

The Influence of Liquidity, Profitability, Leverage and Operating Cash Flows in Predicting Financial Distress in Manufacturing Companies in the Consumption Goods Industry Sector in Indonesia Stock Exchange

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Abstract

The research objectives are to know the effect of liquidity, profitability, leverage, and operating cash flow together on the financial distress, and to find out the effect of the partial liquidity, profitability, leverage, and operating cash flow on the financial distress. This research uses method associative research. There are five variables used, is there liquidity, profitability, leverage, operating cash flow, and financial distress. Samples this research were as many as 15 companies selected by purposive sampling. Secondary data is needed as a basis for analysis, while the data collection technique is as documentation. The analysis technique used is Multiple Linear Regression. The analysis shows 1) There is a significant effect of liquidity, profitability, leverage, and operating cash flow together on the financial distress in manufacturing companies in the goods industry sector listed on the Indonesian exchange 2) There is a significant effect of liquidity, profitability, and leverage. whereas operating cash flow have a partially insignificant effect.

Keywords: financial distress, liquidity, profitability, leverage, operating cash flow.

1. Introduction

The manufacturing industry plays an important role in efforts to boost investment and export value so that it becomes a mainstay sector to accelerate national economic growth. Currently, the industrial sector contributes to GDP by 20 percent, then for taxation around 30 percent, and exports up to 74 percent. The following is data on the GDP growth rate of the manufacturing industry for 2017-2021:

Graph 1. Manufacturing Industry GDP Growth Rate 2017-2021

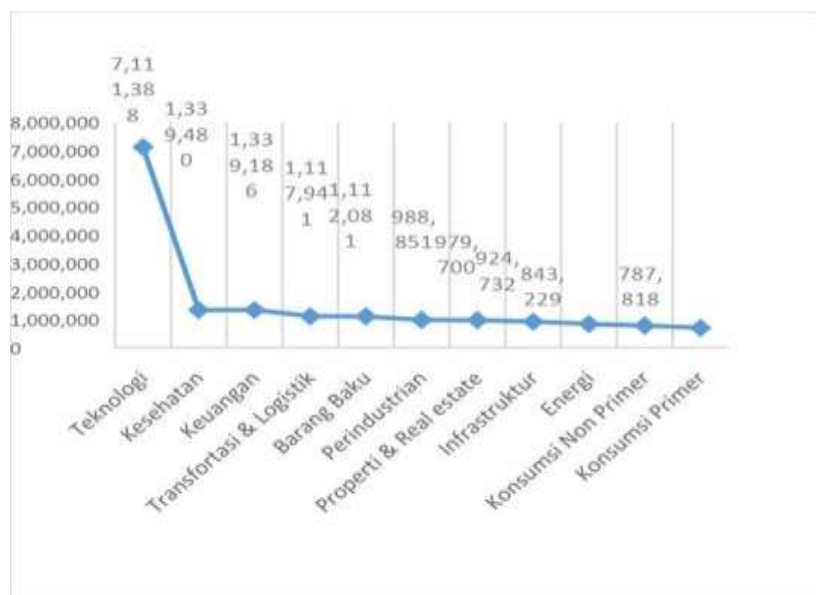


Source: BPS Indonesia National Income

Based on graph 1 above, it can be seen that the value of the growth rate of manufacturing companies in this industrial sector experienced a decrease in the value of GDP or a decrease in the market value of products and services in 2019 and 2020 by 3.9 and -2.93 respectively for 2 years. This shows that the decline in the market value of products and services (GDP) in this manufacturing industry is in a bad condition.

One of the manufacturing industry sectors that has growth opportunities is the consumer goods industry sector. In the last few years, the growth of the consumer goods industry in Indonesia has been slowing down. There are several factors causing the slowdown in the sector which is commonly called the Fast Moving Consumer Good /FMCG. Among them is competition between companies that is getting tougher and heating up involving various local and imported brands. Furthermore, the slow recovery of people's purchasing power, as well as a shift in consumer choice from FMCG products to non-FMCG products such as travel and internet data further slowed the industry's growth. Source: In the article [cnbc indonesia .com](https://www.cnbcindonesia.com), Muamar (2018). This is reflected in the declining performance of several consumer goods issuers which can be seen from the sectoral index of the stock exchange in 2022:

Graph 2 Indonesia Stock Exchange Sectoral Index 2022



Source: Indonesia Stock Exchange

Based on graph 2 above, it can be seen that the primary and non primary consumer goods sector has the lowest index of 787,818 and 704,849. This shows that the performance of issuers in the consumer goods sector is experiencing unfavorable conditions. From some of the descriptions of the phenomenon above, this is a matter where one of the factors in a company experiencing bankruptcy, or causing a company to go bankrupt in the future, of course, this makes the company's management have to take more serious steps in managing the company. In addition, company management must be able to detect early on the company's financial condition in an effort to prevent financial distress for the company.

Bankruptcy or financial distress is something every company should avoid. The initial

symptoms of bankruptcy of a company are marked by financial distress . This is certainly important for companies in predicting financial distress so that companies are vigilant and avoid bankruptcy. This financial problem has a big influence, where it is not only the company that will experience losses but also the investors. Of course investors will not invest in companies that are experiencing financial distress . To find out that the company has experienced financial distress is very diverse. Indicators of financial difficulties can be seen from the company's failure to carry out company operations in generating net profit, net operating profit, and total assets. To overcome and minimize bankruptcy, companies can monitor their financial condition by using financial statement analysis techniques. The following is the average annual Current Ratio (CR) for manufacturing companies in the consumer goods industry sector listed on the IDX for the 2017-2021 period:

Graph 3. Average Annual Current Ratio Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange for the 2017-2021 period



Source: www.idx.co.id

From graph I.3 above it can be seen that the average current ratio (CR) of companies in the consumer goods industry sector fluctuates , namely up and down. According to Kasmir (2018: 143), the liquidity ratio is proxied through the current ratio (CR) with the standard industry measurement of liquidity of 2. This indicates that the average current ratio of manufacturing companies in the consumer goods sector in 2017-2021 is considered not good because it is still below the average. standard average. The following is the average annual Return on Assets (ROA) for manufacturing companies in the consumer goods industry sector listed on the IDX for the 2017-2021 period.

Graph 4. Average Annual Return on Assets Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange for the 2017-2021 Period



Source: www.idx.co.id

From Graph 4 above it can be seen that the average return on assets (ROA) of companies in the consumer goods industry sector fluctuates, namely up and down. According to Kasmir (2018: 208), the profitability ratio is proxied through return on assets (ROA) with industry standard profitability measurements by 30%, this indicates that the average return on assets of manufacturing companies in the consumer goods sector for 2017-2021 is considered not good because it is still below the average standard. The following is the average annual Debt to Asset Ratio (DAR) for manufacturing companies in the consumer goods industry sector listed on the IDX for the 2017-2021 period:

Graph 5. Average Debt to Asset Ratio Per Year Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange Period 2017-2021



Source: www.idx.co.id

From graph I.5 above it can be seen that the average Debt to Asset The ratio (DAR) of companies in the consumer goods industry sector fluctuates, namely up and down. According to Kasmir (2018) the leverage ratio proxied through the debt to asset ratio (DAR) with the industry measurement standard is 35%, this indicates that the average debt to asset ratio of manufacturing companies in the consumer goods sector in 2017-2021 is considered not good because beyond average standard. The following is the average operating cash flow (AKO) per year for manufacturing companies in the consumer goods industry sector listed on the IDX for the 2017-2021 period:

Graph 6. Average Annual Operating Cash Flow Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange for the 2017-2021 Period



Source: www.idx.co.id

From graph 6 above, it can be seen that the average Operating Cash Flow (AKO) of the

Consumer Goods Industry Sector Companies fluctuates, namely up and down. According to Herry (2016: 106) The cash flow ratio proxied through operating cash flow (AKO) with a measurement standard of 1, this indicates that the average operating cash flow of manufacturing companies in the consumer goods sector in 2017-2021 is considered not good because it is below average. Various studies have been conducted regarding Liquidity, Profitability, Leverage, and Operating Cash Flow on financial distress. The results of research conducted by Septiani and Dana (2019) state that Liquidity proxied by the Current ratio (CR) has a significant effect on financial distress, but this is different from the results of research conducted by Erayanti (2019) which shows the results that Liquidity is proxied by Current ratio (CR) has no significant effect on financial distress. The results of further research conducted by Carolina and Pratama (2017) stated that Profitability proxied by Return on Assets (ROA) had a significant effect on financial distress, but this was different from the results of research conducted by Bachtiar and Handayani (2022) which showed that the results profitability proxied by Return on Assets (ROA) has no effect on financial distress.

2. Literature Review

Financial statements. According to Herry (2016) states that financial reports are an important source of information for users of financial statements in the context of making economic decisions. According to Kasmir (2018) states that in general there are five types of financial reports, which are as follows: balance sheet, Income statement, Statement of changes in capital, Cash flow statement, Report Notes to Financial Statements. Financial Distress. According to Kristanti (2019) states that Financial Distress (Financial Distress) is a condition when a company is unable to fulfill its obligations. According to Krisitani (2019) states that there are factors that affect financial distress which can be predicted by financial ratios, several financial ratios that are often used in research on bankruptcy or financial distress namely: Liquidity Ratio, Leverage Ratio, Activity ratio, Profitability Ratio, Market Ratio.

Liquidity. According to Kasmir (2018) states that the Liquidity Ratio or often also referred to as the working capital ratio is a ratio used to measure how liquid a company is. Profitability. According to Kasmir (2018) The profitability ratio is a ratio for assessing a company's ability to make a profit. Leverage. According to Kasmir (2018) states that the Solvency Ratio or Leverage Ratio is a ratio used to measure the extent to which a company's assets are financed with debt. Cash flow. According to Darminto (2019) states that cash flow is the lifeblood of every company and fundamental to existence of a company and shows whether or not a company can pay all its obligations.

3. Research Method

The type of research used by researchers in this study is associative research. The population in this study is a consumer goods sector manufacturing company consisting of 54 companies that have been listed on the Indonesian Stock Exchange (IDX). From a total population of 54 companies that could only meet the criteria to be selected as samples, there were 15 companies in this study. The data required was secondary data. The data collection method used in this study was the documentation method. The analysis technique used in this research is descriptive statistical analysis.

4. Findings and Discussions

The Effect of Liquidity, Profitability, Leverage , and Operating Cash Flow on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Based on the results of the study, it simultaneously shows that liquidity, profitability, leverage and operating cash flow have a significant effect on financial distress . Based on the hypothesis proposed that the variables of liquidity, profitability, leverage and operating cash flow have a significant effect on financial distress . So that the proposed hypothesis is accepted.

The Effect of Liquidity on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Based on the results of the study that partially liquidity has a significant positive effect on financial distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. The high value of liquidity in Manufacturing Companies in the Consumer Goods Industry Sector is due to total current assets the company is larger than the total current debt where the company's debt is dominated by long-term debt.

The Effect of Profitability on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Based on the results of the study that partially profitability has a significant positive effect on financial distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. In this case profitability has a positive effect . That is, the higher the profitability, the less likely the company will experience financial distress.

The Effect of Leverage on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Based on the results of the study that partially leverage has a significant negative effect on financial distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. In this case leverage has a negative effect . That is, if a company has a low leverage value , the company is likely to have a low level of debt which causes less debt financing in the future so that the company can avoid financial distress.

The Effect of Operating Cash Flow on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Based on the results of the study that partially operating cash flow does not have a significant effect on financial distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange.

5. Conclusion

There is an influence of Liquidity, Profitability, Leverage and Operating Cash Flow on Financial Distress in Manufacturing companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. There is an effect of Liquidity on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. There is an effect of Profitability on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. Leverage effect on Financial Distress in Manufacturing companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock

Exchange. There is no influence of Operating Cash Flow on Financial Distress in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange.

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