

THE EFFECT OF SALES GROWTH, PROFITABILITY, LEVERAGE AND CORPORATE GOVERNANCE ON FINANCIAL DISTRESS

THE EFFECT OF SALES GROWTH, PROFITABILITY, LEVERAGE AND CORPORATE GOVERNANCE ON FINANCIAL DISTRESS

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Abstract

This study aims to determine the effect of Sales Growth, Profitability, Leverage and Corporate Governance on Financial Distress. The research population includes service companies in the infrastructure, utilities and transportation sectors listed on the Indonesia Stock Exchange for the 2018-2021 period. The sample selection method used was purposive sampling and 20 companies were selected with a total sample of 80 research data. The analysis technique used is logistic regression using SPSS 26 software. The results of this study indicate that sales growth, profitability, leverage, and corporate governance which are proxied by institutional ownership and managerial ownership have a simultaneous influence on financial distress. while partially, sales growth, leverage and corporate governance have no effect on financial distress, and profitability has a significant influence on financial distress.

Keywords: Sales Growth, Profitability, Leverage, Corporate Governance, Financial Distress

1. INTRODUCTION

Financial distress is a problem that needs to be considered by the company. Companies that are in a state of financial distress starting from the company cannot provide funds to pay the company's obligations. Financial distress is a stage of decline in financial condition that occurs before bankruptcy or liquidation (Platt, H. D. & Platt, 2002). Financial distress occurs when a company experiences losses for several years so it can be said that the financial condition is unhealthy or a crisis (Hapsari, 2012).

The social restrictions imposed during the pandemic had an impact on all corporate sectors, including service companies. When this sector begins to be disrupted, of course, it hampers the growth and progress of other sectors. The results of research conducted by Oelietina, (2021) stated that only 7 sectors remained in a growth rate position, while 10 other sectors experienced negative growth rates. The sectors with the most severe impact (with a negative growth rate of up to 2 digits) are 4 sectors, namely the transportation and warehousing sector (-30.84%), accommodation and food and drink provision (-22.02%), corporate services (-12.09%) and other services (-12.60%). While the results research conducted by Sembe et al., (2021) stated that transportation companies experiencing financial distress in 2020 increased by 19.5% where in 2019 before the pandemic it was only 42% (11 companies) to 61.5% (16 companies) in 2020 after the pandemic.

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The social restrictions imposed during the pandemic had an impact on all corporate sectors, including service companies. When this sector begins to be disrupted, of course, it hampers the growth and progress of other sectors. The pandemic situation in 2020 caused PT AirAsia Indonesia Tbk to enter a hibernation period, when all services were temporarily suspended as of April 1, 2020. PT AirAsia Indonesia Tbk experienced a decrease in revenue of IDR 1.61 trillion compared to 2019 of IDR 6.71 trillion. This decrease in revenue was due to a decrease in passenger income of 76.92% to 1.53 trillion in 2020 so that the company posted a net loss of IDR 2.75 trillion in 2020, an increase from 2019 of IDR 157.37 billion. PT AirAsia Indonesia Tbk experienced a temporary suspension of trading that occurred from the end of 2019 to the end of 2020 (CMPP Annual Report, 2020).

Financial distress can be caused by internal factors such as sales growth, profitability and leverage, and corporate governance implemented by a company. While external factors come from outside the company that can affect financial distress such as increases in the JCI, interest rates, and inflation. However, this study discusses the internal factors that influence financial distress.

The reason for choosing the variables in this study is because research on financial distress has been carried out a lot but there are still inconsistencies in the results of previous research on the factors that affect financial distress. This research is a development of previous research conducted by Udin et al., (2017). The difference between this study and previous research lies in (1) the addition of independent variables, this study adds the independent variables of sales growth, profitability, and leverage, as well as for corporate governance using proxies for institutional ownership and managerial ownership (2) differences in the sample and research location (3) differences in the measurement of the dependent variable carried out, research conducted by Udin et al., (2017) used the Altman Z-Score, while this study used the interest coverage ratio.

2. LITERATURE STUDY

Agency Theory

Agency theory is a contractual relationship between the owner of the company (principal) and the manager (agent), where the agent is entrusted by the principal to manage the company in accordance with the contract agreed by both parties. Conflicts that often occur are caused by the desire to maximize each other's welfare. Agents appointed by the principal as managers and given the authority to make decisions on behalf of the principal will know more information about the condition of the company than the principal, so that the agent can act according to his own wishes (Jensen, M. C., & Meckling, 1976).

Financial Distress

Financial distress can be interpreted as a stage of decline in financial condition that occurs before bankruptcy or liquidation (Platt, H. D. & Platt, 2002). Financial distress is a condition when a company experiences financial difficulties which are characterized by losses experienced by the company and the company's inability to pay off obligations before bankruptcy (Affiah & Muslih, 2018).

Sales Growth

Sales growth is a ratio that predicts sales growth from year to year which increases or decreases as can be seen from the company's income statement. Related to agency

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theory, namely the operational activities carried out by the company are the responsibility of the agent, if sales growth has increased, it shows that the management of the company carried out by agents can run well (Lisiantara & Febrina, 2018). This is proven by the results of research Yudiawati & Indriani, (2016) which shows that sales growth has a negative effect on financial distress, which means that the higher the sales growth, the lower the company will experience financial distress. Based on the description above, it can be concluded that the hypothesis is as follows:

H1: Sales growth has a negative effect on financial distress.

Profitability

Profitability is a ratio that measures a company's ability to generate profits. Referring to agency theory, if the agent can sell a lot of products or services, of course the company will generate large profits so agent management is considered good in managing the company. The higher the profitability, the better the turnover of funds in the company to generate profits so that the company has lower financial distress (Ayu et al., 2017). These results are in line with research conducted by Kartika, R., & Hasanudin, (2019), Utami, (2021) and Sutra & Mais, (2019) showing that profitability has a negative and significant effect on financial distress. Based on the description above, it can be concluded that the hypothesis is as follows:

H2: Profitability has a negative effect on financial distress.

Leverage

Leverage is the ratio used to measure a company's ability to pay its obligations. Based on agency theory, the decision to use third-party funds is left to the agent, if the agent makes the wrong decision, especially in terms of debt, there will be a risk of payment difficulties in the future. If the agent uses large enough third-party funds, of course he will experience financial difficulties or financial distress (Lisiantara & Febrina, 2018). The results of research conducted by Yudiawati & Indriani, (2016), Harianti & Paramita, (2019), and Amanda, Y., & Tasman, (2019) show that leverage has a positive and significant effect on financial distress, which means that the higher the leverage the higher the possibility of financial distress. Based on the description above, it can be concluded that the hypothesis is as follows:

H3: Leverage has a positive effect on financial distress.

Institutional Ownership

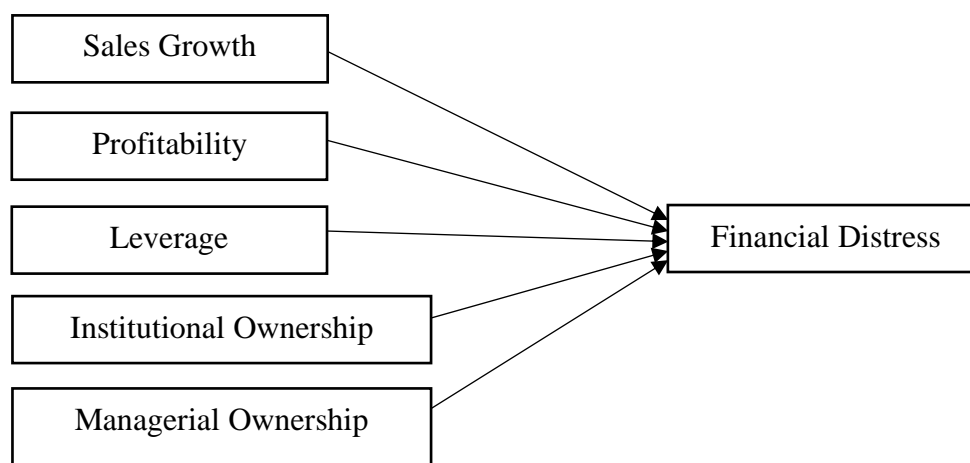
Institutional ownership is part of the ownership structure in a company that has a proportion of ordinary shares owned by institutions. According to Li et al., (2021) states that institutional investors who own shares in a company, have the possibility of financial distress is lower. This is because institutional investors have expertise and skills in detecting companies that are worth investing in. Based on this, the greater the institutional ownership, the higher its ability to monitor management and the lower the occurrence of financial distress. This is evidenced by the results of research conducted by Utami, (2021), Cinantya & Merkusiwati, (2015) and Helena & Saifi, (2018), which show that institutional ownership has a negative effect on financial distress. Based on the description above, it can be concluded that the hypothesis is as follows:

H4: Institutional ownership has a negative effect on financial distress.

Managerial Ownership

Managerial ownership is sharing ownership by company management. According to Rachmawati & Retnani, (2020), shares owned by managers or agents have a dual function, namely as the owner of the company as well as the manager of the company, so that agents have the right to regulate and provide advice to companies in achieving company goals. Based on agency theory, the higher the managerial ownership, the more agency problems will be reduced, because managerial ownership can balance the interests of the principal and agent so that financial distress does not occur. The results of research conducted by Utami, (2021) show that managerial ownership has a negative effect on financial distress, so that the lower the managerial ownership of a company, the higher the possibility of financial distress. Based on the description above, it can be concluded that the hypothesis is as follows:

H5: Managerial Ownership has a negative effect on financial distress.



Source: Developed by Researchers, 2022

Figure 1. Conceptual Framework

3. RESEARCH METHODOLOGY

Method

This research is quantitative research. The data source used in this research is secondary. Data in the form of the company's Annual Report for the 2018-2021 period. Secondary data is data that has been provided by other parties and obtained indirectly through intermediary media. The data can be in the form of records, archives or evidence, both published and unpublished. The data in this study are in the form of annual reports obtained from the company's official website and the IDX website

The population in this study are service companies in the infrastructure, utilities and transportation sectors listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. Sampling in this study used a purposive sampling technique with certain use criteria that must be met by the company so that it can be used as a sample.

The collected research data will be analyzed through several stages of testing, namely descriptive statistics. Then test the logistic regression analysis, including the model feasibility test, the entire model test, the R² test, the classification table, the F test,

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and the T test. Data processing in this study uses a statistical program known as SPSS (Statistical Product and Service Solutions) version 26.

Table 1. Operational Measurement of Variable

No	Variable	Measurement
1	Sales Growth	$SG = \frac{\text{Sales } t - \text{Sales } t-1}{\text{Sales } t-1} \times 100\%$ (Lisiantara & Febrina, 2018)
2	Profitability	$ROA = \frac{\text{EAT}}{\text{Total Assets}} \times 100\%$ (Hanifah & Purwanto, 2013)
3	Leverage	$DAR = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100\%$ (Sari, N. L. K. M., & Putri, 2016)
4	Institutional Ownership	$KI = \frac{\text{Number of Institutional Shares}}{\text{Total Share}} \times 100\%$ (Sunarwijaya, 2017).
5	Managerial Ownership	$KM = \frac{\text{Number of Managerial Shares}}{\text{Total Share}} \times 100\%$ (Kurniasanti, A., & Musdholifah, 2018)
6	Financial Distress	$ICR = \frac{\text{Operating Profit}}{\text{Interest Expense}} \times 100\%$ Score Zero (0) = < 1 = FD Score One (1) = > 1 = Not FD (Mayangsari, 2015)

Source: Developed by Researchers, 2022

4. RESULT AND DISCUSSION

Sample Research Results

Table 2. Research Sampling Criteria

No	Criteria	Total
1	Infrastructure, Utilities and Transportation Service Company listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period.	70
2	Companies that do not publish Annual Reports for the 2018-2021 period	(18)
3	Companies that do not have complete data needed in research	(31)
Total of sample companies		21
Year of observation (2018-2021)		84
Outlier data		(4)
Total Sample		80

Source: Processed secondary data (2022)

The population in research are Service Companies in the Infrastructure, Utilities and Transportation sectors listed on the Indonesia Stock Exchange (IDX) for the 2018-

2021 period with a total population of 70 companies. Sampling in this study using a purposive sampling technique with a certain use criterion that must be met by the company in order to be used as a sample. The samples obtained were 21 companies, 4 year of observation period during 2018-2021 using purposive sampling and 4 outlier data because the data has unique characteristics that seem different from observations and appear in the form of extreme values. So, the amount of data used is 80 of 20 samples derived from financial reports issued by the company.

Analysis Statistic Descriptive

Descriptive statistical analysis provides an overview of the data in the form of a minimum value, maximum value, mean value, and standard deviation of each research variable. The variables used in this study include sales growth, profitability, leverage, institutional ownership, managerial ownership, and financial distress. The following are the results of the descriptive statistical analysis using SPSS 26 of the research variables:

Table 3. Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Sales Growth	80	-0.52	0.91	0.0613	0.22939
Profitability	80	-0.29	0.16	0.0250	0.07728
Leverage	80	0.11	0.87	0.4854	0.20720
Institutional Ownership	80	0.26	0.94	0.5914	0.16848
Managerial Ownership	80	0.00	0.36	0.0733	0.10461
Financial Distress	80	0	1	0.79	0.412
Valid N (listwise)	80				

Source: Processed secondary data (2022)

Analysis Regression Logistic

This study uses a binary logistic regression analysis test, the dependent variable used in this study uses a dummy variable or has 2 categories, namely whether the company is experiencing financial distress or not.

Table 4. Goodness of Fit Test Results

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	12.877	8	0.116

Source: Processed secondary data (2022)

Table 4 shows the Chi Square value of 12.877 with a sig value of 0.116. From these results it can be seen that the sig value is greater than 0.05 so that H0 is accepted, which means that the regression model is feasible and appropriate to use. In other words, the fit and model are acceptable because they fit the actual data.

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Table 5. Overall Model Fit Test Results

-2Log Likelihood	Nilai
Block 0	82.760
Block 1	27.811

Source : Processed secondary data (2022)

Table 5 shows the results of -2Log Likelihood block 0 of 82,760. Then, at -2Log Likelihood block 1, the independent variables are included so that the results obtained decrease to 27,811. This decrease indicates that the regression model is better at predicting financial distress.

Table 6. Coefficient of Determination Test Results

Model Summary			
Step	-2 Log likelihood	Cox & Snell RSquare	Nagelkerke RSquare
1	27.811 ^a	0.497	0.771

a. Estimation terminated at iteration number 8 because parameter estimates changed by less than .001.

Source: Processed secondary data (2022)

Table 6 shows that the value of Cox and Snell's Square is 0.497 and Nagelkerke R Square is 0.771 or 77.1%. This shows that the ability of the independent variables namely sales growth, profitability, leverage and corporate governance in explaining the dependent variable namely financial distress is 77.1% and the remaining 22.9% is explained by other variables outside the research.

Table 7. Classification Table Results

Observed			Predicted Financial Distress		
			FD Company	The Company is Not FD	Percentage Correct
Step 1	Financial Distress	FD Company	14	3	82.4
		The Company is Not FD	2	61	96.8
	Overall Percentage				95.2

a. The Cut value is .500

Source: Processed secondary data (2022)

Based on the classification table above, it shows that the accuracy of research predictions is 95.2%. This shows that there are 17 companies (82.4%) experiencing financial distress, while the predictive power of a company that is not experiencing financial distress is as much as 63 companies (96.8%).

Table 8. F Test Results

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	54.949	5	0.000
	Block	54.949	5	0.000
	Model	54.949	5	0.000

Source: Processed secondary data (2022)

Based on the omnibus test table of model coefficients, it can be seen that the significance value is $0.000 < 0.05$ (smaller than alpha), this indicating that the variables of sales growth, profitability, leverage and corporate governance simultaneously affect financial distress. It can be concluded that the data in this study is worth using.

Table 9. T Test Results

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Sales Growth	-0.562	2.640	0.045	1	0.831	0.570
	Profitability	45.126	13.518	11.144	1	0.001	39608480 46466582 0000.000
	Leverage	2.723	2.523	1.164	1	0.281	15.222
	Institutional Ownership	6.207	3.821	2.639	1	0.104	496.405
	Managerial Ownership	2.796	8.114	0.119	1	0.730	16.371
	Constant	-3.452	2.705	1.629	1	0.202	0.032

a. Variable(s) entered on step 1: Sales Growth, Profitability, Leverage, Institutional Ownership, Managerial Ownership.

Source: Processed secondary data (2022)

Based on table 9 above, the influence of sales growth, profitability, leverage and corporate governance is explained as follows:

The sales growth variable has a wald value of 0.045 and a beta value of -0.562 with a significance value of $0.831 > 0.05$ which means that sales growth has no partial effect on financial distress. Profitability as measured by Return on Assets (ROA) shows a wald value of 11.144 and a positive beta value of 45.126 with a significance value of $0.001 < 0.05$ which means that partially the profitability variable has a significant effect on financial distress. The leverage variable as measured by the Debt To Asset Ratio (DAR) obtains a wald value of 1.164 and a beta value of 2.723 with a significance value of $0.281 > 0.05$ which means that partially leverage has no effect on financial distress.

Institutional ownership shows a wald value of 2.639 and a beta value of 6.207 with a significance value of $0.104 > 0.05$ meaning that the variable institutional

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ownership does not partially affect financial distress. The wald value of the managerial ownership variable shows a result of 0.119 and a beta value of 2.796 with a significance value of $0.730 > 0.05$ which means that managerial ownership partially has no effect on financial distress.

The Effect of Sales Growth on Financial Distress

The test results show that sales growth has no effect on financial distress with a negative coefficient value of -0.562 and a significance value of $0.831 > 0.05$, so it can be concluded that the first hypothesis in this study is rejected. The research data shows that several companies that have positive sales growth values or have increased but these companies are experiencing financial distress such as PT Wintermar Offshore Marine Tbk in 2018, PT Sidomulyo Selaras Tbk in 2019, PT Eka Sari Lorena Transport Tbk in 2018, 2019 and 2021, and more. It can be concluded that an increase in the company's sales growth cannot show whether the company is experiencing financial distress or not, because the increase in sales growth does not necessarily generate profits. This is in line with the results of research conducted by Lisiantara & Febrina, (2018), Harianti & Paramita, (2019), Simanjuntak et al., (2017), Sutra & Mais, (2019), and Ramadhani, (2019) indicating that Sales growth has no effect on financial distress, because the high or low sales growth of a company does not directly affect the occurrence of financial distress.

The Effect of Profitability on Financial Distress

Based on the data analysis that has been done, the profitability variable as measured by Return on Assets (ROA) shows a positive coefficient value of 45.126 with a significance value of $0.001 < 0.05$. Thus, it can be concluded that the profitability variable (ROA) has a significant influence in predicting financial distress, which means that the second hypothesis in this study is accepted. The greater the ROA, the better the company's performance because it can optimize its assets to generate profits. The higher the ROA ratio, the smaller the company will experience financial distress. Significant results indicate that predicting financial distress can be analyzed from the company's ability to generate profits. The company's inability to generate profits and maintain this income means that the company will experience financial distress. The results of this study are in line with research conducted by Asfali, (2019), Giovanni et al., (2020) and Christine et al., (2019) which state that profitability has a significant effect on financial distress.

The Effect of Leverage on Financial Distress

Based on the data analysis that has been done, the leverage variable as measured by the Debt to Asset Ratio (DAR) has no influence in predicting financial distress. The results of the test obtained a positive coefficient value of 2.723 with a significance value of $0.281 > 0.05$. So, it can be concluded that in this study the third hypothesis was rejected. This study states that leverage has no effect on financial distress. Companies that have a large total debt and have a risk of default are not categorized as experiencing financial distress because if the company can manage funding from debt for the company's operations, it means that the debt is used effectively and efficiently to increase sales and generate profits that can pay off the debt. In addition, there is no significant relationship between leverage and financial distress because the company's debt can be covered by its own capital so the chances of financial distress are lower. The results of this study are in line with the results of research conducted by Mulyatiningsih, N., & Atiningsih, (2021), Sunarwijaya, (2017), Affiah & Muslih, (2018), Kurniasanti, A., & Musdholifah, (2018) and Pranita, K. R., & Kristanti, (2020) which states that leverage has no effect on

predicting financial distress.

The Effect of Institutional Ownership on Financial Distress

Based on the data analysis that has been done, the institutional ownership variable has no influence in predicting financial distress. The test results show a positive coefficient value of 6.207 with a significance value of $0.104 > 0.05$. So, it can be said that in this study the fourth hypothesis was rejected. This study states that institutional ownership has no influence in predicting financial distress, which means that shareholders do not have sufficient ability to control managers so that managers may act in accordance with decisions that benefit themselves. The size of institutional ownership is not able to make the greater the institution in overseeing the company's performance. The results of this study support research conducted by Affiah & Muslih, (2018), Sunarwijaya, (2017), Kurniasanti, A., & Musdholifah, (2018) and Fidyaningrum, (2017) stating that the size of the percentage of institutional ownership cannot be used as a starting point measure that the company is experiencing financial distress.

The Effect of Managerial Ownership on Financial Distress

Based on the data analysis that has been done, the positive coefficient value of managerial ownership shows a result of 2.796 with a significance value of $0.730 > 0.05$. This shows that the managerial ownership variable has no influence in predicting financial distress, thus the fifth hypothesis in this study is rejected. This study states that managerial ownership has no effect on predicting financial distress. According to Fidyaningrum, (2017) states that the cause of managerial ownership has no influence in predicting financial distress not caused by the size of the percentage of share ownership owned by management, but due to the ability of the manager (agent) to manage the company's finances is not good. This is in line with the results of research conducted by Rachmawati & Retnani, (2020), Pranita, K. R., & Kristanti, (2020), Kurniasanti, A., & Musdholifah, (2018), Sunarwijaya, (2017) and Fidyaningrum, (2017) which states that managerial ownership has no effect in predicting financial distress.

5. CONCLUSION

The purpose of this study was to determine the effect of Sales Growth, Profitability, Leverage and Corporate Governance on Financial Distress (Empirical Studies of Infrastructure, Utilities, and Transportation Service Companies Listed on the Indonesia Stock Exchange for the 2018- 2021 period). The results of this study are expected to provide a reference to assist companies in detecting financial distress early on. This research participates in the literature on the effect of Sales Growth, Profitability, Leverage and Corporate Governance on Financial Distress.

Sales growth has no effect on financial distress because an increase in a company's sales growth cannot show whether a company is experiencing financial distress or not. The second variable is Profitability which has a significant effect on financial distress. A positive ROA indicates that all assets used for the company's operations can provide benefits for the company so that the lower the company experiences financial distress. The third variable is that leverage has no effect on financial distress, because if the company's debt is used effectively and efficiently for the company's operations to increase sales profits, the possibility of financial distress is lower. Next, the fourth variable is that institutional ownership does not affect financial distress, because the percentage of institutional ownership is large or small, if the supervision carried out by the institution is ineffective, financial distress will likely occur. And the last variable is Managerial

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Ownership which has no effect on financial distress, because the ability of the manager (agent) to manage the company's finances is not carried out properly which can make the company experience financial distress.

The limitation of this research is the incomplete information regarding good corporate governance in the company's annual report so that the number of samples is limited. Future research is expected to be able to add other variables that are not included in this study that affect financial distress to get better research results. Then, further researchers are advised to add the research period to the most recent year so that the sample is not limited to get better research results.

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