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Analysis Of The Influence Of Leverage And Liquidity On Financial Distress (Study Of Sub Food And Beverage Manufacturing Companies Listed On The Indonesia Stock Exchange In 2016-2020)

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Abstract

Nawal Habiburrahman. Analysis of the Effect of Leverage and Liquidity on Financial Distress in Manufacturing Companies of the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange in 2016 - 2020. Supervised by Drs. Bambang Sudarsono, MM.

This study aims to determine the effect of Leverage and Liquidity variables on financial distress in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2016 - 2020.

The approach used in this research is quantitative research. The number of samples in this study were 18 companies. The data analysis technique used in this research is multiple linear regression analysis, with hypothesis testing t statistical test and f statistical test.

Based on the research that has been done, the results show that leverage has a significant negative effect on financial difficulties, while liquidity has a non-significant positive effect on financial difficulties, but leverage and liquidity have a positive and significant effect simultaneously on financial difficulties.

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INTRODUCTION

Economic movements are an uncertain condition, such as the economic recession that occurred due to the global pandemic which caused financial difficulties for individuals and companies in Indonesia and the world. At this time it is important for us to realize our financial condition. One important part is the analysis of financial statements, this analysis is to predict the viability of the business. Predicting the continued existence of a business is very important for managers and business owners in finding out the financial position of the business and to predict situations that could lead to potential bankruptcy. Platt and Platt (2002) define financial distress, namely the financial condition of a business that is sick or threatened with a crisis. It can be said, a state of financial difficulty is a situation in which a company is experiencing financial distress to pay debts.

A company will be considered to be in a state of financial difficulty when these criteria are achieved (1) every business that suffers losses continuously for three years or more (2) every company that has negative cash flow for 3 consecutive periods or more (Lakshan & Wijekoon, 2013). According to Brigham and Daves (2003), financial distress arises due to many mistakes in determining policies and related shortcomings which can have an indirect or direct impact on managers and their preparation in monitoring the financial condition of the business is lacking so that it is not used according to what is needed.

Financial distress bisa diukur dengan menggunakan Z Score. Model Z Score This method was developed by Edward I. Altman, in 1968. This method is the most famous method because in predicting the possibility of a company going bankrupt it is quite accurate, reaching 95%. In this Z Score model, Altman uses 5 ratios that can be used by companies going public, namely working capital to total assets, retained earnings to total assets, EBIT to total assets, capital market value to total debt and sales to total assets.

Leverage is considered to have an influence on financial distress. Leverage can see the company's ability to pay its debts, whether smoothly or long term. Analysis of this ratio is needed to calculate the potential of a business when meeting its debts (short or long) if the business is later liquidated or dissolved (Sigit in Widarjo and Setiawan, 2009). The use of this debt makes the company responsible for paying the debt along with the interest. A high amount of debt will of course result in a higher amount of fixed interest, while the company's net income is uncertain, so the company has the potential to experience higher financial distress. This ratio can be calculated using the Debt to Equity Ratio (DER) which describes how large the amount of debt is compared to the amount of equity. If a business uses more debt, there is potential for difficulties in paying in the coming period because the amount of debt is higher than income. If this condition is not resolved immediately, the possibility of experiencing financial distress will also increase.

The next factor that can determine the potential for financial distress is liquidity. Based on Manurung and Wibisono (2015), business liquidity reflects the ability of a business to finance operations and pay current business debts. At least the company's liquidity ratio is 2 or more so that it can be said that the company is in a liquid state. This means that the company has twice the amount of current debt, so that if funds are needed at any time to cover current debt the company can immediately pay it quickly. If a business can finance and pay current debts like this, the possibility of the company experiencing financial distress is getting smaller. However, on the other hand, if the amount of current debt is greater than its current assets, then if at any time it needs funds the company will not be able to pay its current debt, which can cause the company to experience financial distress and trigger the company to take on new debt to cover current debt that is due.

This ratio is measured using the current ratio (CR). The current ratio is the ratio of short-term assets to short-term debt. The greater the number of liquidity ratios, the greater the company's possibility of paying off its current debt because the amount of short-term assets is greater than the amount of short-term debt. And the potential for businesses to experience financial difficulties is also lower because the amount of current assets can cover the amount of current debt. Most of the funds owned by the company are in current assets. The greater the amount of current assets, the company will fulfill its debts on time, so the possibility of financial distress will not occur.

There are differences in this study with previous studies, namely there are differences in terms of sample and year of study, namely in this study the author tested sub-food and beverage companies within a testing period of 5 years starting (2016-2020). This research was conducted on the sub-food and beverage

manufacturing business, because it is a part of the manufacturing business in Indonesia, and is becoming the main alternative for investors in investing their money. This can be seen from developments in the realization of domestic capital investment (PKD) in the third quarter. in 2020 it reached IDR 19.5 trillion or an increase of 34.3 percent compared to the equivalent time period in 2019. Then, the amount of PMA (Foreign Investment) reached USD 1.07 billion. Therefore, food and beverage subsector manufacturing companies are companies that have good prospects for investing capital for investors Fitri (2020).

RESEARCH METHODS

The objects used in this research are food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange. The number of periods observed is 5 periods, namely 2016-2020. The type of data applied in this research is qualitative and quantitative data. The data used in this research is secondary data. The population in this study was 33 food and beverage companies listed on the IDX from 2016-2020. The method used in determining the sample was purposive sampling. With a population of 33 companies, a sample of 18 companies can be obtained for further research. The data analysis technique used in this research is quantitative analysis. Based on the nature of the data collected, this research uses the multiple linear regression method.

RESULT

Multiple Linear Regression Test

Tabel 1. Multiple Linear Regression Test

Model	Coeficient	Beta	t	Sig.
Konstanta	9.306			
X1	-0.759	-0.593	-3.708	0.000
X2	5.495	0.019	0.121	0.904
F_{hitung} = 19.415 **R Square = 0.370**				0.000

From the results of data processing using SPSS, the multiple linear regression model equation is obtained as follows:Y = 9,306 – 0,759X1 + 5,495X2 + e

a. The constant value (a) of 9.306 indicates that if the other independent variables have a value of 0, then the dependent variable financial distress has a value of 9.306.
b. The regression coefficient value (b1) is 0.759 which is negative. This shows that for every increase of 1 unit of leverage (DER), it will reduce financial distress (Z Score) by 0.759. Vice versa, if every 1 unit of leverage (DER) decreases, it will increase financial distress (Z Score) by 0.759 provided that the other variables remain constant.
c. The regression coefficient (b2) is 5.495 which is positive. This shows that for every increase of 1 unit of liquidity (CR), it will increase financial distress (Z Score) by 5.495. Vice versa, if every 1 unit of liquidity (CR) decreases, it will reduce financial distress (Z Score) by 5.495 provided that the other variables remain constant.
d. The most dominant independent variable is the leverage variable (DER) shown by a beta value of 0.593, and a beta liquidity (CR) value of 0.019.

Ttest

Based on the values in table 6, the T test results are:

a. Leverage (DER)

According to the SPSS test value, the T test shows that the leverage variable has a t value of -3,708 and a significance level of 0.000. The sig value is <0.05 and the beta results obtained are negative, namely -0.593. This event means that H0 is rejected and H1 is accepted, and it can be interpreted that the leverage variable has a negative and significant effect on financial distress.

b. Liquidity (CR)

According to the SPSS testing value, the T test shows that the leverage variable has a t value of 0.121 with a significance value of 0.904. The sig value > 0.05 and the beta value obtained is positive, which is 0.019. This means that H0 is accepted and H1 is rejected, and it can be interpreted that the liquidity variable has a positive and insignificant effect on financial distress.

Ftest

Based on the F test value in table 6, it proves that the F test value is 19,415 and a sig of 0.000. sig <0.05. This incident means that the Leverage and Liquidity variables have a positive and significant effect together or simultaneously on financial distress.

DISCUSSION

The Effect of Leverage on Financial Distress

Based on the T test value, it can be found that the Leverage variable (DER) has a t count of -3,708 and a significant result of 0.000. These results indicate that leverage has a negative and significant effect on Financial Distress in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 – 2020. This event indicates that there is a non-unidirectional effect, namely every increase in total debt, the lower the financial distress. This means that companies in their financing use more debt. In large companies usually rely on creditors for funding. Therefore, a large company tends to have large leverage but the company is able to avoid financial distress by diversifying its business. And there are tax savings when companies use long-term debt in their financing. By including business taxes, that the application of debt will reduce the company's financial distress because the interest expense on debt can reduce and save on tax payments.

This is in accordance with the opinion of Brigham and Houston, (2006) the theory of trade off is when a business exchanges funding benefits using debt. In this theory it is explained that there is an influence between bankruptcy risk, the use of debt and taxes resulting from the capital structure decisions set by the company.

Companies that go public mostly fund their operations using capital from third parties or what is usually called debt. Businesses that go public for financing tend to use debt from banks. Therefore, companies that go public tend to have high leverage. However, businesses that go public are better able to overcome financial distress even though the amount of leverage is large, because the company is diversifying. Diversification is the diversification of business products or business fields that are implemented by a company in maximizing profits so that business cash flows can be stable.

The results of this study are in line with previous studies conducted by Lisa Aprilia (2019) whose results were leverage that had a significant negative effect. In her research, she said this was due to businesses owned that had assets that could be rented out, such as shophouses, cinemas, etc., so even though the funding was greater, the use of debt , but there are still assets that earn income so there is an inverse effect.

And research conducted by Ni Made Inten Septiani, I Made Dana (2019) which shows the results that leverage calculated using the debt to assets ratio has a sig negative effect on financial distress and the study of Septi Livia Alya (2019) which shows the results that the leverage variable calculated using the debt to equity ratio has a negative effect on financial distress. However, the results of this study are different from previous research conducted by Tissa Dwi Septiandra (2018) Leverage has no effect on financial distress.

The Effect of Liquidity on Financial Distress

Based on the T test value, it can be seen that the Liquidity (CR) variable has a calculated t of 0.121 with a significant value of 0.904. These results indicate that Liquidity has a positive and insignificant effect on Financial Distress in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 – 2020. This event shows that there is a unidirectional relationship.

However, the effect between liquidity and the current ratio is not significant, meaning that the research output calculated using the current ratio (CR) will have no effect or there will be an influence but the effect is very low on the occurrence of financial distress in the food and beverage sub-sector manufacturing companies listed on the IDX.

According to Manurung and Wibisono (2015), business liquidity shows the company's capacity to finance its business and fulfill its short-term obligations. Businesses are less likely to run into financial difficulties if they can raise funds properly and pay off their short-term commitments. The provisions in a good liquidity ratio for a company are when the business is in the range of 2, which means that when the company has 1 current debt, the company must have 2 current assets in order to cover its debts. An example is at PT. Wilmar Cahaya Indonesia Tbk, which in 2016 had a CR value of 2,189 and in 2017 it was 2,224. This can guarantee that the company will be able to pay its current obligations when they are due and the possibility of the company experiencing financial distress will be smaller. The high current ratio value is due to the company's large number of current assets owned by the company, namely from receivables and inventories. The amount of inventories and accounts receivable can be used to pay off current debts, however, when disbursing it in cash, it takes time and each business has a different time. Finally, it can be concluded that liquidity will have no influence on the company's financial distress.

However, if the current ratio in the industry is greater than 3.0, it does not mean that the business is experiencing a safe financial condition, it could be that the business has not allocated its short-term assets and this means that the company is not allocating its current assets efficiently and not managing its capital well. . It can be seen in Appendix 2 that what happened in the food and beverage sub-sector manufacturing companies that were sampled in this study were several companies whose CR numbers were greater than 3.0 or 300%, one of which was IIKP in 2020 which received the highest number of CRs. high, namely 98,672, this indicates that IIKP is not allocating its funds efficiently and cannot manage its funds well, which should be used for its operational needs so that it can obtain higher income. This can be seen from the number of sales of the IIKP company which has decreased, namely in 2019 the revenue was IDR 20,078,357,205 and in 2020 it fell to IDR 15,661,470,849 and caused the company to experience a loss of IDR 20,535,335,752.

And even though the current ratio shows a good value or the business can pay the current debt it has, when the company continues to pay debt using its current

assets and does not care about increasing its income level and equity level, the company has the potential to experience financial distress.

The results of this study agree with previous studies carried out by Agustina Dianova, Joicenda Nahumury (2019) which showed the results that liquidity does not affect financial distress and research by Tejo Suryanto (2017) Liquidation has no effect on financial distress. However, the results of this study are different from previous research carried out by Septi Livia Alya (2019). The liquidity variable calculated using CR has no negative effect on financial distress and the test carried out by Dede Iskandar (2019) shows the results of the liquidity ratio variable with the proxy (current ratio) has a significant influence on financial distress.

The Influence of Leverage and Liquidity on Financial Distress

Based on the output of the F test, it can be seen that the results are significant at 0.000 <0.050. This situation shows that the independent variables, namely leverage and liquidity, have a simultaneous effect on financial distress in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 - 2020. Although the test value is partial, not all independent variables have a significant effect on financial distress. However, if the company pays attention to the two independent variables, namely leverage and company liquidity, then there will be a significant influence on financial distress.

This incident means that when the company considers the optimal use of debt by paying attention to the balance between risk and return capacity, the company will not experience financial difficulties. However, when a company is not wise in deciding the level of leverage, it will create financial risks which will have an impact on increasing the potential for financial distress. Business development, which is shown by the increasing development of company assets, provides a sign that the business is in good condition to run the company and compete in the market. So, it can show a positive signal to investors. In addition, a company's good financial performance is a company that is able to generate maximum profits. When a company can generate maximum profits, the company is considered capable of using the resources available to the business. This event can reduce the possibility of financial distress. because investors will be interested in obtaining maximum recovery on investment in the company. Thus, leverage and liquidity can have a positive and significant effect simultaneously on financial distress.

CONCLUSION

This test aims to determine the relationship between Leverage and Liquidity on Financial Distress in food and beverage sub-sector manufacturing companies listed on the IDX in 2016 - 2020. Based on data that has been processed on 18 samples within a 5 year annual report, it can be concluded that : The Leverage variable has a negative and significant effect on financial distress with a significance level of 0.000 < 0.050. The liquidity variable has a positive and insignificant effect on financial distress with a significance level of 0.904 > 0.050. The leverage and liquidity variables simultaneously have a positive and significant effect on financial distress with a significance level of 0.000 < 0.050.

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