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The Effect of *Profitability*, Company Size and *Sales Growth* on *Financial Distress* in Indonesia

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ABSTRACT

This study aims to determine the direct effect of profitability, company size, sales growth on financial distress. This type of research is quantitative with a sample used as many as 235 companies from a population of 84 food and beverage subsector companies listed on the IDX in 2018-2022. This study uses secondary data published by the Indonesia Stock Exchange. Data analysis was carried out with a quantitative approach using the SmartPLS version 3.0 model The results of this study indicate that: Profitability has a positive and insignificant effect on financial distress, profitability affects firm value, company size has no effect on financial distress, company size has no effect on firm value, sales growth has no effect on financial distress, sales growth has no effect on firm value, company value affects financial distress.

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INTRODUCTION

Companies - companies incorporated in the IDX are go public companies that come from various sectors. One of the sectors on the IDX that has a fairly broad scope and many companies are incorporated in it is the food and beverage sector, known as food and beverage.

The food and beverage sector is a very important and leading sector in actively contributing to the growth of the country's economy and to sustain human life. (Syalomytha & Natalia, 2023)..

Based on data from the IDX, the food and beverage sector in the period 2018 - 2022, experienced a fluctuating decline in profits and even tended to experience losses, this can be seen in table 1:

Table 1
Data on Decrease in Profit at Food and Beverage Companies on the Indonesia Stock Exchange for the Period 2018 - 2022

Stock Code	Company Name	Years	Profit (Rp)	%
ALTO	PT.TRI BANYAN TIRTA TBK.	2018	Rp - 33.021.220.862	
		2019	Rp -7.383.289.239	-0,77641
		2020	Rp - 10.506.939.189	0,42307
		2021	Rp - 8.932.197.718	-0,14988
		2022	Rp -16.129.026.748	0,80572
JAWA	PT. JAYA AGRA WATTLE TBK.	2018	Rp - 300.146.994.752	
		2019	Rp - 282.699.235.423	-0,05813
		2020	Rp - 307.643.236.060	0,08824
		2021	Rp - 178.278.611.469	-0,42050
		2022	Rp - 301.812.696.692	0,69293
PSDN	PT. PRASIDHA ANEKA NIAGA TBK.	2018	Rp - 46.599.426.588	
		2019	Rp - 25.762.573.884	-0,44715
		2020	Rp - 52.304.824.027	1,03026
		2021	Rp - 81.182.064.990	0,55210
		2022	Rp - 25.834.965.122	-0,68177

Sumber : www.idx.co.id

The Covid - 19 pandemic phenomenon that suppresses the company's financial performance allows *financial distress* to occur. Financial distress can affect various types of companies, including large or small companies, because the causes can come from internal or external companies. Companies facing financial difficulties or in financial distress are at risk of delisting from the Indonesia Stock Exchange (IDX). Delisting is often the first sign that a company will face bankruptcy.

Financial distress is the financial condition of a company in an unhealthy state.This happens because of the losses experienced by the company from time to time. (Nafisah et al., 2023).

According to (Simanjuntak et al., 2017)Financial distress can be defined as a condition in which a company is experiencing financial difficulties, characterised by adecrease in profits and an inability to pay off obligations. (Oktaviani & Lisiantara, 2022), suggests that profitability is a ratio used to measure the company's ability to earn profits or profits over a certain period of time.

The higher the profitability, the company is considered capable of generating highprofits and showing better company performance, so the possibility of the company experiencing financial distress is smaller. Conversely, the lower the profitability ratio

indicates poor financial performance where the company is unable to optimise its assets to generate profits so that profitability decreases.

The results of research conducted by (Arifin, 2024), (Apriliake et al., 2024),(Megasanti & Riwayati, 2023), stating that profitability has an influence on financial distress. In contrast to research conducted by (Maretha Rissi & Amelia Herman, 2021), (Rahma, 2020), stating that profitability has no effect on financial distress conditions, meaning that the size or size of the company's profit value has no influence on the company so that it avoids financial distress conditions.

Company size can describe the company's financial condition, because company size shows the amount of assets owned by the company. Companies that have a large amount of total assets are less likely to experience financial distress, because the company is able to diversify its business.

The results of research conducted by (Fikri & Indrabudiman, 2024), (Jenitia et al.,2024) and (Syuhada et al., 2020), states that company size has a negative and significant effect on financial distress., states that company size has a negative and significant effect on financial distress. In contrast to the results of research conducted by (Dirman, 2020) and (Wangsih et al., 2021), saying that company size has an effect on financial distress.

Sales growth plays an important role in the company because the company is able to estimate the amount of profit that will be obtained and find out how much sales growth the company gets from year to year.

The achievement of a high sales growth rate indicates the company's ability to maintain its operational sustainability along with the increase in profits achieved by the company. Companies that are able to record positive sales growth indicate a healthy financial condition. However, if the sales process does not experience good development or is stagnant for a long period of time, the company has the potential to face financial difficulties. (Nathania, 2022).

Research conducted by (Bangun & Usman, 2024) and (Juhaeriah, et.al., 2021)state that sales growth affects financial distress. This is different from research conducted by (Ohandi & Puspitasari, 2024), (Candrayani et al., 2024) states that sales growth has no effect on financial distress.

METHODOLOGY

Population and Sample

According to Sugiyono (2022), population is a generalisation area consisting of objects / subjects that have certain qualities and characteristics that are applied by researchers to study and then draw conclusions. In conducting research, in general, population restrictions are carried out with the aim that the research population is homogeneous so as to minimise the level of difficulty faced in research. The sample selection in this study used purposive sampling method, namely sampling based on certain considerations where the conditions made as criteria that must be met by the sample, with the aim of obtaining a representative sample in accordance with the research objectives.

This study is 84 manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2022. The number of samples is 47 companies with the criteria of having complete financial reports for 5 years from 2018 - 2022.

Types and Sources of Research Data

The method used in this research is quantitative method. Research identifies facts or events as variables that are influenced and investigates the variables that influence. The type of data used in this study is secondary data in the form of time series, namely data obtained by researchers indirectly through information obtained from the official website of the Indonesia Stock Exchange at www.idx.co.id.

Operational Definition of Variables

This study involves one dependent variable, namely Financial Distress and independent variables, namely *Profitability*, Company Size and *Sales Growth*.

1. Financial Distress

According to (Akmalia, 2020)Financial distress is a condition that occurs when the company's operating results experience difficulties and experience financial inability to pay off the company's debt. The Altman Z-Score model is used in this study to measure the likelihood of a financial crisis, with an accuracy rate of **75%:**

Z-score = Z = 6.56 X1 + 3.26 X2 + 6.72 X3 + 1.05X4

X1 = (Current assets - Current liabilities) : Total assets
X2 = Retained earnings: Total assets
X3 = Interest income before tax *:* Total assets
X4 = Equity : Liabilities

The results of calculations using the Z-Score formula will produce scores that differ from one company to another. The score must be compared with the following assessment standards to assess the company's survival:

Z > 2,60 : Safe Zone (non distress)
1,11 < Z < 2,60 : Grey area
Z < 1,23 : Dangerous Zone (distress)

2. *Profitability*

Profitability is the ability of a company to create profits in a certain period of time with the aim of increasing revenue (Kasmir, 2019).

This study uses the return on assets (ROA) ratio which measures the company's efficiency in managing its assets to generate profits within a certain period of time.

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

3. Company Size

The size of a company can be seen from the total amount of assets it has, which reflects the scale or dimensions of the company. (Ferdiansyah, 2024).

Company size = Ln (Total Assets)

4. *Sales Growth*

Sales growth is an estimate of the increase in sales in the current year compared to the previous year. A high sales growth value indicates that the company is in good condition. The company can avoid financial crisis by increasing sales profit. The difference between the level of sales volume at the end of the period and the end of the previous year's period is used to calculate sales growth. (Wanda et al., 2024).

Sales growth can be calculated using the formula:

$$\text{Sales growth} = \frac{\text{(Sales this year - Sales last year)}}{\text{Last Year's Sales}}$$

Data Analysis Techniques

This research will be tested using partial regression analysis (PLS or Part Least Square). SmartPLS 3.0 software.

Ghozali and Hengky (2015), suggest that PLS is an analytical technique that is soft modelling because it does not collect data on a certain scale, which means that the number of samples can be smaller than 100. The research instrument test design is descriptive statistics**,** measurement model valuation - outer model (convergent validity, discriminant validity and composite reliability), structural model evaluation - inner model**.**

According to Abdillah and Hartono (2015), one of the SEM (Structural Equation Modeling) methods, Partial Least Square (PLS) analysis is designed to solve multiple regression in cases such as missing *values*, small sample sizes and multicollinearity.

Hypothesis Testing

Hypothesis testing is done by assessing the significance value to determine the influence between variables.

RESULTS AND DISCUSSION

Data Analysis

Descriptive Statistical Analysis

Tabel 2
Descriptive Statistical Analysis

Variabel	N	Minimum	Maksimum	Mean	Std. Deviasi
X1	235	-599.025	607.168	40.534	112.729
X2	235	2.808	328.264	267.462	74.963
X3	235	-8.509	105.712	2.089	9.834
Y	235	-7.808.602.051	9.538.239.165	2.264.671.331	2.942.201.307

Sumber : Output Smart PLS (2024)

The descriptive statistical analysis in table 2 above illustrates that the amount of data used in this study is 235 so that it can be explained that the results of the independent variable X1 produce a minimum value of -559.025, and a maximum value of 607.168, with an average of 40.534 and has a standard deviation of 112.729. The descriptive statistical results for the independent variable X2 produce a minimum value of 2,808, and a maximum value of 328,264, with an average of 267,462 and has a standard deviation of 74,963. The independent variable X3 produces a minimum value of -8,550, and a maximum value of 105,712, with an average of 2,089 and has a standard deviation of 9,834. Meanwhile, the dependent variable X5 produces a minimum value of 1 and a maximum value of 118,778, with an average of 16,225 and has a standard deviation of 14,097.

Measurement Model Evaluation Test Results - Outer Model

1. Convergent Validity Test Results

Convergent Validity relates to the idea that construct measures (manifest variables) should be highly correlated. With the SmartPLS 3.0 M3 programme, the Loading factor value for each construct indicator can be used to assess the Convergent Validity of reflexive indicators. The rule of thumb that is usually used to assess Convergent Validity is that the loading factor value must be more than 0.7 for confirmatory research and a loading factor value of 0.6-0.7 for exploratory research is still acceptable and the average variance extraced (AVE) value must be greater than 0.5. The following table shows the results of the convergent validity test, as follows:

Table 3
Output Results of Convergent Validity Test

Variabel	Outer Loading	Reliabilitas Komposit	(AVE)
Profitabilitas	**1,000**	**1,000**	**1,000**
company size	**1,000**	**1,000**	**1,000**
Sales growth	**1,000**	**1,000**	**1,000**
financial Distress	**1,000**	**1,000**	**1,000**

Source: Processed Data (2024)

The *outer loading* value, *Composite Reliability*, is 1,000> from 0.7. While the *Average Variance Extracted* (AVE) shows> from 0.5. Shows the results of the convergent validity test of all variables that all these criteria are valid and fulfilled.

2. **Discriminant Validity Test Results**

Discriminant Validity relates to the idea that there is no significant correlation between the measures (manifest variables) of different constructs. One method for assessing Discriminant Validity with reflexive indicators is to compare the square root of the AVE for each construct with the correlation value between constructs in the model. The square root of the AVE for each construct indicates that discriminant validity is good (Ghozali and Hengky, 2015).

The recommended AVE value should be greater than 0.5, which means that half of the indicator differences can be explained. The results of the discriminant validity test are shown in the following table:

Table 4
Discriminant Validity Test Output Results

Variabel	Profitabilitas	company size	Sales growth	financial Distress
X1	**1,000**	0,088	0,083	0,314
X2	0,088	**1,000**	0,043	0,081
X3	0,083	0,043	**1,000**	-0,023
Y	0,314	0,081	-0,023	**1,000**

Source: Processed Data (2024)

3. Composite reliability results

After the validity test, a model reliability test was also conducted. The reliability test is carried out to prove that the instrument measures the construct precisely, accurately, and consistently. Construct reliability is tested with reflexive indicators with Composite Reliability. To measure construct reliability, the Rule of Thumb is commonly used. The Composite Reliability value must be more than 0.7 for an indicative assessment, and a value of 0.6-0.7 is still acceptable for exploratory research. The output results of the reliability testing:

Table 5

Variabel	Cronbach's Alpha	*Composite Reliability*
Profitabilitas	**1,000**	**1,000**
company size	**1,000**	**1,000**
Sales growth	**1,000**	**1,000**
financial Distress	**1,000**	**1,000**

Reliability Test Output Results

Source: Processed Data (2024)

The table above shows that all constructs (variables) are reliable. This is indicated by the magnitude of the composite reliability value and Cronbach's alpha value, each of which is more than 0.7.

Hypothesis Test Results

By looking at the T-statistic and P-value, this research tests the hypothesis. If the P-value is smaller than 0.05, the hypothesis is accepted (Yamin & Kurniawan, 2011: 54). If the t-statistic value is greater than the t-table (alpha 5% = 1.96), the hypothesis is accepted. The following are the results of hypothesis testing in this study:

Table 6
Path Coefficients Test Results

Variabel	Original Sample (O)	T Statistik	P Values	Conclution
Profitabilitas -> Financial Distress	0,278	4,206	**0,000**	**Influential**
company size -> Financial Distress	0,060	1,078	**0,282**	**no effect**
Sales Growth -> Financial Distress	-0,046	1,078	**0,282**	**no effect**

Source: Processed Data (2024

R-Square Value Test Results

The R-Square value of each latent variable can be used to measure the predictive power of the structural PLS model. Changes in the R-Square value can be used to determine whether exogenous latent variables have a substantive effect on endogenous latent variables. The R-Square value indicates that the prediction model in the proposed research is better as its quality increases. However, the R-Square value cannot be used as

an absolute standard to evaluate the accuracy of the prediction model. This is due to the fact that to explain the quality relationship of a model, the basic parameters of the theoretical relationship are the most difficult to explain Abdillah and Hartono (2015).

Table 7
*R-Square*Test Results

Variabel	R Square	Standar	conclution
financial Distress	0,136	> 0	Prediktive Relevance

Source: Processed Data (2024)

The table above states that the *R-Square financial distress of* 0.136 indicates that 13.6% of changes / variations in the value of *financial distress* can be explained by the independent variables in the model.

DISCUSSION

Effect of Profitability on Financial Distress

The results showed that profitability has a positive effect on financial distress. When a company generates high profits, it shows that the company is successful in managing its business. High profits will attract investors to invest, which in turn will protect the company from financial crisis. However, it does not always guarantee that the company will be free from financial distress. Some companies generate high profits but are unable to control the funds needed to run the business and cover costs, as a result, the company will experience financial distress.

An increase in ROA does not indicate that the company avoids financial distress. It is said so because the company can see from the revenue and the amount of costs incurred. Increasing costs and decreasing revenue from year to year can result in an increasing amount of net loss from year to year, so that the company can experience financial distress. (Dirman, 2020).

Therefore, although profitability generally helps reduce the risk of financial distress, in certain situations, high profitability can contribute to financial distress if not managed carefully.

The results of this study agree with research conducted by (Arifin, 2024), (Hidayat et al., 2024) and (Sihombing & Angela, 2024)which states that profitability has a positive effect on financial distress. However, this research contradicts the research conducted by (Alfiah, 2024), (Septiani, 2024), (Oktaviani & Lisiantara, 2022), states that profitability has a significant negative impact on financial distress. Negative company profitability explains that the company is experiencing losses and if the company's profitability decreases, it is likely that the company will experience financial difficulties.

Effect of Company Size on Financial Distress

The results showed that company size has no effect on financial distress. The higher the value of company size, the lower the possibility of the company experiencing financial distress, and vice versa, the lower the value of company size, the greater the possibility of the company experiencing financial distress. Large companies tend to have more stable conditions.

The results of this study are in line with research conducted by (Ferdiansyah,

2024), (Kristianti & Khairudin, 2024) and (Setyowati & Sari Nanda, 2019), stating that company size has a negative effect on financial distress. In contrast to the results of research conducted by (Dirman, 2020) and (Wangsih et al., 2021), saying that company size has an effect on financial distress. Another case with research conducted by (Sari, et, al., 2022), states that company size has an insignificant positive effect on financial distress.

Effect of *Sales Growth* on Financial Distress

Sales growth in this study has no effect on *financial distress*. Sales growth that has decreased in a certain period does not affect the onset of *financial distress* because the decline in sales does not necessarily last continuously and can have the possibility to experience an increase in sales in a certain period so that if this increase can be maintained then *financial distress* can be minimised and the company will get profit from the increase in sales, but if the opposite happens then *financial distress* is likely to occur.

This research is in line with the results of research conducted by (Arifin, 2024), (Wanda et al., 2024) and (Nathania, 2022). The results of this study are not in line with research conducted by (Bangun & Usman, 2024), (Juhaeriah, et.al., 2021) said that *sales growth* affects *financial distress*.

CONCLUSION

Profitability (ROA) has a positive effect on financial distress. This shows that an increase in profitability indicates the condition of the company is very small to experience financial distress. The high value of ROA in the company indicates that the company can generate maximum profit and has sufficient funds to cover all expenses incurred by the company, otherwise the possibility of financial distress. Company size (SIZE) does not affect financial distress. This indicates that larger companies will have lower financial risk. Sales Growth does not affect financial distress. this means that the reason is, the decline in sales does not necessarily continue permanently, and sales may increase over time.

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