustainable profits or increasing yearly. The company's ability to generate profits will be reflected in the company's profitability. Through profitability, companies can assess the company's prospects in the future, whether the company is in a profitable situation to be able to continue its life.

One of the causes of company bankruptcy can also be caused by debts owed by the company [4]. Accumulating debt and the company's inability to pay loans to creditors can lead to insolvency and bankruptcy of a company. Based on research results from the HeyLaw Research Center, there is a significant increasing trend in bankruptcy cases in Indonesia from 2018 to 2021. In fact, as of January 2023, 28 companies had filed for PKPU (Postponement of Debt Payment Obligations) and/or bankruptcy in the Indonesian commercial courts. The occurrence of company bankruptcy due to mounting debts was actually experienced by PT Sariwangi Agricultural Estate Agency and PT Sri Rejeki Isman. Due to the failure of investments to enhance production activities, the rising debt was not balanced by the company's ability to pay, which caused the two enterprises to encounter financial difficulties, apply for PKPU, and ultimately declare bankruptcy.

Around 30 million small-scale companies, such as MSMEs, experienced bankruptcy due to the effects of the Covid-19 pandemic [1]. This differs from large companies, which can survive by implementing cost efficiency. The comparison between small and large companies can also be seen on the stock listing board on the stock exchange. In 2022, as many as 11 out of 15 companies listed on the acceleration board have performed poorly [1]. The Acceleration Board is aimed at small companies with less than 50M and medium companies with assets from 50M to 250M [2]. This shows that the company's scale can influence the company's ability to face risks that may arise from various situations that ultimately impact the company's financial performance.

Currently, companies are also required to not only pursue profits but also social responsibility, especially for companies going public [5]. Companies that implement and disclose CSR will try to maintain good relations with their stakeholders so that, indirectly, the company will benefit from increased financial performance. On the other hand, companies that ignore CSR will receive rejection and protests from their stakeholders [6]. Suppose the form of protest carried out by the community is prolonged and not handled. In that case, the company's image will become bad, which will have an impact on reducing sales and profits and threatening the company's survival.

Based on the background described, the researcher wishes to conduct research by taking the independent variables profitability, leverage, firm size, and corporate social responsibility with financial distress as the dependent variable. Based on natural phenomena that occurred at PT Tri Banyan Tirta, PT Sariwangi Agricultural Estate Agency, and PT Sri Rejeki Isman, this research will be carried out on companies operating in the consumer non-cyclical sector listed on the IDX for the 2020-2022 period. The consumer non-cyclical sector, or the primary consumer company sector, is a company sector that tends not to be influenced by economic conditions. In other words, if there is a recession, the public will continue to need products from consumer non-cyclical sector companies. Considering this research uses the 2020-2022 period, conceptually, consumer non-cyclical sector companies should not be significantly impacted by Covid-19. However, there are consumer non-cyclical sector companies that are affected, such as PT Hero Supermarket Tbk (HERO), which closed all Giant outlets in 2021 due to the pandemic, which further worsened the company's financial performance [1].

2. RESEARCH METHOD

Signalling theory explains that the sender (owner of the information) will try to provide a signal or signal through relevant pieces of information that can be used by the recipient as a consideration in decision-making [7]. With the signals given by the company, external parties will know an overview of the company's financial condition. External parties to the company will get an idea of the company's condition, whether it is classified as safe, grey or in financial distress. A company that has a healthy financial situation will provide a positive signal to external parties and can be indicated as good news. Companies that experience bad financial conditions (financial distress) will give negative signals to external parties and can be indicated as bad news.

Agency theory explains the separation of functions between principal and agent. When a delegation of tasks and decision-making occurs by the agent, the interests of the principal and agent do not always work in harmony because, basically, both of them have different interests [7]. This can cause managers to act in pursuit of their interests at costs that must be borne by shareholders. It is possible that in fulfilling their interests, the agent may make decisions that can reduce the company's financial performance.

Financial distress is a condition when a company is in a stage of declining financial situation or a condition when a company is experiencing financial difficulties [8]. The phenomenon of financial distress itself can occur due to influences arising from internal and external companies [9].

Profitability is a measurement that measures a company's efficiency level in managing its assets to generate profit or profits over a certain period [10]. A company's ineffectiveness in managing its assets can be detrimental to the company because it cannot generate profits. If this continues, it will result in the company continuing to experience a decline in profits and experiencing financial difficulties. On the other hand, high profitability indicates the company's high financial performance, which can be a positive signal for investors. In this way, the higher the level of profitability of a company, the lower the risk of the company experiencing financial difficulties. With the measurement of financial distress proxied by the Altman Z-Score, where the greater the Altman Z-Score value indicates, the healthier the company's financial condition, the following hypothesis was created in this research.
H_1 : Profitability has a significant positive effect on financial distress.

Leverage is a measurement that measures how much of a company's operational funding comes from debt compared to company equity [10]. Companies with a high level of leverage indicate that the company is too dependent on financing from creditors compared to capital provided by investors. Companies with a large portion of debt will also have a high risk of default. This risk can arise when the company's use of debt is not balanced with an excellent ability to pay debt, especially when it cannot pay its obligations when they fall due. This condition will ultimately increase the company's chances of being in a state of financial distress. With the measurement of financial distress proxied by the Altman Z-Score, where the greater the Altman Z-Score value indicates, the healthier the company's financial condition, the following hypothesis was created in this research.
H_2 : Leverage has a significant negative effect on financial distress.

Firm Size is a measurement to measure the size of a company's scale, which can be seen from the total assets owned by a company [11]. Large companies are believed to have better control and adaptability than small ones to survive market competition. Of course, to grow into a large company, most companies will need quite a long time and process. From the process that the company has gone through, large companies have certainly gone through significant periods that

can be used as experience for the company's future sustainability. In a crisis situation, large companies have a greater chance of surviving because they have adequate resources compared to small companies with limited assets. Most likely, large companies can also withstand significant losses by implementing cost efficiency so that the bankruptcy rate will be low. With the measurement of financial distress proxied by the Altman Z-Score, where the greater the Altman Z-Score value indicates the healthier the company's financial condition, the following hypothesis was created in this research. With the measurement of financial distress proxied by the Altman Z-Score, where the greater the Altman Z-Score value indicates the healthier the company's financial condition, the following hypothesis was created in this research.
H_3 : Firm size has a significant positive effect on financial distress.

Corporate Social Responsibility is a company's ongoing commitment to stakeholders to voluntarily behave ethically and contribute to social and environmental issues [5]. By investing in CSR activities, the company's relationship with its stakeholders will also become stronger. For example, if a company improves the quality of its products by using non-hazardous and environmentally friendly materials, this can indirectly increase customer satisfaction and loyalty. Without realizing it, this can also be an effective marketing tool for companies to build and improve the company's reputation in the market so that it will impact the company's financial performance [12]. Companies that have good performance will avoid financial distress. With the measurement of financial distress proxied by the Altman Z-Score, where the greater the Altman Z-Score value indicates the healthier the company's financial condition, the following hypothesis was created in this research.
H_4 : Corporate social responsibility has a significant positive effect on financial distress.

The theoretical framework for the research can be described in the following figure:

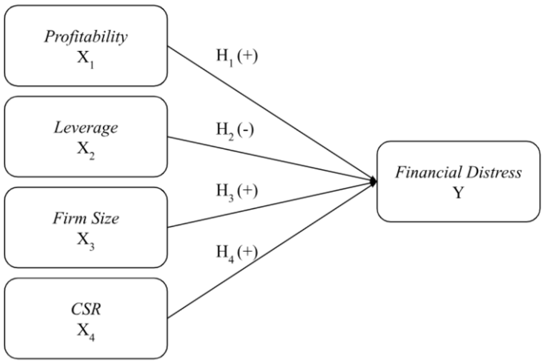

Figure 1. Theoretical Framework

In this research, the population used is consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (BEI) during 2020-2022. Sample selection uses a purposive sampling technique, where samples are selected based on certain criteria. The following are the criteria used in selecting samples in this research: (1) Companies belonging to the consumer non-cyclical sector that are listed on the IDX consecutively in the 2020-2022 period; (2) Consumer non-cyclical companies that have financial reports ending on December 31; (3) Consumer non-cyclical companies that report CSR costs consecutively in the 2020-2022 period. The number of sample data that meets the criteria for use in testing and is free from outliers is 111 data.

The following is a summary table of the operationalization of the variables used in this research.

Table 1. Operating Variable

Variable	Measurement	Scale	Source
Financial Distress	Z-score = 1,2X1 + 1,4X2 + 3,3X3 + 0,6X4 + 1,0X5	Ratio	Farooq, et.al. (2021)
Profitability	$ROA = \frac{Net\ Income}{Total\ Asset}$	Ratio	Dirman (2020)
Leverage	$DER = \frac{Total\ Liabilities}{Equity}$	Ratio	Dirman (2020)
Firm Size	$SIZE = Ln\ (Total\ Asset)$	Ratio	Dirman (2020)
Corporate Social Responsibility	$CSR = \frac{CSR\ total\ expenditures}{Earnings\ After\ Tax}$	Ratio	Farooq et al (2021) & Sadaf Ehsan (2018)

3. RESULTS AND DISCUSSIONS

The following are the results of descriptive statistical tests on 111 data samples that met the sample selection criteria.

Table 2. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FD	111	-.772	11.850	3.75760	3.180622
ROA	111	-.210	.274	.05038	.083481
DER	111	.109	3.958	1.10540	.826869
SIZE	111	25.310	32.130	28.88808	1.494209
CSR	111	-.025	.032	.00575	.009462
Valid N (listwise)	111				

In this research, classical assumption tests have been carried out consisting of normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. Based on the results of the classical assumption test, the data tested was normally distributed, free from problems of multicollinearity, heteroscedasticity, and symptoms of autocorrelation.

Based on the results of the simultaneous test (F-test), the calculated F value from the ANOVA table is 44.951 with a significance value of 0.000, which is smaller than 0.05 (0.000 < 0.05), so it can be concluded that profitability, leverage, firm size, and corporate social responsibility simultaneously have an influence on financial distress.

Based on the results of the coefficient of determination test, the Adjusted R^2 value was obtained at 0.615. This means that the independent variable used in the regression model contributes 61.5% in explaining the dependent variable, namely financial distress. The remaining 38.5% is explained by other independent variables not discussed in this study.

The following is a table of partial test results in multiple linear regression.

Table 3. t-Test Result

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.645	3.915		.420	.675
	ROA	26.049	2.486	.684	10.478	.000
	DER	-.859	.256	-.223	-3.354	.001
	SIZE	.060	.140	.028	.432	.667
	CSR	.799	21.882	.002	.037	.971

a. Dependent Variable: FD

The multiple linear regression is obtained as follow:
$\mathrm{FD} = 1{,}645 + 26{,}049\mathrm{ROA} - 0{,}859\mathrm{DER} + 0{,}060\mathrm{SIZE} + 0{,}799\mathrm{CSR} + \mathrm{e}$

Notes:
FD = Financial Distress
ROA = Profitability
DER = Leverage
SIZE = Firm Size
CSR = Corporate Social Responsibility
e = error

From the results of the tests that have been carried out, hypothesis results were obtained regarding the influence of profitability, leverage, firm size and corporate social responsibility on financial distress, which can be summarized as follows:

Table 4. The Result of Hypotheses Testing

Hypotheses	β	Sig	Result
Profitability has a positive and significant effect on financial distress.	26.049	0.000	H1 accepted
Leverage has a negative and significant effect on financial distress.	-0.859	0.001	H2 accepted
Firm Size has a positive and significant effect on financial distress.	0.060	0.667	H3 rejected
Corporate Social Responsibility has a positive and significant effect on financial distress.	0.799	0.971	H4 rejected

Based on previous tests, it can be concluded regarding the influence of profitability, leverage, company size, and corporate social responsibility on financial distress in consumer non-cyclical companies listed on the Indonesia Stock Exchange for the 2020-2022 period.

This research shows that profitability has a significant positive effect on financial distress. In this research, financial distress is proxied by the Altman Z-Score, where the higher the Altman Z-Score value, the healthier the company's financial condition. In other words, the higher the company's profitability, the higher the possibility of a company avoiding financial distress. By looking at the company's level of profitability, readers of financial reports can find out how good the company's prospects are in the future. High company profitability shows that the company can make a profit in carrying out its operational activities. This condition indicates the company's success in achieving targets or, even more than that, in sales of products produced, balanced by effective asset management. In this way, the higher the level of company profitability, the better the company's performance in managing its assets, and the greater the profits it generates. On the other hand, the lower level of company profitability indicates the company's inadequate ability to manage its assets, and the company is in an unstable financial condition, where the company is unable to optimize profit generation. If this condition continues and is left unchecked, it will increase the percentage possibility that the company will continue to experience losses. This condition can worsen if the company management does not pay special attention to improving its financial situation. High profitability also indicates that the company can obtain its funds through company operational activities so that its tendency to use debt to support company operations will decrease. This will also reduce the possibility of the company experiencing financial distress.

The results of this research are in line with several researchers, including [13], [14], and [8], who stated that the higher the level of company profitability, the higher the possibility of the company avoiding financial distress. However, the results of this study are not in line with research conducted by [15] and [16], which stated that profitability does not significantly affect the possibility of a company avoiding financial distress. If the company management cannot reorganize the profits that have been obtained to the maximum or the profits come from debt, then it is possible that the company will experience financial distress.

The research results show that leverage significantly negatively affects financial distress. In this research, financial distress is proxied by the Altman Z-Score, where the higher the Altman Z-Score value, the healthier the company's financial condition. In other words, the higher the company's leverage, the lower the possibility of a company avoiding financial distress. The higher the leverage a company has, the greater the debt a company has. If the use of debt by the company is too high, it can endanger the company's survival, where the company will fall into the extreme leverage category. The extreme leverage category is a situation where the company is trapped in a high level of debt, and it is difficult to get out under these conditions. In conditions of financial difficulty, the risk of default is also greater because the company's debt level is relatively high. A company's reliance on debt funding that is too high can also give a negative signal to readers of financial reports, especially investors and creditors. The company's high leverage will reduce investors' interest in investing in the company because of the high risk of company default. Creditors may also be unwilling to provide funds to companies with high levels of debt because the use of funds from debt that is too high if it is not balanced with good company income will increase the possibility of the company experiencing financial distress.

The results of this research are supported and in line with several researchers, including [13] and [14] who state that leverage has a negative effect on financial distress. However, the results of this study are not in line with research conducted by [8] and [15], which stated that leverage does not have a significant effect on financial distress. If the company has a high level of leverage but can balance it with the performance of the company's management and good resource management, the company can avoid the possibility of financial distress.

The results of this research show that the size of a company does not affect the possibility of a company experiencing financial distress. Small and large-scale companies do not rule out the possibility of experiencing financial difficulties or bankruptcy. This is because company size cannot be fully used as a reference for measuring the level of quality and performance of a company. Companies with a larger scale do not necessarily have better performance and business prospects than those with a smaller scale. No matter how large the resources a company has, if the company cannot utilize and manage its economic scale and resources optimally, it can make the company's business continuity easily falter and unable to survive. This is because successful management of the company's resources is one of the keys to gaining profits. If a company with a large scale cannot increase or even make a profit, this will impact its business continuity. What's more, if the company is unable or slow to provide new innovations that are needed by the market and prefers to stick with its products. As a result, consumers will move on to try something newer and more appropriate to their current needs. This condition will certainly have an impact on decreasing company sales activity. If this condition continues, the company will not be able to gain profits or even income, so the company will not have sufficient funds, which will impact the company's financial performance.

The results of this research are in line with several researchers, including [13], [9], and [17], who stated that firm size does not influence the possibility of a company experiencing financial distress. However, this research contradicts research conducted by [14], which stated that the larger the company's size, the greater the profits obtained from its operational activities because of the large number of resources and experience compared to small companies. In this way, the risk of experiencing financial difficulties will decrease as the company's size increases.

This research shows that how high or low a company contributes or invests its funds for CSR activities cannot predict the possibility of the company experiencing financial distress. Basically, if a company invests in CSR activities, it will certainly impact the company's image, which is seen as good by stakeholders, especially the community. This good image is ultimately believed to improve the company's financial performance. However, the benefits of investing in CSR cannot be directly received by the company. Companies generally obtain CSR benefits over a long-term period. In fact, according to [21], the impact of CSR investment may not provide any benefits for the company if the company does not develop a planned CSR program that is in line with the company's goals. Therefore, companies that invest in CSR activities do not guarantee that they will be able to improve the company's financial performance or be free from the risk of financial distress. This is because there are other supporting factors that influence the company's financial performance. One of them is the company's inability to generate profits even though it has been followed by an increase in sales. Companies that invest their funds in CSR activities will generally gain a good image in the eyes of the public, which, in the end, can increase company sales. However, if the increase in company sales is accompanied by large expenses generated by the company, this will result in low profits. As a result, companies can also be faced with the risk of experiencing financial distress.

The lack of influence of CSR on financial distress in this study could be due to the choice of company sector used. In this research, the company sector emphasises consumer service, which does not interact directly with natural resources, such as companies engaged in mining and energy. Hence, the CSR funds spent are not very significant. This is evident from the average value of CSR funds spent in the company sector studied, which is only 0.00576 or 0.576% of the profits generated. This portion is relatively small and does not even reach 1% of the profit contribution developed by the company, so CSR's influence is not significant. In the end, this has yet to provide a significant positive signal to stakeholders, especially investors, because currently, companies are required to invest in CSR activities, whether the company interacts directly with natural resources or not.

This research results align with several researchers, including [18] and [19], who stated that CSR does not influence the possibility of a company experiencing financial distress. However, this research contradicts research conducted by [5] and [20], which states that the more a company invests in CSR activities, the more the company can avoid the risk of experiencing financial difficulties.

4. CONCLUSIONS AND SUGGESTIONS

Based on the tests that have been carried out and the discussion explained in the previous chapter, the following are the conclusions that can be drawn from this research: 1) profitability has a positive and significant effect on financial distress 2) leverage has a negative and significant effect on financial distress 3) firm size has no influence on financial distress 4) CSR does not affect financial distress.

The research carried out is still far from perfect, so it still has several limitations, including 1) The independent variables studied are still quite limited; 2) The research period used was only three periods; 3) The research subjects used only included companies in the consumer non-cyclical sector only so there is a possibility that the research results obtained will be different if other company sectors are used.

Based on these limitations, the researcher provides suggestions for subsequent research to 1) add other variables likely to influence financial distress, 2) increase the length of the research period, and 3) use or expand the research subject with other sectors.

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