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FACTORS AFFECTING FINANCIAL DISTRESS IN FINANCIAL SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2019-2023

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Abstract

This study aims to examine the effect of firm growth, operating cash flow, profitability, and firm size on financial distress in financial sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The research employs a quantitative method with a sample of 93 companies selected through purposive sampling from a total population of 105 companies. Data were obtained from financial statements and analyzed using panel data regression with EViews 13. The findings reveal that firm growth and profitability have a significant negative effect on financial distress, while operating cash flow shows no significant effect. In contrast, firm size has a significant positive effect on financial distress. This study is expected to serve as a reference for management in financial sector companies to consider these indicators as benchmarks in assessing the potential risk of financial distress.

Keywords: ***company growth, operating cash flow, profitability, firm size, financial distress.***

INTRODUCTION

Good company performance increases the company's value so that it can attract many investors and the company's share price has the potential to increase (Rahmananda et al., 2019). Financial performance can be used as an indicator to see the success of a company. Because financial performance helps management make decisions, it shows investors and customers that the company has good credibility (Lailatus Sa'adah et al., 2024). Although good financial performance can add value to the company and attract a lot of interest from new investors, this does not guarantee that the company can be free from the risk of financial distress (financial difficulties). While the company's financial performance is already showing signs of decline, such as declining cash flow and depressed profitability, it is a sign that the company is facing a very serious challenge in meeting its financial obligations.

Throughout 2024, there will be 60 companies that have laid off their employment as a result of companies that are unable to survive due to the weakening of the global economy, business competition, and the rapid development of digitalization. This resulted in 80 thousand workers being affected by layoffs from the incident (Tempo.co, 2024). There are several companies that have experienced financial challenges over the past 5 years. One example of financial distress in the financial sector occurred at PT. Bank Nusantara Parahyangan Tbk (BBNP) which conducted a voluntary delisting in 2019. This issuer decided to exit the IDX as a result of the merger process with PT. Bank Danamon Tbk and Mitsubishi UFJ Financial Group as the new controllers. Despite the voluntary delisting, this decision shows that financial sector companies remain vulnerable to financial risks. Another example occurred in PT. Bank Pan Indonesia Tbk (Panin Bank), which in mid-2025 experienced a delay in the sale of the majority of shares due to price mismatches between large shareholders and potential foreign investors, resulting in vacuum transactions and causing market uncertainty. Financial distress can be caused by several factors such as company growth, operating cash flow, profitability, and company size.

The company's growth describes its ability to expand business activities, increase production capacity, and expand market reach over time. The growth reflects the company's success in managing its resources, strategies, and operations to achieve long-term goals (Modal et al., 2022). The second factor that causes financial distress is operational cash flow. Cash flow from operating activities shows the company's ability to repay loans, maintain operations, pay dividends, and make new investments without relying on external funding. Therefore, cash flow of

operating activities can provide investors with an overview of the company's condition (Fiqih, 2021). A study of manufacturing companies and state-owned enterprises in Indonesia found that operating cash flow has a significant effect on financial distress. The larger the operating cash flow, the less likely a company is to experience financial distress (Assagaf et al., 2021). The third factor that is suspected of causing financial distress is profitability. The profitability ratio reflects the company's ability to generate profits through the optimization of its resources, such as sales, cash, capital, and labor (L. D. Sembiring, 2021). This ratio can be used to compare the elements in the financial statements, especially the position and profit statements.

The last factor that is suspected to affect financial distress is the size of the company. Firm size is a scale that describes the size of revenue, total assets, and capital owned by the company (Safitri & Kurnia, 2021). The size of the company also affects the strategy, financial performance, and ability to adapt to market changes. Large-scale companies are generally able to take advantage of economies of scale to reduce cost per unit and increase profit margins. Based on the description of the problem above, the researcher is interested in conducting further research with the title "Factors that affect financial distress in financial sector companies listed on the Indonesia Stock Exchange for the 2019-2023 period".

LITERATURE REVIEW

Signalling Theory

Signalling Theory was first proposed by Michael Spence in 1973 which explains the owner of information giving signals or signals in the form of information that explains the condition of a company that is beneficial to the receiver of the signal (investor). Signal theory provides an explanation of why the company is able to convey information related to financial statements to parties outside the company (external parties). Compared to external parties such as investors, creditors, underwriters, and other users of information, the company or the company's management has more information about the company's operations and future prospects. Therefore, in order to address this problem and reduce information asymmetry, the company can provide signals to outsiders through its financial statements, which contain trustworthy and trustworthy financial information that will provide certainty about the prospects for the company's viability. . In accounting, this theory is used to explain the symmetry of information and the importance of information for stakeholders, as well as to handle issues such as Corporate Social Responsibility (CSR), Debt To equity Ratio (DER), and Dividend payout Ratio (DPR), company value, tax avoidance, stock market reaction, profitability and company size, predicted bond ratings, stock returns, financial performance and audi delays (Nur et al., 2024).

Financial distress

Financial distress is a condition of a company's financial health that declines gradually before bankruptcy or liquidation. This happens due to internal and external factors of the company and can occur simultaneously or separately. The global economic crisis is one example of a situation that is far from corporate control. Internal factors of a company can include poor management systems, unplanned expansions, financing of debts, contracts that tend to be detrimental, and fierce competition between companies (Muhammad Reza Fahlevi & Aan Marlinah, 2019). If companies conduct an in-depth analysis of their financial ratios, which shows their financial condition, they can avoid financial problems. It can be used by managers to consider company policies or decision-making (Height & Economics, 2021).

Company Growth

The company's growth describes the company's ability to expand its business activities, increase production capacity, and expand its market reach from year to year.According to Hasanah (2022), company growth can be measured using the following formula:

$$\mathbf{PP} = \frac{\mathbf{TOTAL\ ASET\ (t) - TOTAL\ ASET\ (t-1)}}{\mathbf{TOTAL\ ASET\ (t-1)}}$$

Operating Cash Flow

Cash flow from operating activities indicates whether a business can generate money to pay off loans, maintain operating capabilities, and pay dividends, and make new investments without relying on outside funding. As a result, cash flow of operating activities can show investors about the condition of the company (Fiqih, 2021). Operating cash flow can be measured using the following formula:

$$\textbf{AKO} = \frac{\text{Jumlah arus kas operasi}}{\text{Kewajiban lancar}}$$

Profitability

The ability of a company to generate profits in a certain period of time is called profitability. If a company can generate high profits, then the company is considered successful in running its business. Companies that generate lower profits as compared to companies that generate lower profits are high, companies can avoid financial problems. On the other hand, if the company cannot print high kama or even lose money, then the possibility of experiencing financial problems will be higher (Dirman, 2020). According to Hasanah, (2022) profitability can be measured by the following formula:

$$\textbf{ROA} = \frac{\text{Laba Bersih}}{\text{Total Aktiva}}$$

Company Size

According to Accounting et al., (2019) company size is an overview of the size of a company based on all its total assets. The company's total assets include all the company's resources, both current (cash and receivables) and non-current (equipment, property, and long-term investments). Thus, the size of a company not only shows its financial capacity, but also shows its growth potential, ability to meet financial obligations, and competitiveness in the market. According to Stepani & Nugroho, (2023) the size of a company can be measured by this formula:

$$\text{Sz} = \text{Ln}(\text{Total Assets})$$

The conceptual framework and hypothesis in this study are as follows:

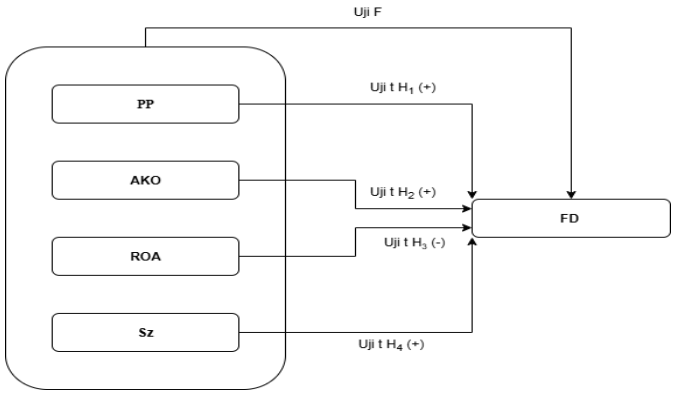

Figure 1. Conceptual Framework

Based on the theory and previous research above, the hypotheses raised in this study are:
H1: Company Growth Has a Positive Effect on Financial Distress
H2: Operating Cash Flow has a positive effect on Financial distress
H3: Profitability has a negative effect on financial distress
H4: Company Size Has a Positive Effect on Financial Distress

METHOD

The object of this study is the financial sector listed on the Indonesia Stock Exchange using the variables studied as company growth, operating cash flow, profitability, and company size to financial distress. The secondary data in this study is the financial statements of financial sector companies listed on the Indonesia Stock Exchange for 5 years 2019-2023. The population in this study is financial sector companies listed on the Indonesia Stock Exchange amounting to 105 companies. The sample used is a purposive sampling technique for collection, which is the return of samples based on certain criteria. The sample in this study was obtained as many as 93 companies that were included in the research criteria using purposive sampling techniques. Based on the sample that has been determined, there are 93 multiplied by 5 years of observation so that the number of observations in this study is 465. And there were as many as 12 companies that were eliminated as a sample because they did not report their financial statements consecutively during the research period.

The data collection method uses documentation using financial statements contained in the annual report. The data was obtained from the www.idx.co.id website which publishes financial sector companies' financial statements for 2019-2023. This study uses panel data regression model analysis to examine the influence of independent variables, namely company growth, operating cash flow, profitability and company size on dependent variables, namely financial distress. With the following equation model:

$$FD_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e$$

RESULTS AND DISCUSSION

Result

Data Panel is an approach that combines two forms of data, namely cross-section and time series data. The analysis method used in this study is to conduct quantitative analysis displayed in numerical numbers, which will be calculated using statistical methods assisted by the E-Views 13 statistical data management program. According to Ghozali 2018, there are several approaches carried out in panel data regression analysis, namely, Common Effect Model (CEM), Fixed Effect Model (FEM), AND Random Effect Model (REM). To get the best model in this study, the chow test, the hausman test, and the lagrange multiplier (LM) test were carried out. The results of the chow test, thirst test, and lagrange multiplier (LM) test are as follows:

The Chow Test is a test used to determine the best model between the Common Effect Model (CEM) and the Fixed effect model (FEM). According to (Gujarati, 2012) the basis of decision-making is seen from the value of Probability. If the probability value is above 0.05 then the best model is CEM, and vice versa if the probability value is below 0.05 then the best model chosen is FEM.

Table 1. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	7.527545	(92,366)	0.0000
Cross-section Chi-square	491.709230	92	0.0000

Based on the results of the chow test in Table 1 above, it can be seen that the probability value obtained is 0.0000, where this number is smaller than the value of 0.05 (0.0000 < 0.05). So it can be concluded that the Fixed effect model (FEM) is the right model in this study. Because the FEM model is the model selected in the chow test, the next step is to conduct a thirst test to choose between the Fixed effect model (FEM) and the Random Effect Model (REM).

The Hausman test is carried out to test which of these two models is the best model. According to (Gujarati, 2012) the basis of decision-making is seen from the value of Probability. If the probability value is above 0.05 then the best model is REM, and vice versa if the probability value is below 0.05 then the best model chosen is FEM.

Table 2. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.135242	4	0.0382

Based on the results of the chow test in Table 2 above, it can be seen that the probability value obtained is 0.0382, where the number is smaller than the value of 0.05 (0.0000 < 0.05). So it can be concluded that the Fixed effect model (FEM) was chosen to be the right model.

Panel Data Regression Estimation

Table 3. Panel Data Regression Estimation with Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.575668	6.474187	-0.243377	0.8078
CG	-0.660643	0.233362	-2.830980	0.0049
OCF	0.003662	0.002987	1.225937	0.2210
PI	-2.455074	0.793699	-3.093205	0.0021
Sz	0.714984	0.049270	14.51158	0.0000

Based on Table 4.10 above, a form of multiple linear regression equation used in this study can be formulated as follows:

FD= -1,5756– 0,6606CG + 0,0036OCF – 2,4550PI + 0,7149Sz

Based on the results of the regression of the data panel above, it can be seen that the constant value in this study is -1.5756. This indicates that CG, OCF, PI, and Sz have no values (valued at 0). So the Financial distress (FD) will remain constant with a value of -1.5756%.

Discussion
Such Hypotheses
Results of Panel Data Regression Estimation

The Effect of Corporate Growth on Financial Distress

The company's growth variables have a significant effect on financial distress. The regression coefficient has a negative value, which indicates that the higher the company's growth, the lower the level of financial distress . Thus, it can be concluded that the hypothesis was rejected, because the test results contradicted the initial hypothesis that stated a positive effect. Companies with high growth rates are generally more likely to gain the trust of investors and creditors. Sustained growth is seen as a positive signal regarding the company's business prospects and ability to create profits in the future.

Thus, stable growth not only increases the attractiveness of the company in the eyes of investors, but also strengthens the company's position in establishing relationships with external parties, especially in obtaining financing support from financial institutions. This finding is in line with research by Larsati & Jayanih (2023) which said that company growth has a negative effect on financial distress because companies with high growth are more likely to gain the trust of investors and creditors. And also this result is in line with the research of Wahyuningtias & Fatmawati (2021) which said that company growth does not necessarily increase the risk of financial distress, more depends on the efficiency of asset use.

The Effect of Operating Cash Flow on Financial Distress

Operating cash flow variables do not have a significant effect on financial distress. This means that the company's ability to generate cash from the company's operational activities is not the main factor in determining the level of financial distress. So the second hypothesis was rejected, because there was no significant influence like the previously suspected hypothesis. The level of operating cash flow of a company is not a single indicator in determining financial distress conditions, especially in the financial industry. Banking, multifinance, and insurance companies can still maintain their financial stability because they earn significant income from interest, securities, and other financial assets, so their dependence on operating cash is relatively lower.

The results of this study are in line with research conducted by Safitri & Kurnia (2021) which showed that cash flow has a negative influence on financial distress. And the research conducted by Finistya (2020) also obtained similar results to the results of this study, where cash flow does not have a significant effect on financial distress. This means that the size and size of a company's operating cash flow does not determine if the company experiences financial distress. Companies in the financial sector such as banks, multifinance, insurance and others, do not depend entirely on cash from operations. Because The company still has income other than operating cash. There are many indirect income such as interest income, receivables, securities and others.

The Effect of Profitability on Financial Distress

The profitability variable has a significant effect on financial distress. With a negative regression coefficient value, it explains that the higher the profitability, the lower the financial distress experienced by the company. Companies with high profitability are considered more financially healthy because they are able to make a sufficient net profit. These benefits allow companies to pay off obligations, maintain financial stability, and at the same time avoid potential financial distress. With these results, the third hypothesis is accepted, because the results of this study are in line with the initial assumption that the profitability variable has a negative effect on financial distress.

The results of this study are also in line with research conducted by Safitri & Kurnia (2021) which states that profitability has a negative effect on financial distress. This means that companies with a high level of profitability are better able to generate net profit so that the company is able to fulfill its obligations and avoid financial distress. Other research such as those conducted by Finistya (2020) shows that profitability does not have a significant impact on financial distress. However, this study is inversely proportional to the research conducted by Evita & Mildawati (2019) which states that profitability has a positive effect on financial distress. This means that the company's profitability is negatively correlated with the financial situation of an unstable company.

The Effect of Company Size on Financial Distress

The variable of company size has a significant effect on financial distress. A positive regression coefficient value indicates that the larger the size of the company, the higher the level of financial distress experienced. Large-scale companies have more layered organizational structures and more complex operations than small companies. This condition creates a high cost burden, so that even though it has advantages in terms of assets and markets, large companies still have the potential to be more susceptible to financial distress. With these results, it can be concluded that the fourth hypothesis is accepted, because the direction and significance are in accordance with the initial assumption that the company size variable has a positive effect on financial distress.

This research is in line with research conducted by Muslimin & Bahri (2022) which shows that company size variables have a positive effect on financial distress. This means that the larger a company, the more complex its organizational and operational structure is, which causes increased costs so that it is more sensitive to experiencing financial distress. Another research that is in line with this research is research conducted by Listiawati et al., (2024) which states that company size has a positive effect on financial distress. Large companies have the potential to have greater pressure caused by investor expectations, strict regulations, and others.

CONCLUSION

Company Growth (CG) has a significant effect on financial distress with a negative direction for financial sector companies listed on the IDX for the 2019-2023 period. Operational cash flow factors or operation cash flow do not have a significant effect on the financial distress of financial sector companies listed on the IDX for the 2019-2023 period. financial distress with a negative direction for financial sector companies listed on the IDX for the 2019-2023 period. The factor of company size or firm size has a significant effect on financial distress with a positive direction for financial sector companies listed on the IDX for the period 2019-2023. It is hoped that this research can be used as a consideration in making investment decisions or granting credit. Companies with good profitability and company growth have the potential to be safer from financial distress.

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