



# Relationship and Influence Four Components on Financial Distress in Non-Financial Sector Companies Listed on the IDX Period 2020-2022

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**Abstract:** The studies examine the four components of detecting financial misery for the duration of the covid-19 pandemic in non-financial sector businesses in indonesia with a 3-yr remark length, specifically 2020-2022. The populace consists of corporations operating within the non-economic sector which can be listed at the indonesian inventory alternate in 2020-2022 and have bad ebit for 3 consecutive years. The samples had been forty non-monetary organizations with a hundred and twenty observations the use of a focused sampling approach. The analysis method makes use of a multiple regression evaluation with secondary statistics on the organization's economic statements. The results of the research tested concluded that the variables sales increase and leverage ratio have no relation and no impact on economic distress, whilst the liquidity ratio and general asset turnover have no relation and no effect on monetary distress. The complete wealth turnover has a positive effect on the economic distress. The very last end is that the company wishes to boom sales increase and debt-to-equity ratios. The better the overall asset turnover and the liquidity ratio, the decrease the monetary burden will be.

**Keywords:** Four Components, Financial Distress, Non-Financial Sector Companies

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## 1. Introduction

Income growth is a trademark of the charge of boom in income from yr to 12 months. The better this index, the better. The debt to fairness ratio suggests how properly the owner's equity can cowl its duties to lenders. The following applies to creditors (banks): the smaller the ratio, the higher, because the enterprise's hazard of default is decrease. For agencies, however, the better the ratio, the better. Income can measure asset turnover represented by means of the ratio. A very good ratio is a higher ratio. Which means that belongings can be turned around extra quickly to generate earnings and property may be used more efficiently to generate earnings [1]. How organizations can keep their financial role within the context of monetary and corporate boom. Income increase is calculated through subtracting modern sales from sales within the preceding duration and dividing by using income in the previous length. Sales boom is an indicator of a corporation's competitiveness and call for. High income

boom will increase the organisation's sales. The leverage ratio or solvency ratio is a key parent for the amount of belongings financed by using debt.

One indicator of this ratio is the agency's solvency. A high leverage ratio approach the risk of a large loss, but also the possibility to make a massive earnings and vice versa, so the debt to fairness ratio is a debt to equity valuation. The level of interest is a degree of the effectiveness of the usage of organization assets. The cause of this analysis is management's ability to utilize and optimize belongings. In research, the activity charge explains how effective using the corporation's property is. The cause of this metric is control's potential to optimize the business enterprise's assets. The debt to fairness ratio suggests how properly the owner's equity can cowl its duties to lenders. The following applies to creditors (banks): the smaller the ratio, the higher, because the enterprise's hazard of default is decrease. For agencies, however, the better the ratio, the better. Income can measure asset turnover represented by means of the ratio. A very good

ratio is a higher ratio. Which means that belongings can be turned around extra quickly to generate earnings and property may be used more efficiently to generate earnings [2].

While income numbers boom extra than earlier than, this will increase the fee of the agency, this means that that the sales increase is positive. And while earnings is constantly poor and keeps taking place, that shows negative sales growth. This indicates that the corporation is in trouble. The business enterprise needs to discover a manner to restoration it without delay to keep its mrr and year-over-yr boom shares from falling in addition. If this problem isn't addressed immediately, the agency will no longer be feasible and will face financial ruin [3]. This ratio shows the sales and profits generated by the company by using the effectiveness of all assets [4]. Tato is a metric that measures the turnover price of a enterprise's total property by dividing the turnover price by way of total assets. For the ones concerned inside the agency, the entire asset turnover ratio is a control evaluation material in asset control. The amount of the turnover of the operating capital serves as fabric [5].

The survey records indicates that the three most important sectors that saw income decrease due to the effect of the pandemic, lodging and meals and beverage region with ninety two.47%, different services with 90.90% and transport and storage area with ninety.34% are.. Economic instability due to the pandemic has caused many industries to experience economic difficulties. In nearly all cases, the business enterprise saw income fall, indicating economic distress. The financial scenario of the company, that is often not able to repay debts or maybe pay employees' salaries, makes it clean that the corporation is in monetary distress. Therefore, businesses want to hold a cash stability with a view to be able to meet their quick-term duties [6]. The business enterprise's ability to generate profits is tormented by many elements, both inner and external. Earnings is the maximum essential key to the success of a organisation. A organization that continually makes massive income method the organisation is in top form. The decline in corporate price range may be used as a hallmark that organizations are in monetary hassle. This is the start of a agency's liquidity. Hard corporations meet best 3 criteria, specifically bad ebitda hobby coverage, negative ebit and poor internet income. Monetary decline is the initial segment of monetary misery before financial ruin occurs [7].

Monetary distress does no longer suggest financial ruin, however economic distress is a sign that wishes to be cautiously calculated and managed to avoid financial disaster. Early detection of economic distress offers benefits to the agency as it could perceive the great steps to avoid conditions that can cause financial disaster. Monetary misery evaluation is beneficial now not simplest for each internal parties but also for external parties by way of giving signals to traders or lenders about the modern situation in the organisation. Monetary misery may be predicted using many analytical techniques, such as zmijewski's x-rating version concept. According to analyze zmijewski's x-rating model has a high accuracy rate of fifty five.39% in comparison to different

models [8].

Zmijewski's x-score model also indicates a excessive diploma of accuracy. In his studies, he claims that the x-rating model has a ninety nine% accuracy charge in measuring economic misery [9].

### **1.1. Statement of the Problem**

Based at the phenomena and variations within the above studies, there are four additives of profitability that affect financial problem. The author is interested by using economic metrics and profitability as current research on economic distress. The contribution of this research is the potential to pick out signs and symptoms of financial distress in a monetary misery prediction model, that may then be used by buyers in determining their investment and provide groups with the capacity to assess every man or woman financial performance.

### **1.2. Objectives of the Study**

The general objective of this study was to the determine Relationship and Influence Four Components on Financial Distress in Non-Financial Sector Companies Listed on the IDX Period 2020 – 2022.

The Specific Objectives of the Study:

- a. To examine sales growth on financial distress.
- b. To determine debt to equity ratio on financial distress.
- c. To examine cash ratio on financial distress.
- d. To determine total asset turnover on financial distress.

### **1.3. The Research Hypotheses**

The research hypotheses of the study were:

- a. H0: There is no relationship and influence sales growth with financial distress.
- b. H0: There is no relationship and influence debt to equity ratio with financial distress.
- c. H0: There is no relationship and influence cash ratio with financial distress.
- d. H0: There is no relationship and influence total asset turnover with financial distress.

## **2. Theory**

### **2.1. Bankruptcy Theory**

There are many variables that can be used to behavior an insolvency analysis: – financial metrics, namely liquidity metrics, leverage metrics, hobby metrics, profitability metrics, marketplace metrics. – macroeconomic metrics that may be used encompass efficiency, bi charge, inflation and cash deliver, trade price, political chance. – corporate governance that may be used consists of commissioners, independents, administrators, gender range, ownership attention. – other unique metrics, namely business enterprise size, corporation age, industry, market proportion, marketplace awareness, geographic location diversification [10]. By wearing out an insolvency evaluation, the enterprise control can discover

drawing close insolvency at an early stage and for that reason take preventive measures. A organization's financial disaster information can benefit lenders, buyers, the authorities and auditors.

## 2.2. Financial Distress

Economic hardship is a herbal selection that a business enterprise can dispose of if it can't be controlled, leaving the enterprise in default and financial ruin. But, if managed nicely, a organization's monetary distress may be an alarm sign. Corporations which have evidence of monetary distress may be recognized via searching at the monetary effects included in the employer's economic statements. One of the signs of the corporation's financial distress for three consecutive years is bad ebit, leaving the organization not able to fulfill both liquidity and solvency responsibilities [11]. Two elements cause financial difficulties, namely (a) intra-organization financial problems because of the corporation, each in terms of human assets, merchandise, costs, technology, advertising and sales. (b) external businesses: factors originating from external organizations that cause financial problems are sociocultural, macroeconomic situations, technology, prison and herbal disasters.

## 3. Research Methodology

### 3.1. Research Design and Population of the Study

On this study, investigations into the relationship and impact of causality had been done with the goal of identifying a causal dating among the unbiased and established variables. The facts used is quantitative records, namely economic statistics at the non-economic region listed on the indonesian inventory alternate in 2020-2022. Secondary statistics is used because the statistics source for this studies, the population used in this take a look at includes non-financial agencies 2020-2022 listed in the idx. The studies sample used have to meet the subsequent standards: 1. Non-financial organizations listed in idx2. The business enterprise recorded negative ebit for 3 consecutive years from 2020 to 2022.

### 3.2. Sample of the Study

A sample of 40 agencies changed into acquired from the results of the targeted sample. So, for three years, the quantity of facts used within the have a look at became a

hundred and twenty statistics. The unit of analysis processed in this have a look at is the enterprise's 2020 and 2022 financial reviews for the non-monetary quarter, listed at the idx. This studies makes use of a couple of regression analysis techniques and time collection records.

### 3.3. Research Model

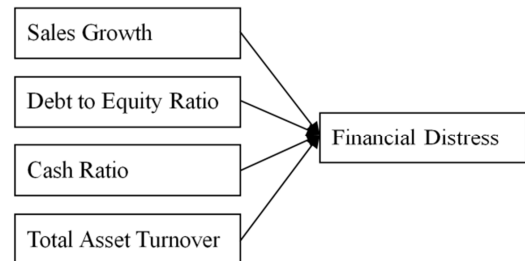


Figure 1. Four Components On Financial Distress.

### 3.4. Data Collection Instrument

#### 3.4.1. Primary Data

Data collection tools used are questionnaires. The data for the study was collected from two sources: Primary and Secondary data. Primary Data was obtained using questionnaire which consisted of both closed and open-ended questions.

#### 3.4.2. Secondary Data

Data from earlier research, books, newsletters, journals, and other written sources in the finance sector were gathered. The respondents were surveyed using this method to gather qualitative data. A 5-point Likert scale was used in the current study's questionnaire. To measure responses to questionnaire items, this scale was employed. The predictor and prediction variables were therefore each given a 5-point Likert scale.

## 4. Findings and Discussions

### 4.1. Findings

#### 4.1.1. Reliability Test

Dimensions of this research is the result of development and elaboration in a literature review of four variables studied are sales growth, debt to equity ratio, cash ratio, total asset turnover and financial distress. The research instrument is said has a good level of reliability when Cronbach's alpha value > 0.70.

Table 1. Five Variable Reliability Test.

Variable	Cronbach's Alpha	Sign	Reference Value	Decision
Financial Distress	0,865	>	0.7	Reliable, strong
Sales Growth	0,903	>	0.7	Reliable, strong
Debt to Equity Ratio	0,852	>	0.7	Reliable, strong
Cash Ratio	0,872	>	0.7	Reliable, strong
Total Asset Turnover	0,883	>	0.7	Reliable, strong

Source: Data processed, August 2023

#### 4.1.2. Normality Test

The normality test is carried out by looking at the points spread around the line and following the diagonal line, so the residuals in the model are normally distributed. So it can be concluded that the distribution of residual data for variables Y, variables X1 and X2, X3 and X4 has a normal distribution as shown in figure 2 below:

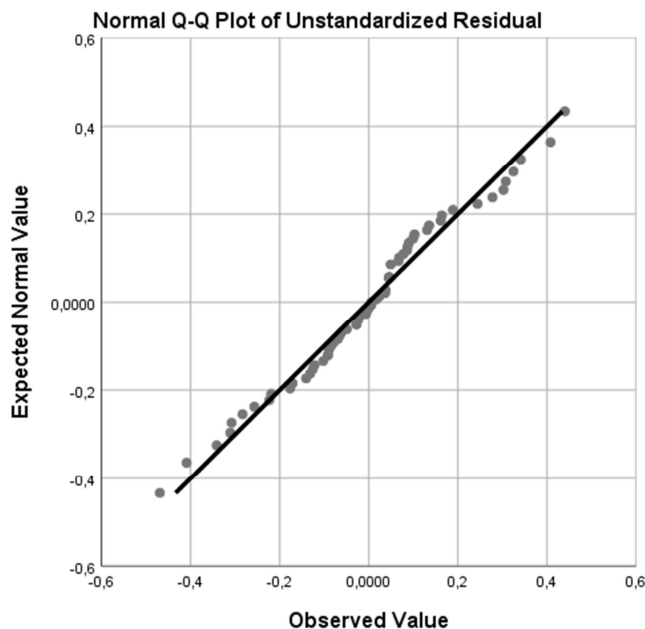


Figure 2. Five Variable Normal Q-Q Plot Test.

#### 4.1.3. Multicollinearity Test

Multicollinearity checks, tolerance values and variance inflation factor (VIF) can be seen. If the VIF value is more than 10 or the tolerance value is less than 0.10, then the regression model does not have a close relationship between the independent variables [12], shown in table 2.

Table 2. Multicollinearity Test.

Variabel	VIF	Tolerance
salesgrowth	1.48	0.68
der	7.37	0.15
cashratio	1.88	0.69
tato	1.37	0.75

Source: Data processed, August 2023

#### 4.1.4. T Statistics Test

Partial test proves how big influence of the independent variable is with the dependent variable as shown in table 3 below:

Table 3. T Statistic Test.

Model	t	Sig.
1 (Constant)	3.039	.005
1 Sales Growth	-2.169	.138
1 Debt to Equity Ratio	-6.153	.123
1 Cash Ratio	-2.179	.137
1 Total Asset Turnover	-6.173	.149

Source: Data processed, August 2023

Primarily based at the spss output results in desk 4, the sig value of the income boom variable to the monetary complication variable is 0.138, the debt to equity ratio is 0.123, the cash ratio is 0.137, and the overall asset turnover is 0.149, that is greater is than 0.05. From this it can be concluded that there's no dating and no impact between the 4 impartial variables and the established variable.

#### 4.1.5. Pearson Correlation Test

Partial test proves how big the relationship of the independent variable is with the dependent variable correlation value is above 0.5 - 0.75, it is said to be strong and above 0.75 - 0.99, it is said to be very strong, shown in table 4 below:

Table 4. Pearson Correlation Test.

		Correlations				
		Sales Growth	Debt to Equity Ratio	Cash Ratio	Total Asset Turnover	Financial Distress
Sales Growth	Pearson Correlation	1	,201**	,230**	,222**	,203**
	Sig. (2-tailed)		,000	,000	,000	,000
	N	120	120	120	120	120
Debt to Equity Rasio	Pearson Correlation	,201**	1	1	1	,201**
	Sig. (2-tailed)	,000				,000
	N	120	120	120	120	120
Cash Ratio	Pearson Correlation	,230**	1	1	1	,230
	Sig. (2-tailed)	,000				,000
	N	120	120	120	120	120
Total Asset Turnover	Pearson Correlation	,222**	1	1	1	,222
	Sig. (2-tailed)	,000				,000
	N	120	120	120	120	120
Financial Distress	Pearson Correlation	,203**	,201**	,230	,222	,203
	Sig. (2-tailed)	,000	,000	,000	,000	,000
	N	120	120	120	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on the SPSS output results, the Pearson Correlation value of sales growth variable to financial distress variable is 0.203, debt to equity ratios 0.201, cash ratio is 0.230 and

total asset turnover is 0.222 which is least than 0.5. Therefore it can be concluded that the relationship between the four independent variables is a very weak correlation with the

dependent variable.

## 4.2. Discussion

### 4.2.1. Sales Growth on Financial Distress

While examined for the primary time, the effects prove that sales increase has no effect or is unrelated to economic worry, so higher income do not usually have a high-quality impact on the enterprise's monetary situation, together with rising raw cloth charges at some stage in an endemic this can cause a loss of profits, which have an effect on the solvency of the company and can cause liquidity troubles [13]. But, the agency still suffers from liquidity problems when customers can't pay their payments on time. Due to those factors, growing income in the course of the pandemic is no assure that the business enterprise will avoid economic difficulties. This studies contradicts the concept [14].

### 4.2.2. Debt to Equity Ratio on Financial Distress

Inside the second check, the consequences show that there's no have an effect on and no association among monetary complication. In this kind of turbulent economic system, there are various reasons of economic misery: the nation affords monetary help to organizations to conquer economic problems. This guide can help high der agencies live on. Debt payoff time to assist suffering agencies. As such, der isn't always always the most effective measure of a business enterprise's economic disaster danger for the duration of a pandemic. This result contradicts the result of [15-20].

### 4.2.3. Cash Ratio on Financial Distress

Within the 0.33 check, the consequences show that there's no have an effect on and no connection among the liquidity ratio and economic distress. Although the liquidity ratio is an important aspect in a company's potential to repay quick-time period debt, there are numerous other elements which could purpose organizations to experience financial problems, along with: b. Decrease sales, market uncertainty and adjustments in consumer conduct. The psbb regulations carried out via the authorities have ended in large losses in all areas of the organization, with diverse corporations experiencing chaos in manufacturing, reduced corporate productivity or even bankruptcy [21]. Even if agencies have a excessive liquidity ratio, that is no assure that they'll be covered from economic difficulties. This examine isn't the same as studies [22, 23].

### 4.2.4. Total Asset Turnover on Financial Distress

The outcomes of the fourth take a look at show that tato has no impact and has nothing to do with economic complication. The high total asset turnover price can boom economic misery. Many sectors suffering from the pandemic, including hospitality and tourism, have skilled a extensive impact due to tour restrictions and reduced call for. If the company is highly depending on property on this quarter, which include actual estate or motors, the employer's overall turnover ratio may be negatively affected. So if sales are declining sharply, but the agency's average turnover ratio is high, there may be a threat that this ratio will be negatively

impacted. Beneath those conditions, the corporation is susceptible to financial problems. This have a look at differs from the examine [24, 25].

## 5. Conclusion

Based on the results obtained, it was concluded that partially sales growth and debt to equity ratio have no relationship and effect with financial distress, cash ratio and total asset turnover have no relationship and effect with financial distress. Therefore, in order to alleviate financial distress, management must increase revenue growth and debt to equity ratio, as well as higher total asset turnover and cash ratio.

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