

The Effects of Total Asset Turnover, Return on Assets, And Sales Growth on Financial Distress in Food and Beverage Companies over the Period 2016-2020

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Abstract

The purpose of this study was to determine the effects of fundamental factors, namely Total Assets Turnover (TATO), Return on Assets (ROA), and sales growth on food and beverage sector companies during the 2016-2020 period. The population of this research is the food and beverage sector companies that remain listed on the Indonesia Stock Exchange between 2016 and 2020. Sampling was carried out by purposive sampling consisting of 30 companies. By using the STATA 16 program, the research data were analyzed using a panel data regression approach with a significance level of 0.05. This analysis showed that the ROA and sales growth variables had a positive and significant effect on financial distress. Meanwhile, TATO was not significant to financial distress.

Keywords

total asset turnover; return on assets; sales growth; financial distress



I. Introduction

The global economic environment can be an opportunity for strong companies, and a threat for weak companies (Digdowiseiso, 2021a). One of the company's weaknesses is indicated by the existence of financial distress. According to Plat & Platt (as cited in Triswidjanti & Nuzula, 2017), financial distress is defined as the stage of declining conditions that occurred before bankruptcy or liquidation.

Various types of bankruptcy analysis methods in the financial sector have been developed and used in various countries, one of which is the Altman Zscore method. A study on financial problems initiated by Altman (1986) used a ratio indicator known as Z-Score. This research develops and deals with the release of financial indicators.

The company presents financial statements as a source of information to assess changes in business performance and financial position and assist in making the right decisions (see Digdowiseiso, 2021b; Digdowiseiso et al., 2022; Muhani et al., 2022). In order for financial statement information to be useful in the past, it is necessary to convert financial data into decision-making information through financial statement analysis. The tools commonly used to conduct audits are using financial ratios. The goal is to evaluate the company's financial performance such as liquidity ratios, leverage, activity, and profitability (Ardiatmi, 2014; Digdowiseiso & Santika, 2022; Muhani et al., 2022). Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021). Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law

of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

Financial ratios are useful for knowing an overview or estimate of the growth or changes in the financial situation/condition of the company, so that it can evaluate what has been produced in the past and in the future (Ifada & Puspitasari, 2016; Digdowniseiso & Agustina, 2022; Muhani et al., 2022). Financial ratios related to this research are the ratio of Total Assets Turnover, Return on Assets and Sales Growth.

II. Review of Literature

2.1 Financial Distress

Hery (2016) argues that financial distress is a difficult situation for companies to fulfill their obligations, and the company's profits cannot cover the total costs resulting in losses.

Financial distress is defined as a condition in which a company or individual is unable to generate sufficient income or income to meet or pay its financial obligations. This is generally due to high fixed costs, levels of illiquid assets or income that is sensitive to economic downturns.

Furthermore, Hery (2016) revealed that financial distress is divided into several types, namely:

1) Economic failure

Circumstances in which the company's profits cannot cover the total costs including the cost of capital.

2) Business failure

Business failure is understood as closing a business that results in losses for creditors.

3) Technical insolvency

A company is said to be in technical bankruptcy while the company is unable to fulfill its responsibilities as they fall due. Lack of ability to repay debt technically indicates a brief loss of liquidity. On the other hand, if technical bankruptcy is an early symptom of monetary failure, it can be a major prevention of economic catastrophe.

4) Insolvency in bankruptcy

A company is declared bankrupt if the carrying amount of debt exceeds the market value of the assets.

5) Legal bankruptcy

If a company files a formal complaint with the law, the company is considered legally bankrupt.

According to Amalia & Kurniasih (n.d.), when a company has a series of negative net income, negative book value of equity and the company has merged, the company is said to be in financial trouble.

In this study, we utilize the Altman Zscore defined as follows:

$$1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$$

Where:

X1 = Working Capital to Total Assets

X2 = Retained Earnings to Total Assets

X3 = Earnings Before Interest and Taxes to Total Assets

X4 = market value equity to book value of total debt

X5 = Sales to Total Assets

With the following criteria:

1. If $Z > 2.99$ = “Safe” Zone
2. If $1.81 < Z < 2.99$ = “Grey” zone
3. If $Z < 1.81$ = “Distress”

2.2 Effects of Total Asset Turnover on Financial Distress

According to Jiming & Weiwei (2011), the higher the Total Asset Turnover ratio, the less likely the company is to experience financial distress. This is supported by research from Hanifah and (Hanifah & Purwanto, 2013), (Luh et al., n.d.), and (Noviandri, 2014) which found a positive influence between Total Asset Turnover on financial distress.

High total asset turnover shows the company's efficiency in using assets to increase revenue. This is a positive sign because of the effective use of assets to welcome sales which can be expected to provide greater profits for the company and show that the financial performance achieved by the company is getting better so that the occurrence of financial problems is getting smaller.

H1: Total Asset Turnover has a positive and significant effect on the financial distress of Food and Beverage sector companies listed on the Indonesia Stock Exchange.

2.3 Effects of Return on Asset on Financial Distress

The level of profitability is the company's power to generate profits from its assets. If the company generates high profits, the more efficient a company is in using its assets to generate profits or profits (Aryanto, 2011).

The results of research conducted by Alifah (n.d.) indicate that ROA has an effect on financial distress. The higher the ROA of the company, the less likely it is that the company will face financial difficulties when the company's profits are low, its business performance deteriorates, its profitability declines, and it is easy to fall into financial trouble.

H2: Return on Assets has a positive and significant effect on the financial distress of Food and Beverage sector companies listed on the Indonesian stock exchange.

2.4 Effects of Sales Growth on Financial Distress

This study uses sales growth which is used as a measure of the success rate of investments made during the last year. Therefore, it can be used to predict future business growth. Significant sales growth can increase the company's bottom line from sales results achieved over a certain period of time. This is a signal for investors and creditors. This is because the company's strong sales growth affects the company's net worth and operating results.

The results of research conducted by Luh et al. (n.d.) show that Sales Growth has an effect on financial distress. This indicates that the higher the sales, the less likely the company will face financial difficulties. If sales growth results are low, the company may experience financial difficulties due to reduced revenue over the last period, which could affect the company's assets, revenues and liabilities.

H3: Sales Growth has a negative and significant effect on the financial distress of Food and Beverage sector companies listed on the Indonesian stock exchange.

III. Research Methods

3.1 Panel Data Regression Test

Panel data is a combination of cross-sectional data and time series data (Kuncoro, 2011). Panel data regression according to Ghozali (2017) is a collection of data in which the behavior of cross-sectional units (e.g. individuals, companies, countries, etc.) is observed over time repeatedly (time series).

Panel data which is a combination of time series and cross-sectional data, can provide more data to achieve a greater degree of freedom (Digdowiseiso, 2017). The combination of time series information and cross-sectional data can solve the problem of eliminating variables (variables are omitted). According to Ghozali (2017) three approaches can be used to estimate the regression model with panel data, namely:

a. Common Effect Model

Common effects models ignoring the differences in the dimensions of people and time, namely the behavior of the data between people is the same in different time periods (Ghozali, 2017: 214).

b. Fixed Effect Model

The fixed effect model approach shows that the intersection point of each individual differs (varies) between individuals, but each individual cut point does not change from time to time. Although the slope remains between individuals or does not vary between individuals and between time (Ghozali, 2017: 223).

c. Random Effect Model

This model is very useful when the sample person (entity) is randomly selected and represents the population. This technique also takes into account that errors can be correlated across cross sections and time series (Ghozali, 2017: 245).

3.2 Testing and Model Selection

a. Chow test

The Chow test is a test to determine the most appropriate Fixed Effect or Common Effect model to be used in panel data estimation. If the p-value of the Chi Square cross-section significance level or the p-value cross-section F test significance level, then H_0 is rejected, so it is better to use the Fixed Effect Model. The hypotheses formed in the Chow Test are as follows:

H_0 : Common Effect Model

H_1 : Fixed Effect Model

b. Hausman test

It is a statistical test to choose whether the Fixed Effect or Random Effect model is to find out which model is the most appropriate to use (Basuki, 2016). If the value of the Hausman statistic $>$ the level of significance, it means that H_0 is rejected, so the correct model for panel data regression is the Fixed Effect model. The hypothesis formed in the Hausman Test is as follows:

H_0 : Random Effect Model

H_1 : Fixed Effect Model

3.3. Lagrange Test

Lagrange test is a statistical test to find out whether the Random Effect Model is better than the Common Effect Model (Basuki, 2016). If the calculated LM value < significance level, it means that H₀ is rejected, and the right model to use is the Random Effect model. If otherwise, then H₀ is accepted. The hypothesis formed in the LM test is as follows:

H₀: Common Effect Model

H₁: Random Effect Model

3.4. Logistics Regression Analysis

This research uses logistic regression analysis method. According to Ghozali (2011) logistic regression is a regression used to test whether the profitability of the dependent variable can be predicted by the independent variable. The logistic regression analysis technique no longer requires normality tests and classical assumption tests on the independent variables (Ghozali, 2011).

Logistic regression analysis was used to test whether the variables of return on assets, total asset turnover and Sales Growth had an effect on financial distress. In this study, the dependent variable is a dummy variable (either the going-concern audit opinion is accepted or the going-concern audit opinion is not accepted), and the hypothesis test is performed using a logistic regression test. This analysis aims to analyze the effect of an independent variable on the dependent variable, where the dependent variable is non-metric (nominal or ordinal) with two categories (1 and 0) and the independent variable (independent) is one or more metrics (interval or ratio) and non-metric (Wati, 2018)

The regression model that will be developed in this study is as follows:

$$Ln \frac{p}{1-p} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it}$$

Where:

P/(1-p) = probability of a company experiencing financial distress

0 = Constant

n = coefficient value of independent variable

n = Independent variable

t = Time

i = Company

3.5. Significance Test

a. LR test

The LR test is a test performed to show whether all the independent variables in the model have a significant effect on the dependent variable together or at the same time. The criteria for acceptance or rejection are based on a significance level of 0.05, which means that the probability of making a decision has a 95% probability. The hypothesis used is as follows:

H₁ = The influence of the independent variables together on the dependent variable

H₀ = There is no effect of the independent variables together on the dependent variable

3.6. Coefficient of Determination Test (R²)

The coefficient of determination test is a test used to measure the ability of the regression model to explain the dependent variable. The coefficient of determination is between zero and one. A small R² value means that the ability of the independent variable

to explain variation in the dependent variable is very limited. A value close to one means that the independent variable provides almost all the information needed to predict the variation of the dependent variable.

3.7. Wald test

According to Ghozali (2018) the wald (t) test shows the effect of the independent variable partially in explaining the dependent variable. To determine the value of the Wald test (t test), the significance level is 5%. The decision-making criteria as follows:

H1 = There is an influence between one of the independent variables on the dependent variable

H0 = There is no effect of the independent variable on the dependent variable

IV. Result and Discussion

4.1 Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis Results

Variable	Obs	Mean	Std. Dev.	Min	Max
Financiald~s	90	.75	.43	0	1
Ztato	90	-1.72	1	-1.55	3.31
Zroa	90	1.19	1	-7.68	3.12
Zgrowth	90	-2.47	1	-2.44	7.82

Source: Authors' Calculation

In descriptive statistical analysis, data from the number of samples used, the sample mean or mean, standard deviation, and the minimum and maximum values of each studied variable will be displayed. From the tests that have been carried out, it can be seen in table 2 that the dependent variable, namely financial distress (financiald~s) with 90 observations, has an average value of 0.75 percent with a standard deviation of 0.43 percent in the 2016-2020 period.

The minimum value of financial difficulty is 0 percent while the maximum value of financial difficulty is 1 percent. The tattoo variable (ztato) with 90 observations has an average value of -1.72 percent with a standard deviation of 1 percent in the 2016-2020 period. The minimum tattoo value is -1.55 percent while the maximum tattoo value is 3.31 percent.

The ROA variable (zroa) has an observation number of 90 and has an average value of 1.19 percent with a standard deviation of 1 percent in the 2016-2020 period. The minimum value for ROA is -7.68 percent while the maximum value for ROA is 3.12 percent.

The Sales Growth Variable (zgrowth) has an average of -90 observations with an average of -2.47 percent with a standard deviation of 1 percent in the 2016-2020 period. The minimum growth value is -2.44 percent while the maximum growth value is 7.82 percent.

4.2 Panel Data Testing and Selection

The model in panel data regression is divided into three models, namely Pooled Least Square/Common Effect, Fixed Effect and Random Effect. Testing is needed to determine the best model among the three existing models so that it is in accordance with the research conducted. The results of the panel data regression model selection test are as follows:

a. Chow test

Table 2. Chow Test Results

Prob>chi2	0.00
<input type="checkbox"/>	0.05

Source: Authors' Calculation

The Chow test results show that the probability value is 0.00 which means it gives significant results because the value is smaller than 0.05 ($0.00 < 0.05$), it can be concluded that the test results reject H_0 and accept H_1 , namely choosing the effect model permanent.

b. Lagrange Test

Table 3. Lagrange Multiplier Test Results

Prob>chi2	0.00
<input type="checkbox"/>	0.05

Source: Authors' Calculation

The Lagrange Multiplier test was conducted to choose between the Random Effect model and the Pooled Least Square / Common Effect model. Here are the results of the Lagrange Multiplier test. Based on the Lagrange Multiplier test that has been carried out, it can be seen in table 4 that the probability value ($\text{prob} > \text{chibar}2$) $<$ alpha is 0.05 then H_0 : rejected and H_1 : accepted. So the model used is the Random Effect model.

c. Hausman test

Table 4. Hausman Test Results

Prob>chi2	0.09
<input type="checkbox"/>	0.05

Source: Authors' Calculation

Based on the Hausman test that has been done, it can be seen that the probability value is 0.09, which means it is greater than the value of 0.05. it can be concluded that H_0 : Random Effect is accepted and H_1 : Fixed Effect is rejected. So that the model used is the Random Effect model.

Based on the tests that have been carried out, it can be concluded that in this study the best and most suitable panel data regression model is the Random Effect model.

4.3 Multicollinearity Violation Test

With the selection of the Random Effect model, it is irrelevant to carry out the Classical Assumption test. This is because the Random Effect model uses the Generalized Least Square (GLS) estimation method. The GLS technique is believed to overcome the time series autocorrelation and the correlation between observations (cross section). The GLS method produces an estimator to meet the Best Linear Unbiased Estimation (BLUE) property which is a treatment method to overcome violations of the heteroscedasticity and autocorrelation assumptions.

Testing multicollinearity on the Random Effect model can use VIF, uncentered. A good regression model is that there is no symptom of multicollinearity among the independent variables. If the VIF value is less than 10 and 1/VIF is more than 0.10, it means that the independent variable can be said to be free from multicollinearity symptoms.

Table 5. Multicollinearity Test Results

Variable	VIF	1/VIF
Zroa	1.03	0.97
Ztato	1.02	0.98
Zgrowth	1.02	0.98
Mean VIF	1.02	

Source: Authors' Calculation

In table 5 it can be seen that the VIF value between the independent variables is less than 10 and the 1/VIF value is more than 0.10. So it can be concluded that there is no symptom of multicollinearity between independent variables.

4.4 Logistics Regression Analysis

Table 6. Panel Data Logistics Regression Margin Results

Variable	Dep. Variable: financial distress			
	1	2	3	4
Ztato	0.01 (1.40)			2.11 (1.33)
Zroa		24.04** (10.44)		75.25*** (9.48)
Zgrowth			1.12 (0.75)	5.72*** (0.87)
Year effect	No	No	No	No
Companies effect	No	No	No	No
Observation	90	90	90	90
Group	18	18	18	18
Cons	9.24*** (1.86)	12.76*** (2.33)	9.11*** (1.75)	22.00*** (1.75)
Wald Test	0.99	0.02	0.14	0.00
LR Test	0.00	0.00	0.00	0.00
McFadden's Adj R ²	0.12	0.49	-0.03	0.50

*Notes: Number of parentheses are robust standard of error. Asterisks denote as follows: *significant at 10% level, **significant at 5% level, and *** significant at 1% level.*

Based on table 6, it can be seen that the results of the panel data logistic regression margins. The logistic regression equation model in this study is:

$$Ln = \frac{p}{1-p} = 22.00 + 2.11tato + 75.25roa + 5.72Growth + e$$

The interpretation of the regression equation above can be explained as follows:

1. The value of or the constant value of 22.00 means that if the value of all independent variables does not change or is equal to 0, then the probability of financial distress is 22.00 percent.

2. The regression coefficient value of the Total Asset Turnover (ztato) variable is 2.11, meaning that if the Total Asset Turnover increases by 1 unit, it will be followed by an increase in the occurrence of financial distress by 2.11 percent.
3. The regression coefficient value of the Return On Assets (zroa) variable is 75.25, meaning that if the Return On Assets increases by 1 unit, it will be followed by an increase in the probability of financial distress by 75.25 percent.
4. The regression coefficient value of Sales Growth (zgrowth) is 5.72, meaning that if Sales Growth increases by 1 unit, it will be followed by an increase in the probability of financial distress by 5.72 percent.

4.5 Simultaneous Test with Likelihood Ratio

Table 7. Logistics Regression Output

Random-effects logistic regression	Number of obs	=	90
Group variable: KODE	Number of groups	=	18
Random effects u_i ~ Gaussian	Obs per group: min	=	5
	avg	=	5.0
	max	=	5
Integration method: mvaghermite	Integration points	=	12
Log likelihood = -7.2847952	Wald chi2(3)	=	64.38
	Prob > chi2	=	0.0000

Financialdistress	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
ztato	2.116252	1.331829	1.59	0.112	- .494086 4.726589
zroa	75.251	9.484094	7.93	0.000	56.66252 93.83949
zgrowth	5.725883	.8774798	6.53	0.000	4.006054 7.445712
_cons	22.00063	1.758934	12.51	0.000	18.55318 25.44807
/lnsig2u	5.873599	.3967977			5.09589 6.651308
sigma_u	18.8554	3.74089			12.78081 27.81719
rho	.9908313	.0036048			.9802575 .9957664

Likelihood-ratio test of rho=0: chibar2(01) = 27.36 Prob >= chibar2 = 0.000

Lr (likelihood ratio) is a substitute for F-stat which functions to test whether all the slopes of the regression coefficients of the independent variables simultaneously affect the dependent variable. In table 7 the results of the logistic regression output can be seen in the probability-ratio test of $\rho = 0$: $\text{chibar2}(01) = 27.36$ with $\text{Prob} \geq \text{chibar2} = 0.00$. So it can be concluded that the three variables total asset turnover, return on assets, and growth have a significant effect on financial distress.

4.6 Coefficient of determination test (R2)

The coefficient of determination test was conducted to show the independent variable in explaining the dependent variable. In this test, the R-squared value is 0.50. Thus, the proportion of the effect of financial distress by the independent variable model of total asset turnover, return on assets, sales growth is 50%, while the rest is influenced by other factors not examined in this study.

4.7 Wald test

The Wald test was conducted to show the effect of each independent variable partially on the dependent variable. If the probability value <0.05 then H_a is accepted, which means that the independent variable partially has a significant effect on the dependent variable. From this test, the wald value is 64.38 with $\text{Prob} > \chi^2$ 0.00 indicating that the hypothesis is accepted or there is a significant effect of the independent variable on the dependent variable.

4.8 Effects of Total Asset Turnover on Financial Distress

Based on the results of the study, it can be seen that the Total Asset Turnover has a positive value of 2.11, meaning that every time there is an increase of 1 unit in the TATO variable, it will increase by 2.11 assuming the coefficient value of the other independent variables remains or equal to zero. The probability value with a significance value of 0.11 or more than the 5% significant level ($0.11 > 0.05$) so that the first hypothesis (H_1) is rejected. Total Asset Turnover has a positive and insignificant effect on the financial distress of Food and Beverage sector companies listed on the Indonesia Stock Exchange for the 2016-2020 period.

This shows that the ups and downs of a company's TATO value does not guarantee the occurrence of financial distress. The results of this study are in line with research (Alifah, nd) which states that TATO has no significant effect on financial distress. From the comparison between expenses and income when operating cash is high, it shows that the company's cash condition is in good condition so that the company is able to fulfill its obligations and the continuity of operations that can generate profits, so that the value of TATO does not affect the occurrence of bankruptcy in the company. The results of this study are contrary to research (Hanifah & Purwanto, 2013), (Luh et al., nd), and (Noviandri, 2014) which found the effect of Total Asset Turnover on financial distress.

4.9 Effects of Return on Assets on Financial Distress

Based on the results of the research carried out, it can be seen that the Return On Assets is positive 75.25, meaning that for every one unit increases in the ROA variable, it will increase by 75.25 assuming the coefficient value of the other independent variables remains or equals zero.

The probability value with a significance value of 0.00 which is below the real level of 0.05, then the second hypothesis (H_2) is accepted. The Return On Assets (ROA) variable has a statistically positive and significant effect on financial distress. This is able to indicate that the higher the ROA of the company, the lower the risk of the company experiencing financial distress.

Companies with high ROA values can demonstrate the use of their assets to generate profits from sales and investments. The more effective and efficient the management of assets, the more costs incurred by the company, so that the company is able to save and obtain sufficient funds, while a low ROA indicates that the company is more likely to experience financial difficulties.

The results of this study are supported by Nur Alifah's research in (2020) that ROA has an effect on financial distress. The higher the ROA value in a company, the smaller the chance for the company to experience financial distress (Hidayat & Meiranto, 2014). However, this research contradicts research (Suci Aminah, Noviansyah Rizal, 2019) which states that ROA has no effect on financial distress.

4.10 Effects of Sales Growth on Financial Distress

Based on the results of the study, it can be seen that sales growth has a positive sign of 5.72, so for every increase of 1 unit in the sales growth variable, it will increase by 5.72 assuming the coefficient value of the other independent variables remains or equal to zero. The probability value with a significance value of 0.00 or less than the 5% significance level ($0.00 < 0.05$). The higher the level of Sales Growth ratio, the less likely the occurrence of financial distress in a company will be.

This research is supported by Amanda (2019) which states that Sales Growth has an effect on financial distress. And research conducted by Eliu (2014) and Widhiari & Merkusiwati (2015) which states that the higher the sales growth of a company, the less likely it is that the company will experience financial distress. However, this study contradicts the results of research conducted by (Wibowo & Susetyo, 2020) which states that sales growth has no effect on financial distress conditions, which means that any increase or decrease in sales growth does not affect the company's financial distress.

From the results of the research that has been done, it can be concluded that sales growth has a positive and significant effect on financial distress in Food and Beverage sector companies listed on the Indonesian stock exchange for the 2016-2020 period.

V. Conclusion

Total Asset Turnover has a positive and insignificant effect on financial distress. This shows that the ups and downs of a company's TATO value does not guarantee the occurrence of financial distress.

Return on Assets has a positive and significant effect on financial distress. The higher the ROA value in a company, the smaller the chance for the company to experience financial distress.

Sales Growth has a positive and significant effect on financial distress. The higher the sales growth of a company, the less likely it is that the company will experience financial distress.

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