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Financial Distress Analysis of Primary Consumer Goods Manufacturing Companies in Indonesia Stock Exchange

Niken Nabilla Putri Lubis[1], Yul Tito Permadhy[2]
[1,2]*Universitas Pembangunan Nasional Veteran Jakarta, Indonesia*
nn.putrilubis@upnvj.ac.id, yul.tito@upnvj.ac.id

Abstract

This research is using quantitative study aimed to determine and analyze the influence of liquidity, leverage, profitability and operating capacity on financial distress. The sample in this study uses the primary consumer goods sector companies on the Indonesia Stock Exchange as many as 67 companies in 2018-2020. This study uses purposive sampling as a sampling technique. The analysis technique in this study was used Microsoft Excel 2016 with the statistical tool E-Views 12.0. The results of this study indicate that (1) liquidity has a negative effect on financial distress (2) leverage has a positive effect on financial distress (3) profitability doesn't have effect on financial distress (4) operating capacity has a negative effect on financial distress.

Keywords
liquidity; leverage; profitability; capacity operating; financial distress

I. Introduction

In todays modern and sophisticated state or perhaps known as the era of globalization, it is possible to have a boost in the growth of a company. Moreover, the global economy for the past few years has experienced very rapid growth due to the increasingly widespread influence of globalization. This is what makes competition in the business world increasingly competitive and tight.

Covid 19 pandemic caused all efforts not to be as maximal as expected (Sihombing and Nasib, 2020). In 2020 Indonesia is one of the countries affected by the Covid-19 pandemic, but the Indonesian manufacturing industry is continuously making efforts to grow towards the expansion phase. Every company has a similar goal, namely to get a profit or profit from the company's operating activities. However, in real conditions, it is not easy for all companies to earn large profits and are able to maintain the company's long-term goal, namely to continue to grow and develop. One of the reasons for the failure to maintain the company is that the company suffers losses and there is a financial crisis that can lead to financial distress.

Financial distress this can happen because of two impacts, namely internal and external to the company. Where the factors originating from the company's internal are cash flow difficulties due to errors caused by the company's management in managing cash flow for company activities transactions, the very large amount of debt and losses from the company's operational activities in several years. Then the factor that comes from external to the company is the increase in interest rates so that it has an impact on the interest expense which also increases (Fatmawati & Wahidahwati, 2017).

Financial distress have an impact on a company that can result in a company being delisted from the Indonesia Stock Exchange (IDX) because it has financial difficulties. It is proven by a number of 18 companies that have been officially delisted from the Indonesia Stock Exchange from 2017 to 2020. In addition, one indicator of the existence of financial

distress in the company is marked by a decrease in profits or even the profit generated in the company is negative (Wahyudi & Yoko Tristiarto, 2020).

One of the sectors that showed a decline in profits wasprimary consumer goods sector where there are companies that experience a decline in profits and even profits are negative or experience losses in a period.It is proven by 79% of companies experiencing a decrease in profit and 21% of companies not experiencing a decrease in profit. Of the 79% companies, a total of 53 out of 67 companies experienced a decline in profits. Of the 53 companies, the majority were 29 companies experiencing continuous profit declines and minus profits from 2018-2020 and 24 companies experiencing fluctuations in the form of increases and decreases in profits from 2018-2020. This is what indicates that 79% of primary consumer goods sector companies are affected by financial distress because the company is not successful in getting the profit it wants to earn. Evidence of the decline in profits is obtained from the results of the financial reports of each company published on the Indonesia Stock Exchange.

One of the measures to avoid potential financial distress is to use financial ratios. Financial ratios can provide information regarding whether or not a company's financial condition is good through profitability ratios, sales growth, leverage, activity and liquidity which are used as independent variables (Lisiantara & Febrina, 2018). The purpose of this study was to determine and analyze the effect of liquidity, leverage, profitability and operating capacity on financial distress in manufacturing companies in the primary consumer goods sector on the Indonesia Stock Exchange.

II. Review of Literature

2.1 Signal Theory

Signal theory is one theory when a company tries to avoid asymmetric information in the company by giving a signal to convey information to shareholders (Intan Permatasari, Alfida Aziz, 2021). Research related to financial distress based on signal theory can be seen in the results of financial report analysis which gives a negative or positive signal regarding the financial condition and performance of the company in order to avoid bankruptcy conditions in the future (Hosea et al. (2020) and Amiruddin & Nustini (2020)).

2.2 Financial Distress

Financial distress namely the condition of a company where the issuer's financial position faces a decline before bankruptcy or liquidation. This condition causes the company to be unable to pay off current obligations that will mature (Setyowati & Sari, 2019). Financial distress is the first stage before the company is actually declared bankrupt or bankrupt. Therefore, if this is not realized quickly, the company may experience bankruptcy (Muñoz-Izquierdo et al., 2019).

2.3 Liquidity and Financial Distress

The liquidity ratio is a ratio that measures the company's capability to pay its short-term financial obligations (Idarti & Hasanah, 2018). Liquidity utilizes a company's current assets to cover its current liabilities. A company that can pay off its short-term debt at maturity, the company can be called liquid. However, if the entity is unable to settle short-term debt when it is due, then the entity is called illiquid or illiquid (Septiani & Dana, 2019).

H1: Liquidity ratio has an effect on financial distress

2.4 Leverage and Financial Distress

The leverage ratio shows how much debt is used by the company (Mohamad Samsul, 2018: 174). Leverage ratio is one type of ratio used to assess a company's ability to manage its debt and maximize the income earned by the company (Fathoni & Indrianto, 2021). If a company produces a large leverage value, it will cause the company to experience high corporate risk and potential financial distress (Ardi et al., 2020).

H2: Leverage ratio has an effect on financial distress

2.5 Profitability and Financial Distress

Profitability ratio is a ratio that calculates the capability of a company in obtaining profits from its business activities. This ratio calculates how effective the company's internals are as a whole as seen from the high and low levels of company profits on investment or sales (Wahyudi & Yoko Tristiarto, 2020). If the profitability of a company is large, it can be stated if the company is able to provide results in the form of large profits. However, if the profitability of a company is small, it has the potential to experience financial distress (Ardi et al., 2020).

H3: Profitability ratios affect financial distress

2.6 Operational Capacity and Financial Distress

Operating capacity is one of the activity ratios where this ratio is used to calculate the effective use of a company's assets and assess the daily activities carried out by the company (Aisyah et al., 2017). When making comparisons between industries or competitors, this ratio is most often used because this ratio states that a company's processes are profitable or not. The activity ratio is able to create a basis for comparison because it expresses a determination in various reporting periods (Darmawan, 2020: 90).

H4: The ratio of operating capacity has an effect on financial distress

III. Research Method

The population in this study are manufacturing companies in the primary consumer goods sector on the IDX in 2018-2020. Sample selection was done using purposive sampling method. This type of research data uses secondary data from the annual financial reports of manufacturing companies in the primary consumer goods sector on the Indonesia Stock Exchange in 2018-2020. The source of data in this study is the annual financial report data of the primary consumer goods sector which is available on the website *www.idx.co.id*.

This research uses analytical techniques using a computer program or software called *Microsoft Office Excel 2016*, *Eviews version 12.0* and uses the *logistic regression analysis* method. The model used in the logistic regression analysis is (Winarno, 2015, p. 6.11).

$$LN\left(\frac{P_1}{1-P_1}\right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Information:

$LN\left(\frac{P_1}{1-P_1}\right)$ = Log of the comparison of companies classified in financial distress and companies not classified in financial distress

β_0 = Constant

β_{1-4} = Regression Coefficient

X_1 = Liquidity
X_2 = Leverage
X_3 = Profitability
X_4 = Operating Capacity

Hypothesis testing was carried out with the Partial Significant Test and the Coefficient of Determination Test. Partial Significant Test (z test) is used to measure partially (separately) whether the independent variable can have an influence on the dependent variable. The significance level in this test is 5%. Meanwhile, the Coefficient of Determination Test (McFadden R-Squared) is useful to see how much this model can explain the dependent variable. The value of the coefficient of determination (McFadden R^2) is between zero or one. A small R^2 value means that the capability of the independent variables in explaining the variation of the dependent variable is very limited. However, if the value leads to one, the independent variable shows almost all the information needed to predict the dependent variable.

IV. Results and Discussion

4.1 Results

a. Descriptive Statistical Analysis

The following are the results of descriptive statistics in this study whose data were obtained from a data processing program called E-views 12.0 software.

Table 1. Descriptive statistics

	FINDES	LIQUIDITY	LEVERAGE	PROFITABILITY	CAPACITY OPERATION
mean	0.487562	2.161040	0.508055	0.091960	1.177239
median	0.000000	1.491000	0.497000	0.032000	1.001000
Maximum	1.0000000	13.26700	2.900000	7.053000	4.571000
Minimum	0.000000	0.060000	0.048000	-0.583000	0.059000
Std. Dev.	0.501093	2.030621	0.312068	0.590525	0.867848
Observations	201	201	201	201	201

Source: E-views 12.0 (data processed)

When viewed in table 1 above, the processing results obtained from E-views 12.0 with the following explanation:

1. *Financial Distress*

   Based on the results of processing E-views 12.0 on 67 companies in the primary consumer goods sector in 2018-2020 the average value of financial distress is 0.487562 where the highest financial distress value is 1.0000 which states that the company is in financial distress, while the smallest value is based on Altman Z- A score of 0.000000, which explains that the company is in a non-financial distress condition. The result of the standard deviation on the financial distress variable is 0.500746. If the result of the standard deviation is greater than the mean value, then there is a fairly high difference in the gap. The greater the standard deviation value, the more varied the data, thus stating that the data is in poor condition.

2. Liquidity

   Based on the results of processing E-views 12.0 on 67 companies in the primary consumer goods sector in 2018-2020 the average liquidity value is 2.161040 where the highest current ratio value is 13,267 in companies with issuer code CAMP (Campina Ice Cream Industry Tbk.) in 2020. Results this states that the company is liquid because the current ratio value of the CAMP company is greater than the mean value of 2.161040. This states that the company has large liquidity and indicates that the company has current assets that already exist and can be paid to pay off short-term debt and can avoid financial distress. The company with the lowest current ratio of 0.060 in the company with the issuer code UNSP (Bakrie Sumatra Plantations Tbk.) in 2020. This result states that the company is illiquid because the current ratio value of the UNSP company is smaller than the mean value of 2.161040. This means that the company has low liquidity and is unable to settle short-term debt as it matures and has the potential to experience financial distress. The result of the standard deviation on the liquidity variable is 2.030621. If the result of the standard deviation is smaller than the mean value, then there is no difference in the data gap between companies with potential financial difficulties and companies without potential financial difficulties. This is because the data does not vary so it can be said that the data is in good condition.

3. *Leverage*

   Based on the results of processing E-views 12.0 on 67 companies in the primary consumer goods sector in 2018-2020 the average leverage value is 0.508055 where the highest debt to asset ratio value is 2,912 in companies with issuer code GGRM (Gudang Garam Tbk) in 2020. Results This statement states that if the company makes payments using larger debt and will cause difficulties in future payments due to the larger debt value. In addition, a high leverage value can cause the company to experience corporate risk and potentially financial distress. The company with the lowest debt-to-asset ratio of 0.048 in the company with the issuer code PALM (Provident Agro Tbk.) in 2020. These results state that the company is able to manage its debt to asset ratio well and avoid financial distress. The result of the standard deviation on the leverage variable is 0.312068. If the result of the standard deviation is smaller than the mean value, then there is no difference in the data gap between companies with potential financial difficulties and companies without potential financial difficulties. This is because the data does not vary so it can be said that the data is in good condition.

4. Profitability

   Based on the results of processing E-views 12.0 on 67 companies in the primary consumer goods sector in 2018-2020 the average profitability value is 0.091960 where the highest return on asset value is 7,053 in companies with issuer code SGRO (Sampoerna Agro Tbk.) in 2018. Results this statement states that the company is able to generate large profits from its business activities and avoid financial distress. Companies with the lowest return on assets of -0.203 in companies with issuer code HERO (Hero Supermarket Tbk.) in 2018. These results state that this company is not able to generate large profits from its business activities and has the potential for financial distress. The result of the standard deviation on the profitability variable is 0.590525. If the result standard deviation is greater than the mean value, then there is a fairly high disparity. The greater the standard deviation value, the more varied the data, thus stating that the data is in poor condition.

5. Operating Capacity
   Based on the results of processing E-views 12.0 on 67 primary consumer goods sector companies in 2018-2020 the average operating capacity value is 1.177239 where the highest total asset turnover value is 4,571 in companies with issuer code WICO (Wicaksana Overseas International Tbk.) in 2020 These results indicate if the company has been effective in using the company's assetsand has gotten better at optimizing the company's sales by using its total assets.The company with the lowest total asset turnover of 0.059 in the company with the issuer code PALM (Provident Agro Tbk.) in 2020. These results state that the company is unable to use its company assetsand cannot optimize the company's sales by using its total assets.The standard deviation result for the operating capacity variable is 0.867848. If the result of the standard deviation is smaller than the mean value, then there is no difference in the data gap between companies with potential financial difficulties and companies without potential financial difficulties. This is because the data does not vary so it can be said that the data is in good condition.

b. Logistics Regression Analysis

Table 2. Logistics Regression Analysis Test Results

Variable	Coefficient	Std. Error	z-Statistics	Prob.
C	-3.026101	1.268896	-2.384829	0.0171
LIQUIDITY	-1.110966	0.336163	-3.304844	0.0010
LEVERAGE	11.98132	2.218195	5,401382	0.0000
PROFITABILITY	-0.213216	0.288164	-0.739914	0.4594
OPERATING CAPACITY	-0.923329	0.292885	-3.152535	0.0016
McFadden R-squared	0.574457			
LR statistics	159.9983			
Prob(LR statistic)	0.000000			

Source: E-views 12.0 (data processed)

Based on the table2 above, the equation of the results of the logistic regression analysis test is obtained, namely:

$$LN\frac{P1}{1-P1} = -3.026101 - 1.110966 + 11.98132 - 0.213216 - 0.923329$$

1. constant
   Based on table 2 above, the results of the logistic regression test show that the constant result is -3.026101 which states that financial distress is likely to experience a decrease of -3.026101 outside the influence of the observed independent variables, namely liquidity, leverage, profitability, and operating capacity.
2. Regression Coefficient (B1X1)
   The regression coefficient value of the liquidity variable calculated using the current ratio is -1.110966. This provides an explanation if liquidity has increased by 1 (assuming that the results of other variables remain), then the value of financial distress will increase by -1.110966. Therefore, if the regression coefficient of the liquidity variable has a negative value, it means that there is a negative relationship between the current ratio and the value of financial distress.

3. Regression Coefficient (B2X2)
   The regression coefficient value of the leverage variable which is calculated using the debt to asset ratio is 11.98132. This provides an explanation that if leverage has increased by 1 (assuming the results of other variables are constant), then the value of financial distress will increase by 11,98132. Therefore, if the regression coefficient of the leverage variable has a positive value, it means that there is a positive relationship between the debt to asset ratio and the value of financial distress.
4. Regression Coefficient (B3X3)
   The regression coefficient value of the profitability variable which is calculated using the return on assets is-0.213216.This provides an explanation if profitability has increased by 1 (assuming that the results of other variables remain), then the value of financial distress will increase by as much as-0.213216. Therefore, if the regression coefficient of the profitability variable has a negative value, it means that there is a negative relationship between return on assets and the value of financial distress.
5. Regression Coefficient (B4X4)
   The regression coefficient value of the operating capacity variable calculated using total asset turnover is -0.923329.This provides an explanation if the operating capacity increases by 1 (assuming the other variables remain constant), then the value of financial distress will increase by -0.923329. Therefore, if the regression coefficient of the operating capacity variable has a negative value, it means that there is a negative relationship between total asset turnover and the value of financial distress.

a) Overall Model Fit Test implemented for all models by going through the independent variable test (independent) in logistic regression simultaneously on the dependent variable (dependent). The LR probability value in this test can be used as a reference. The results for the fit model can be identified and seen in the p-value of the LR. The following are the results of the entire model test.

Table 3. Overall Model Test

LR statistics	159.9983	Avg. likelihood log	-0.294832
Prob(LR statistic)	0.000000		

Source: E-views 12.0 (data processed)

Based on table 3 above, it can be obtained if the Prob (LR Statistics) value is 0.000000 < 0.05. Therefore, it can be concluded that there is at least 1 type of independent variable that can have an influence on the dependent variable.

b) Hosmer's Test and Lemeshow's Goodness of Fit Test is useful for assessing the accuracy and validity of data in logistic regression models. The test results can be said to be good or fit if there is no difference between the observation data and the regression model. If the statistical value of this test is greater than 0.05, then H0 is accepted because it is in accordance with the observational data.

Table 4. Hosmer and Lemeshow's Goodness Of Fit Test

HL Statistics	2.4619	Prob. Chi-Sq(8)	0.9635
Andrews Statistics	38.4995	Prob. Chi-Sq(10)	0

Source: E-views 12.0 (data processed)

Based on table 4 above, the value of Prob. Chi-Sq (8) is 0.9635 where this value is greater than 0.05 (0.9635 > 0.05). Therefore, these results have meaning if the model is accepted and is able to explain the observations made.

c. Hypothesis testing

Partial Significance Test (z Test)used to measure partially (separately) whether the independent variable in the study can have an influence on the dependent variable (financial distress). The z-test value explains the conclusion that the hypothesis H0 is accepted or rejected. The following hypotheses in the z test, namely:

1. Probability < 0.05, z count > za or z count < -za so that it can be concluded that H0 is rejected and H1 is accepted.
2. Probability > 0.05, z count < za or z count > -za so that it can be concluded that H0 is accepted and H1 is rejected.

Table 5. Z Test Results

Variable	Coefficient	z Table	Std. Error	z-Statistics	Prob.
C	-3.026101		1.268896	-2.384829	0.0171
LIQUIDITY	-1.110966	-1.96	0.336163	-3.304844	0.0010
LEVERAGE	11.98132	1.96	2.218195	5,401382	0.0000
PROFITABILITY	-0.213216	-1.96 and 1.96	0.288164	-0.739914	0.4594
OPERATING CAPACITY	-0.923329	-1.96	0.292885	-3.152535	0.0016

Source: E-views 12.0 (data processed)

Based on table 5 above, the results of the partial test between the independent variable and the dependent variable are:

a) Effect of Liquidity on Financial Distress
   Based on the results of the logistic regression test in table 5, it can be proven that liquidity has a probability value of 0.0010, that number is smaller than 0.05 or 0.0010 <0.05 with a coefficient value of-1.110966. Then it has a z-statistic value < z-table which is -3.304844 < -1.96, so H0 is rejected and H1 is accepted. So liquidity has an effect on financial distress.
b) The Effect of Leverage on Financial Distress
   Based on the results of the logistic regression test in Table 5, it can be seen that if leverage has a probability value of 0.0000, that number is smaller than 0.05 or 0.0000 <0.05 with a coefficient value of 11.98132. Then it has a z-statistic value > z-table which is 5.401382 > 1.96, so H0 is rejected and H1 is accepted. So leverage has an effect on financial distress.
c) The Effect of Profitability on Financial Distress
   Based on the results of the logistic regression test in table 5, it can be seen that profitability has a probability value of 0.4594 that number is greater than 0.05 or 0.4594 > 0.05 with a coefficient value of -0.213216. Then it has a value of -z-table < z-statistic < z-table which is -1.96 < -0.213216 < 1.96, so H0 is accepted and H1 is rejected. So profitability has no effect on financial distress.
d) Effect of Operating Capacity on Financial Distress
   Based on the results of the logistic regression test in table 5, it can be seen if the operating capacity has a probability value of 0.0016 the number is less than 0.05 or 0.0016< 0.05 with a coefficient value of -0.923329. Then it has a z-statistic value < z-

table which is -3.152535 < -1.96, so H0 is rejected and H1 is accepted. So operating capacity has an effect on financial distress.

Furthermore, the Coefficient of Determination Test (McFadden R-Squared) was carried outwhich is useful to see how much this model can explain the dependent variable. The following are the results of the coefficient of determination test.

Table 6. Coefficient of Determination Test

McFadden R-squared	0.574457

Source: E-views 12.0 (data processed)

Based on table 6 above, the result of the coefficient of determination (McFadden R-Squared) is 0.574457 or if it is converted into a percentage it is 57.45%, which means that the independent variable is able to explain the dependent variable of 57.45%. And the remaining value of 0.425543 or 42.55% is described in other factors that are not included in this study.

4.2 Discussion

a. Effect of Liquidity on Financial Distress

Based on the results of the logistic regression test in table 5, it can be seen if liquidity has a probability value of 0.0010 that number is smaller than 0.05 or 0.0010 <0.05 with a coefficient value of-1.110966. Then it has a z-statistic value < z-table which is -3.304844 < -1.96. So that there is an influence between liquidity and financial distress and has a negative relationship direction. This explains that the higher the value of liquidity, the lower the potential for financial difficulties experienced by the company because it shows that the company is able to fund and pay off its short-term obligations so that it can avoid financial difficulties.

This research is in line with research conducted by Setyowati & Sari (2019), Zhafirah & Majidah (2019), Ardi et al. (2020), and Agustin et al. (2020) which states that liquidity has a negative effect on financial distress.

b. The Effect of Leverage on Financial Distress

Based on the results of the logistic regression test in table 5, it can be seen that if leverage has a probability value of 0.0000, that number is smaller than 0.05 or 0.0000 <0.05 with a coefficient value of 11.98132. Then it has a z-statistic value > z-table which is 5.401382 > 1.96. So that there is an influence between leverage and financial distress and has a positive relationship direction. This shows that the higher the debt owned by the company, the higher the potential for financial difficulties experienced by the company because it allows the company to be unable to pay its debts in the future which will result in bankruptcy.

This study is in line with research conducted by Dwiantari & Artini (2021), Sandhi (2020), Rotama & Harefa (2020), and Agustin et al. (2020) which states that leverage has a positive effect on financial distress.

c. The Effect of Profitability on Financial Distress

Based on the results of the logistic regression test in table 5, it can be seen that profitability has a probability value of 0.4594 that number is higher than 0.05 or 0.4594 > 0.05 with a coefficient value of -0.213216. Then it has a value of -z-table < z-statistic < z-table which is -1.96 < -0.213216 < 1.96. So that there is no influence between profitability

and financial distress. This gives the result that the large or small value of profitability does not have an effect on the emergence of financial distress. This is contrary to the profitability theory which states that large profitability results indicate that the company has implemented the efficiency of financial risks by obtaining good profits (Ardi et al., 2020).

This study is in accordance with research conducted by Sari and Putri (2016), Mardyana (2018), Dewi et al. (2019) and Ardi et al. (2020) which states that profitability has no effect on financial distress.

d. Effect of Operating Capacity on Financial Distress

Based on the results of the logistic regression test in table 5, it can be seen if the operating capacity has a probability value of0.0016the number is less than 0.05 or0.0016<0.05 with a coefficient value of -0.923329. Then it has a z-statistic value < z-table which is -3.152535 < -1.96. So that there is an influence between operating capacity and financial distress and has a negative relationship direction.

This explains that the greater the value of operating capacity, the lower the potential for financial difficulties experienced by the company because the company has been effective in using its company assets.so as to optimize sales volume and the company can get big profits. With this large profit, the company is able to pay for the operating expenses in the company and has the possibility to avoid financial distress.

This research is in line with research conducted by Setyowati & Sari (2019), Faizatullail (2019) and Lestari (2019) which states that operating capacity has a negative effect on financial distress.

V. Conclusion

Based on the results of the analysis and hypothesis testing that have been carried out in this study through logistic regression analysis on 67 primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2018-2020, the conclusions are:

a. The results of the liquidity variable test which have measurements using the current ratio (CR) state the results if there is an influence between liquidity and financial distress and has a negative relationship direction. This explains that the higher the liquidity value, the lower the potential for financial distress. Therefore, the first hypothesis in this study was proven.
b. The results of the leverage variable test which has a measurement using the debt to assets ratio (DAR) states the results if there is an influence between leverage and financial distress and has a positive relationship direction. This explains that the higher the debt owned by the company, the higher the potential for financial difficulties experienced by the company. Therefore, the second hypothesis in this study was proven.
c. The results of the profitability variable test that have a measurement using return on assets (ROA) state the results if there is no influence between profitability and financial distress. This explains if the large or small value of profitability does not have an effect on the emergence of financial distress. Therefore, the third hypothesis in this study was not proven.
d. The test results for operating capacity variables which have measurements using total assets turnover (TATO) state the results if there is an influence between operating capacity and financial distress and has a negative relationship direction. This explains that the higher the operating capacity value, the lower the potential for financial

difficulties experienced by the company. Therefore, the fourth hypothesis in this study is proven.

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